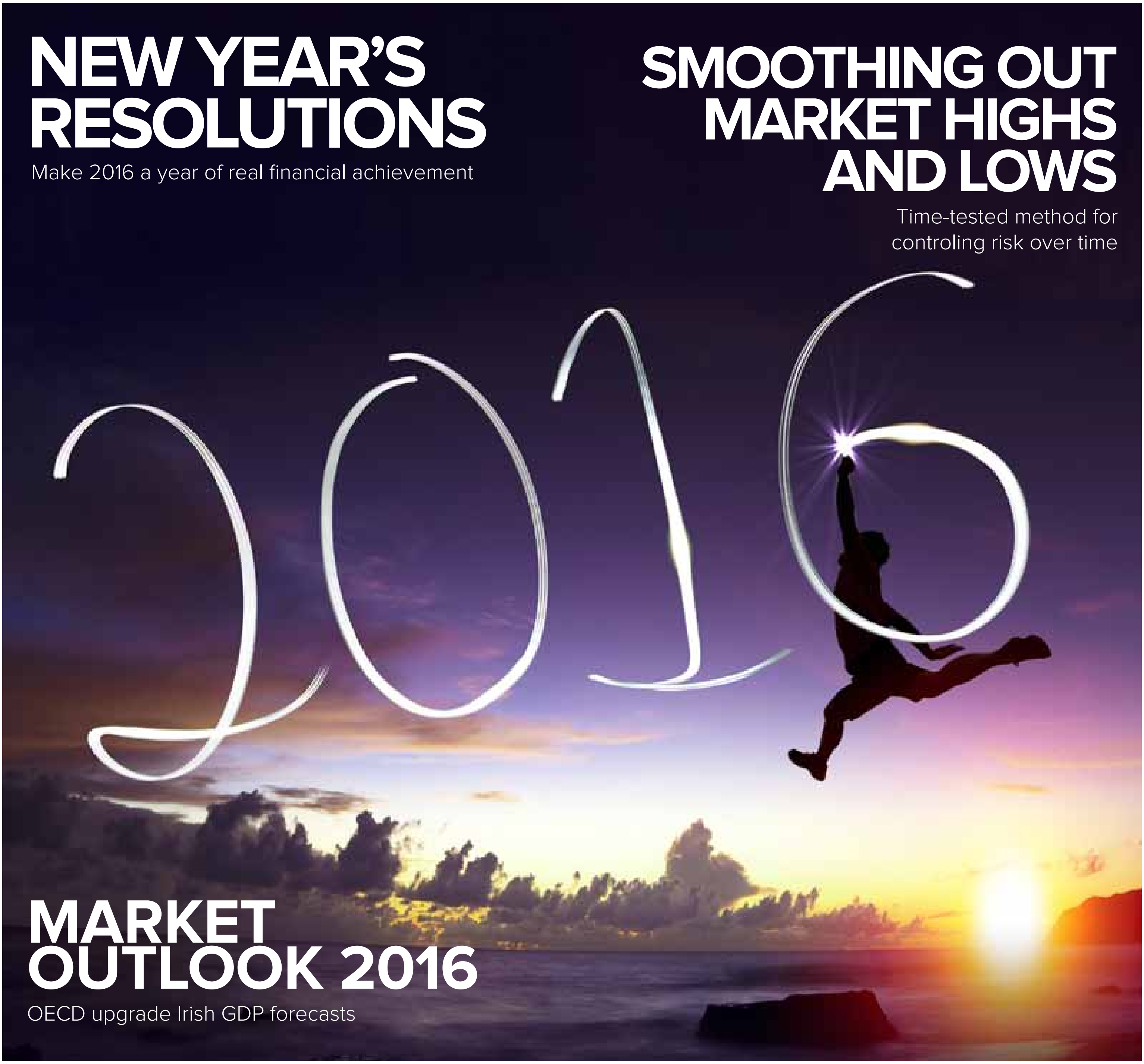
WINTER 2016

INSIGHT

ISSUE 6

YOU DO THE BUSINESS AND WE TAKE CARE OF YOUR BUSINESS



NEW YEAR'S RESOLUTIONS

Make 2016 a year of real financial achievement

SMOOTHING OUT MARKET HIGHS AND LOWS

Time-tested method for controling risk over time

MARKET OUTLOOK 2016

OECD upgrade Irish GDP forecasts

Buckley Kiely Wealth Management
Heritage Business Park, Bessboro Road, Blackrock, Cork.
T: +353 (0) 21 4350777 **F:** +353 (0) 21 4350750
E: wealth@buckleykiely.ie **W:** www.bkwealth.ie

BUCKLEYKIELY
WEALTH MANAGEMENT
- Independent Financial Advisors -

WELCOME

Welcome to the latest issue of *Insight* from Buckley Kiely Wealth Management.

Have you made your New Year's resolutions? Considering that the most common topics are health and finances, there's a pretty good chance that at least one of them involves a financial goal. The start of a New Year is the perfect time to take stock and think about how you can improve your financial position. Many of us start the year with good intentions, but things often get in the way as the year progresses. One way to make 2016 a year of real financial achievement is to set up a few small, regular changes and reap the benefits over time. Tempting as it may be to put off tackling your finances, giving your money matters a thorough sort through will help you work towards what you want to achieve financially out of life. Find out more on page 06.

It's natural to be looking for ways to smooth out your portfolio's returns. Investing regularly can smooth out market highs and lows over time. In a fluctuating market, a strategy known as 'euro-cost averaging' can help smooth out the effect of market changes on the value of your investment and is one way to achieve some peace of mind through this simple, time-tested method for controlling risk over time. Read the full article on page 07.

The Organisation for Economic Co-operation and Development (OECD) has recently increased its growth forecast for Ireland, noting that the economy will continue its strong expansion in the next two years, as it revised its gross domestic product (GDP) growth figure upwards from the 5% it predicted in September 2015 to 5.6%. It also raised its forecast for 2016 up from 4% to 4.1%.

Meanwhile, the European Commission said that Ireland's economy is set to grow by 6% – the fastest rate in the European Union. Turn to page 08 for the full article.

The full list of the articles featured in this issue appears opposite.

We hope you enjoy reading this issue and find it informative. To discuss any of the articles featured, please contact us.

Kind Regards,
Richard Fowler *QFA, Director*
Buckley Kiely Wealth Management

Buckley Kiely
Wealth Management
Heritage Business Park,
Bessboro Road,
Blackrock, Cork.

T: +353 (0) 21 4350777
F: +353 (0) 21 4350750
E: wealth@buckleykiely.ie
W: www.bkwealth.ie

Contents

03 **MARKET COMMENTARY**
Investment markets were weaker in December with both equities and bonds falling

06 **NEW YEAR'S RESOLUTIONS**
Make 2016 a year of real financial achievement

07 **SMOOTHING OUT MARKET HIGHS AND LOWS**
Time-tested method for controlling risk over time

08 **MARKET OUTLOOK 2016**
OECD upgrade Irish GDP forecasts

BUCKLEYKIELY
WEALTH MANAGEMENT
Independent Financial Advisors

INSIGHT *magazine is published for Buckley Kiely Wealth Management by Goldmine Media.*

MARKET COMMENTARY

Investment markets were weaker in December with both equities and bonds falling

Declines were driven mainly by disappointment with policy announcements from the ECB early in the month and uncertainties relating to an inconclusive general election in Spain. December was notable for the first interest rate rise in the US in over nine years – exactly seven years after rates had been lowered to historic lows.

Having talked up expectations regarding the potential scope of policy announcements at the December meeting, President Draghi and the ECB, for the first time since mid-2012, disappointed investors with the measures announced at the meeting. While a further reduction in the deposit rate by -0.1% to -0.3% and an extension of the €60bn per month asset purchase programme by six months to at least March 2017 were significant measures in their own right, they were less than what investors had been expecting prior to the meeting. It appeared that President Draghi was unable to convince all members on the council to accept a larger cut in the deposit rate, an increase in the level of monthly asset purchases and a longer extension of the programme, and so it seems a 'watered down' version of measures was presented which was acceptable to all council members and had a greater chance of being adopted. Equity and bond markets, particularly in Europe, sold off aggressively following the policy announcement, as the monetary policy support from the ECB was significantly less than had been anticipated.

In contrast to the ECB, the US Fed did not surprise markets as it raised interest rates for the first time in the current cycle by 0.25% as it had been suggesting it would do over the previous two months. While the Fed's forecasts for the level of the Fed funds rate in coming years were probably somewhat higher than investors had been expecting, the overall tone of the Fed's commentary was dovish, indicating that the pace of rate rises was not pre-determined and rates would rise only very gradually and would

US ECONOMICS AND RATES

US economic data was somewhat mixed although at the margin was probably a touch disappointing. Q3 GDP was revised down (but by less than expected) to 2.0% annualised from 2.1%, mainly due to lower inventory build. Elsewhere, ISM manufacturing fell -1.5 into contractionary territory to 48.6, services fell -3.2 to a still relatively high 55.9 while the composite PMI fell -2.4 to 53.5. Small business confidence fell -1.3 to 94.8. Industrial production fell - 0.6% m/m while factory orders rose 1.5% m/m. Non-farm payrolls rose 211,000 while unemployment was unchanged at 5.0%. Average hourly earnings rose 2.3% y/y from 2.5% previously. Headline retail sales rose 0.2% m/m while consumer confidence rose 3.9 to 96.5. Personal income and personal consumption both rose 0.3% m/m. Headline durable goods orders were unchanged m/m while orders ex transport fell -0.1% m/m. Capital goods orders fell -0.4% m/m and shipments fell -0.5% m/m. Housing data remained mixed. House prices in the top 20 cities rose 0.8% m/m and were up 5.5% y/y. Housing starts rose 10.5% m/m while new home sales rose 4.3% m/m, although existing home sales fell -10.5% m/m. House builder sentiment fell -1 to 61. CPI rose 0.5% y/y while core CPI ex food and energy rose 2.0% y/y.

The Fed, as it had suggested, finally raised rates for the first time in the current cycle and for the first time in over nine years by 0.25% to a range of 0.25/0.50% on the Fed funds rate. There was a dovish tone to the Fed statement and press conference accompanying the rate rise, with the Fed emphasising on a number of occasions that the pace of rate rises through the cycle will be gradual and data dependent, particularly on the path of future inflation which the Fed will carefully monitor. Despite the generally dovish tone, the Fed's forecasts regarding the level of the Fed funds rate in coming years were probably a little higher than investors had been expecting, with no change to the median forecast for end 2016 at 1.4% and only a 0.2% fall in the median forecast at end 2017 to 2.4%, and a 0.1% fall in the end 2018 forecast to 3.3%. The Fed also indicated it will continue reinvesting maturing assets within the current pool of assets held under the previous asset purchase programmes until normalisation of the level of the Fed funds rate is well under way.

IRISH ECONOMICS

Economic releases generally remained positive. Q3 GDP grew 1.4% q/q or 7.0% y/y, leaving GDP 7.3% above its 2007 pre-crisis peak. Consumption grew 0.7% q/q and 3.6% y/y while investment spending grew 4.9% q/q and 35.8% y/y, boosted by R&D spending by multinational corporations. Domestic investment activity was also strong, with housing investment up 11% y/y and 3.3% y/y in construction. Exports rose 12.4% y/y while imports rose 18.9% y/y. The current account surplus in the first three quarters of the year was €6,775m – €2,384m higher than the surplus for the same period in 2014. Stripping out the multinational impact, GNP was down -0.8% q/q but rose 3.2% y/y.

mainly be dependent on the actual level of future inflation. Markets reacted positively to the announcement with a sense of relief that the first interest rate rise had now been announced and was out of the way, resulting in some uncertainty being removed. Investors also reacted positively to the Fed's positive outlook on the macro backdrop and confidence that the US economy was now in a position to withstand and cope with the beginning of some modest tightening of monetary policy.

EUROPEAN ECONOMICS AND RATES

European data was mixed. The Eurozone composite PMI slipped -0.2 to 54.0 with services down -0.3 to 53.9, while manufacturing rose 0.3 to 53.1. ZEW expectations rose 5.6 to 33.9 while the Sentix business sentiment rose 0.6 to 15.7. Industrial production rose 0.6% m/m and 1.9% y/y while construction output rose 0.5% m/m and 1.1% y/y. Retail sales fell -0.1% m/m but rose 2.5% y/y, while consumer confidence rose 0.2 to -5.7. Unemployment fell 0.1% to 10.7% with employment up 0.3% q/q and 1.1% y/y in Q3. Money supply growth slipped with M3 growing 5.1% y/y from 5.3% previously. Headline inflation was up 0.2% y/y while core inflation rose 0.9% y/y.

In Germany, the composite PMI fell -0.3 to 54.9. The IFO business climate fell -0.3 to 108.7 while ZEW expectations rose 5.7 to 16.1. Retail sales fell -0.4% m/m but were up 2.1% y/y while consumer confidence gained 0.1 to 9.4. Industrial production rose 0.2% m/m but was flat y/y while factory orders rose 1.8% m/m. Unemployment fell 0.1% to 6.3%. The French composite PMI fell -0.7 to 50.3 with the negative impact from the November terrorist attacks still evident. Business confidence slipped -1 to 101. Consumer spending fell -1.1% m/m but rose 1.0% y/y. Industrial production rose 0.5% m/m and was up 3.6% y/y.

Unemployment rose 0.3% to 10.6%. In Spain, the composite PMI rose 1.2 to 56.2, industrial production rose 0.2% m/m and retail sales rose 3.3% y/y. The Italian composite PMI rose 0.4 to 54.3 while industrial production rose 0.5% m/m. Retail sales fell -0.3% m/m while consumer confidence fell -0.8 to 117.6.

UK ECONOMICS AND RATES

UK data was slightly disappointing. Q3 GDP was revised down from 0.5% q/q and 2.3% y/y to 0.4% q/q and 2.1% y/y, with Q2 GDP estimates also being revised down. The main downward revisions to Q3 came from lower government expenditure, lower investment and smaller stock build, while the negative contribution from net trade was reduced. The reduction in Q2 was mainly due to changes to inventory drawdown. Elsewhere, the composite PMI rose 0.4 to 55.8 with services up 1.0 to 55.9 and manufacturing down -2.8 to 52.7. Headline retail sales rose 1.7% m/m and 5.0% y/y while consumer confidence rose 1 to 2. Unemployment fell 0.1% to 5.2% with numbers employed up 207,000 over three months from 177,000 previously. Average weekly earnings ex bonuses rose 2.0% y/y from 2.4% previously. Industrial production rose 0.1% m/m and was up 1.7% y/y while construction output rose 0.2% m/m and 1.0% y/y. CPI rose 0.1% y/y. The Halifax house price index fell -0.2% m/m but was up 9.0% annualised over three months compared to 9.7% previously.

The Bank of England (BoE) left policy unchanged in an unchanged 8:1 vote, again suggesting little urgency to raise rates in the short term. The minutes indicated there was little news which impacted the committee's views on the outlook for the global or domestic economy. There was, if anything, a slightly more dovish tone to the minutes with the main news flow highlighted as being the recent renewed fall in the oil price and a levelling off in UK wage growth. Overall, this suggested the Bank of England is in no rush to raise interest rates soon. Consensus expectations are for the first UK interest rate rise to occur in Q4.

ASIAN ECONOMICS AND RATES

Japanese data was somewhat mixed. Q3 GDP was revised from a negative -0.2% q/q or -0.8% annualised to a positive 0.3% q/q or 1.0% annualised. Business spending was revised

from -1.3% q/q to +0.6% q/q while consumption was modestly revised down by 0.1% to 0.4% q/q. The contribution from inventories was revised from a negative -0.5% to -0.2% during the quarter. Elsewhere, industrial production fell -1.0% m/m but was up 1.6% y/y while machine orders rose 10.7% m/m. Retail sales fell -2.5% m/m while consumer confidence rose 1.1 to 42.6. The composite PMI was unchanged at 52.3 while the manufacturing PMI rose 0.4 to 52.8. The Economy Watchers current reading fell -2.1 to 46.1 while the outlook reading fell -0.9 to 48.2. Small business confidence fell -1.6 to 48.3. The Tankan large manufacturing outlook index fell -3 to 7 while the Tankan large services outlook index fell -1 to 18. Bank lending growth slowed to 2.3% y/y from 2.5% y/y. The tertiary index rose 0.9% m/m. Headline CPI rose 0.3% y/y while core CPI ex fresh food and energy was up 1.2% y/y.

The Bank of Japan (BoJ) left the overall total of Yen 80trn pa of asset purchases unchanged. However, it announced a number of technical changes to the composition of asset purchases. It announced the establishment of a new ETF purchase programme of Yen 300bn pa targeted at stocks, which are proactive in investing in physical and human capital in an effort to reward companies which are increasing investment. This will offset sales of stocks by the BoJ related to purchases made in 2002 to support reductions in cross shareholdings. It also announced it is extending the funding for lending scheme by another year. It is also extending the maturity profile of sovereign bond purchases from 7-10 years to 7-12 years. The BoJ indicated these measures were not being introduced to address economic issues but were technical adjustments to ensure policy runs smoothly and the transmission to the economy from policy measures is effective.

Chinese data again was mixed but generally continued to show signs of stabilisation. The Caixin manufacturing PMI rose 0.3 to 48.6, services fell -0.8 to 51.2 while the composite index rose 0.6 to 50.5. Official manufacturing PMI slipped -0.2 at 49.6 while services rose 0.5 to 53.6. Exports fell -6.8% y/y from -6.9% previously while imports fell - 8.7% y/y from -18.8% previously. Retail sales growth improved to 11.2% y/y from 11.0% previously, industrial production growth rose to 6.2% y/y from 5.6% while fixed asset investment growth was unchanged at 10.2% y/y. Industrial profits fell -1.4% y/y from -4.6% y/y previously. Monthly new lending figures rose Rmb 195.3bn to Rmb 708.9bn. ■

NEW YEAR'S RESOLUTIONS

Make 2016 a year of real financial achievement

Have you made your New Year's resolutions? Considering that the most common topics are health and finances, there's a pretty good chance that at least one of them involves a financial goal.

START THE YEAR WITH GOOD INTENTIONS

The start of a New Year is the perfect time to take stock and think about how you can improve your financial position. Many of us start the year with good intentions, but things often get in the way as the year progresses.

One way to make 2016 a year of real financial achievement is to set up a few small, regular changes and reap the benefits over time. Tempting as it may be to put off tackling your finances, giving your money matters a thorough sort through will help you work towards what you want to achieve financially out of life.

BE PRACTICAL AND REALISTIC

Once you've made your resolution, it's important to be practical and realistic in working out how to stick to it and achieve your goals. If you have multiple financial goals, it can be useful to try to prioritise them – from what you feel is the most important goal through to goals you may not be as concerned about. For example, protecting your finances and income initially may be most important, before you start thinking about saving or investing.

In order to make plans for the future, you need to know where you are today and where you want to be in the future. Goal setting is very much like creating a business plan. You need to know a starting point and ending point, the time frame for 'exiting' (or reaching your goals) and the estimated cost involved.

CONSIDER AND PLAN YOUR GOALS

- Retirement planning or property purchase over the very long term (15 years or more)
- Life events, such as school fees over the medium term (10–15 years)
- Rainy day or lifestyle funds to finance goals such as a dream sports car over the medium to shorter term (5-10 years).

WHAT REALLY MATTERS MOST?

Many people muddle through their financial lives, spending to meet the day-to-day expenses that dominate their attention. That's why to get what you want most, you must decide which goals will take priority and work toward the lesser goals only after the really important ones are well provided for.

MINIMUM TIME HORIZON

The minimum time horizon for all types of investing should be at least five years. Whatever your personal goals may be, it is important to consider the time horizon at the outset, as this will impact on your approach to achieving your goals. It also makes sense to revisit your goals at regular intervals to account for any changes to your personal circumstances, for example, the arrival of a new member of the family, or as you enter retirement.

REFLECT ON WHAT WORKED

As a starting point, consider the goals you set previously, and reflect on what worked and what didn't and why. Once you've done this, it's time to define your specific goals clearly. Most people tend to set goals that are more about money than about objectives that motivate them emotionally.

SMART RESOLUTIONS YOU TRULY VALUE

Goals that are tied to what you truly value are often easier to achieve than goals that are simply tied to money. Part of what gives this type of goal its power is that it's SMART: it is Specific, Measurable, Attainable, Relevant and has a Timeline.

The first step sets you on a path and should also be:

Specific – 'To get wealthier' is not a specific or clear goal, but 'to achieve two thirds of your previous working lifetime income at 55 when you retire' is.
Measurable – Set deadlines for your financial goals, such as the age at which you want to retire, or the timeline for buying a holiday home.
Achievable – Use your own income (and expected income) to set your financial goals for the future. Don't count on inheriting money.
Relevant – Create a personal financial bucket list of goals, but always view it as a flexible document that will change with time as your interests and life situation changes.
Timeline – Identify your time frame by categorising your objectives by short-term, medium-term and long-term financial goals to provide focus and to help match your goals with appropriate savings and investments. ■

TIME TO TAKE STOCK AND THINK ABOUT HOW TO IMPROVE YOUR FINANCIAL POSITION?

We all have dreams for the future, and many of those dreams require wealth to make them come true. Reaching those milestones starts with setting clear financial goals. Saving and investing with a goal delivers its own reward: the purchase or life change that you've dreamt of and worked to achieve. We're committed to our clients' financial success and would like to have an opportunity to review your situation. To find out more, please contact us – we look forward to hearing from you.

SMOOTHING OUT MARKET HIGHS AND LOWS

Time-tested method for controlling risk over time

It's natural to be looking for ways to smooth out your portfolio's returns. Investing regularly can smooth out market highs and lows over time. In a fluctuating market, a strategy known as 'euro-cost averaging' can help smooth out the effect of market changes on the value of your investment and is one way to achieve some peace of mind through this simple, time-tested method for controlling risk over time.

It enables investors to take advantage of stock market corrections, and, by using the theory of euro-cost averaging, you could increase the long-term value of your investments. There are, however, no guarantees that the return will be greater than a lump sum investment, and it requires discipline not to cancel or suspend regular Direct Debit payments if markets continue to head downwards.

REGULAR INTERVALS

The basic idea behind euro-cost averaging is straightforward: the term simply refers to investing money in equal amounts at regular intervals. One way to do this is with a lump sum that you'd prefer to invest gradually – for example, by taking €50,000 and investing €5,000 each month for 10 months.

Alternatively, you could euro-cost average on an open-ended basis by investing, say, €5,000 every month. This principle means that you invest no matter what the market is doing. Euro-cost averaging can also help investors limit losses, while also instilling a sense of investment discipline and ensuring that you're buying at ever-lower prices in down markets.

MARKET TIMING

Investment professionals often say that the secret of good portfolio management is a simple one – market timing. Namely, to buy more on the days when the market goes down, and to sell on the days when the market rises.

As an individual investor, you may find it more difficult to make money through market timing. But you could take advantage of market down days if you save regularly, by taking advantage of euro-cost averaging.

SAVINGS HABIT

Regular savings and investment schemes can be an effective way to benefit from euro-cost averaging, and they instil a savings habit by committing you to making regular monthly contributions. They are especially useful for small investors who want to put away a little each month. Investors with an established portfolio might also use this type of savings scheme to build exposure a little at a time to higher-risk areas of a particular market.

The same strategy can be used by lump sum investors too. Most fund management companies will give you the option of drip-feeding your lump sum investment into funds in regular amounts. By effectively 'spreading' your investment by making smaller contributions on a regular basis, you could help to average out the price you pay for market volatility.

EURO-COST AVERAGING

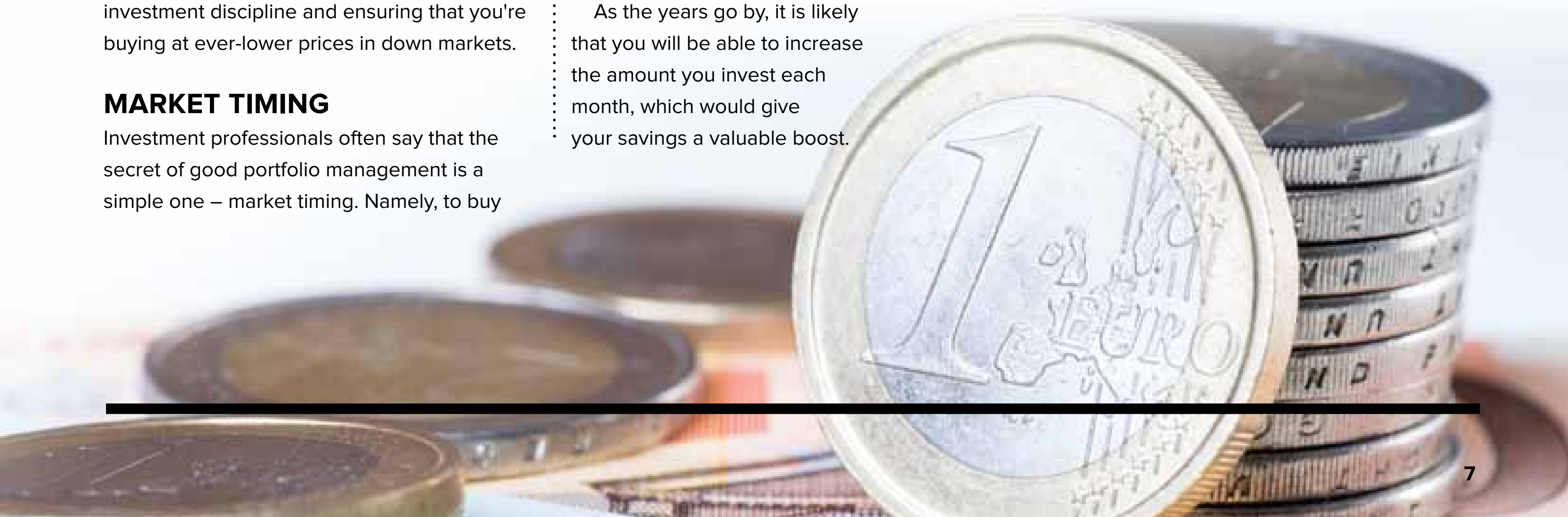
Any costs involved in making the regular investments will reduce the benefits of euro-cost averaging (depending on the size of the charge relative to the size of the investment, and the frequency of investing).

As the years go by, it is likely that you will be able to increase the amount you invest each month, which would give your savings a valuable boost.

No matter how small the investment, committing to regular saving over the long term can build to a sizeable sum. The key to success is giving your investment time to grow. Choose the amount you want to invest and set up automatic deposits. Once this is up and running, the chances are you won't even notice it going out of your monthly budget. ■

FINDING THE BEST STRATEGY

A number of factors should be considered before deciding on what kind of investment is most suitable for you. These include the purpose of the investment, the length of time your money can be tied up and your attitude towards risk. As all investments carry some degree of risk, we recommend that you seek professional financial advice to find the best strategy to achieve your long or short-term goals. To see how we could help you, please contact us to discuss your requirements.



MARKET OUTLOOK 2016

OECD upgrade Irish GDP forecasts

The Organisation for Economic Co-operation and Development (OECD) has recently increased its growth forecast for Ireland, noting that the economy will continue its strong expansion in the next two years, as it revised its gross domestic product (GDP) growth figure upwards from the 5% it predicted in September 2015 to 5.6%. It also raised its forecast for 2016 up from 4% to 4.1%.

Meanwhile, the European Commission said that Ireland's economy is set to grow by 6% – the fastest rate in the European Union.

Globally, the OECD trimmed its global economic forecasts for the second time in three months as slower growth in emerging markets spilled over into countries such as Germany and Japan.

According to the OECD's semi-annual report, world output will expand 3.3% in 2016, down from the 3.6% predicted in September.

With Russia and Brazil in recession and China poised to deliver its weakest expansion in more than two decades, the economies that powered world growth in recent years are now slowing it down. Developed economies are feeling the brunt in the form of reduced demand for both commodities and manufactured goods.

STRONG EXPANSION

In its review of Ireland, the OECD said that the Irish economy is projected to continue its strong expansion in the next two years. Exports will rise in line with increasing demand in its trading partners, while business investment should remain robust, thanks to rising profitability and favourable financing conditions.

Growth will provide momentum to job creation and reduce the still-high rate of unemployment, thereby spreading the fruits of the recovery more widely. Household consumption will be supported by labour earnings growth.

The OECD also noted that fiscal policy is expected to exert a smaller drag on activity than in past years, while the Government remains on track towards its medium-term goal of balancing the budget.

The OECD barely changed its forecasts for Chinese output, pegging growth at 6.5% in 2016. Yet Brazil's economy is now seen shrinking 1.2%, compared with contractions of 0.7% predicted in September, while Russian GDP is on track to drop 0.4%. Since the OECD didn't give an estimate for Russia in September, that compares with a June prediction for a contraction of 0.8% in 2016.

According to the OECD report, Japanese GDP will grow 1% – a cut from 1.2% previously predicted. The outlook for Japan remains softer than in other advanced economies, despite an anticipated upturn in real wage growth. This reflects a larger drag exerted by weak external demand, especially in Asia, and strong fiscal headwinds.

POTENTIAL BOOST

The euro area's expansion is now seen at 1.8% in 2016, a reduction by 0.1 percentage points. In terms of the economy, Europe's immigration crisis represents a much needed potential boost. It estimates that the influx of refugees may add between 0.1 and 0.2 points to growth in 2016 and 2017 thanks to extra government spending.

According to the OECD, asylum seekers need not impose an unmanageable economic burden, believing that if the refugees who stay are rapidly integrated into European society, they are likely to benefit the host countries. The US expansion remains on track, with the OECD predicting growth of 2.5% in 2016. UK GDP is seen rising 2.4%, which is not much of a change compared to the September prediction.

In the US, output remains on a solid growth trajectory, propelled by household demand. Monetary policy remains very accommodative, which is consistent with stubbornly below-target inflation, subdued wage pressures and hints of downward pressure on inflation expectations. The OECD also offered its first glimpse of 2017, predicting a global expansion of 3.6%. It sees growth of 2.4% in the US, 1.9% in the euro area and 6.2% in China. ■

TAKING THE TIME TO UNDERSTAND OUR CLIENTS' NEEDS

Contact us today for a full assessment of your circumstances. Please contact us on +353 (0) 21 4350777 or email wealth@buckleykiely.ie for further information.

Source: Bloomberg

Buckley Kiely Wealth Management
Heritage Business Park, Bessboro Road, Blackrock, Cork.
T: +353 (0) 21 4350777 **F:** +353 (0) 21 4350750
E: wealth@buckleykiely.ie **W:** www.bkwealth.ie

BUCKLEY KIELY
WEALTH MANAGEMENT
Independent Financial Advisors