CLIENT
INFORMATION BULLETIN

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The Investment Cycle

In early 2008 I heard Philip Anderson, author of "The Secret Life of Real Estate", on 3AW, talking to Neil Mitchell. I had been saving articles from the newspapers for over 20 years with a notion that I might one day be able to pick a pattern in the property and share markets.

Lo and behold, someone else had already done it. Before the GFC had even really started to have any noticeable effect upon housing in the USA, or share markets around the world, here was a Melbourne born economist and student of investing, telling Neil Mitchell and his audience in 2018 that we were:

- entering a major crash in shares and property,
- that the share market would be the first market to recover around 2010,
- the property market would begin to recover around 2012
- and both would grow strongly over the years until the mid cycle slump, also referred to as a recession, around 2019.

Philip Anderson also stated that the Investment Cycle was on average around 18 years long.

I bought Philip Anderson's book that day and immediately subscribed to his Investment Advice Service.

What ensued?
The Dow Jones fell from its high of around 14,000 in late 2007, to its low of around 7,000 in 2009, then started recovering in 2010 to around 25,000, in the space of 9 years. Tick, Philip Anderson.

The USA's housing market crashed incredibly, hundreds of thousands of houses were handed back to the banks. The recovery started around 2012. Billions have been made by investors who bought in the lows of 2010 to 2013. Tick, Philip Anderson.

I have heard Philip speak, and spoken to him a number of times. Everything he predicts he prefaces with the wording, "I have no idea what will happen tomorrow, but at this stage of the investment cycle, this is what happened next." For the last 9 years he has been 100% accurate, the Investment Cycle has turned like a clock. Tick, Philip Anderson.

For 9 years Philip Anderson has been saying that if the Investment Cycle runs its normal course, we can expect a recession around 2019. Possibly 2020. He has stated that he has no idea what will cause it, but around 11 years after the peak in every previous cycle, there has been a mid cycle slump, i.e. a recession.

The research Phil Anderson undertook, and documented in his book on the US property market revealed the following:

Property Market Crashes –
Property peaked in prices in these years:
1818, 1836, 1854, 1869,
1888, 1908, 1926, 1944,
2nd World War interrupted.
1955 low point cycle started again in USA and Australia,
1974, 1989, 2008 …….?
Can you see the pattern??

In 1983 Fred Harrison wrote "The Power of the Land" and predicted the following crash would be in 1990. In 1997 Fred Harrison again correctly predicted the crash of 2008.

WD Gann predicted it in 1909!

Peter Schiff, Harry Dent and many others also predicted the 2008 crash.

Those clients who have engaged my services as their financial planner have seen how some of the property funds I recommend have grown over 18% per annum over a 5 year period. They have seen how some of the share market funds I recommend have grown over 18% per annum over a 5 year period. Of course, to match Risk Profiles and asset allocations we don't have 100% of our clients money in those funds, however my knowledge of the Investment Cycle and the foresight to include those particular types of funds at the right time came from, you guessed it, "Tick, Philip Anderson"!

What is next

The recession.
Followed by 7 years of even stronger growth than we have had since 2010.
Culminating in the peak in the markets around 2026 followed by the next major crash.

There are no Nostradamus type predictions going on here.
People are born, people die, economies boom and bust, there are seasons and cycles in so many things.
The human population keeps making the same mistakes time after time.
If an Investment Cycle of 18 years can be documented by Fred Harrison over 400 years in the UK, over 218 years in the USA by Philip Anderson, and over 234 years by WD Gann, maybe it isn't a filament of anyone's imagination, let alone mine!

The recession that is due in the next year or so in the US, will it be caused by one of Donald Trumps policies, a trade war, a share crash such as the Tech Stock crash in 2001 or…… who knows? When it happens in the USA, Australia will not be able to bribe its way out in the same manner Rudd avoided the GFC by mortgaging the future of our grandchildren with his irresponsible vote buying $900 gifts, free insulation and grossly overpaid school libraries. $1m for 30 sq metres!

We will go into recession after the US. In the past we have never gone into recession independently of the USA. But even that could happen. Maybe we already have our own reason for going into recession. I suspect that the following could occur (and I will lay claim to this being my only original thought in this newsletter, as I haven't seen anything from Phil Anderson on it as yet). Are we heading into a Royal Commission led Recession?

Royal Commission led Recession?

Influences on a recession.

- Business uncertainty.
- Government uncertainty.
- Consumer uncertainty.
- Rising interest rates.
- Rising unemployment.

I throw up the following possibility.
The construction industry, especially the Housing Construction Industry is a huge employer in Australia.
On one hand we have talk of a housing bubble. In recent months we have seen Melbourne and Sydney prices finally fall a bit. Note, the greatest financial year annual fall in Melbourne house prices since 1960 was 9.3% to June 2012. Not the level of fall that investors in the share markets regularly slit their wrists over, gee share investors have a 50% or greater fall once in every 10 years!
What I and others have seen in recent months is the amount of lending by banks has been slashed. 12 months ago someone may have had a Pre-Approved loan of $1m. Now it is only $900,000. Why, because the Royal Commission has come down on the major banks like a ton of bricks.

So Melbourne housing is selling for less. When prices of petrol fall we don't stop buying petrol. But when housing falls, less homes are sold. As an investor does that make sense, to not buy when prices are cheaper? One reason is Home Owners hate selling their homes for an amount that is less than it was worth 1 month, 6 months, 12 months ago. So they sit on it.

When house prices fall and people can't borrow as much, there are dramatically less approvals sought and granted for building new houses.

When there are less new houses being built, (regardless of the fact we are still having immigration of 2-300,000 people per year coming into our country), tradies lose their jobs.

The ripple effect of lots of people involved in the housing industry being out of work? Lots more people are affected, therefore a recession!

The Labor government that will probably be elected in 2019, will see Australia is in Recession around 2019/20/21, and will move everything on heaven and earth to stay in power. They will remove those nasty restrictions placed on the banks in order to get them lending again, as they know Governments in power during a recession usually lose the next election.

Which will fire up the housing and share market growth for the last phase of the Investment Cycle, taking us up to the peak around 2026.
2008 + 18 = 2026.

And the Cycle that has been occurring for the last few centuries will start again, without many people at all even being aware that it exists! Except for you, it's time to teach your kids!

Bank Approved Profit

Over the last couple of years, as a result of the previous 25 years of learning, I am now assisting clients with the greatest investment decision they will probably ever make, with as far as I can identify, very minimal risk. A reason for saying this is, for a client to be able to proceed with the project we outline to you, you will not receive approval from the bank for the finance required to fund the project, unless you are going to make in the region of a 25% profit.

Think of it, when you buy your first home, you are mortgaged to the hilt, the bank doesn't require you do the place up and increase its value by 25% within 12 months or it won't lend you the money. But with the projects our clients are undertaking, the bank has already allowed for what they perceive as a worst case scenario occurring, so they will only lend if you are going to make a huge profit. If you aren't going to make a certain profit, they will not lend you the money. If the bank won't lend you the money, you can't go ahead, so there is absolutely no chance of you losing any money on the project! If no loan approved, you can't proceed! That is, the bank will only approve the loans if you are going to make a substantial profit! They know what makes people wealthy!

I have presented 3 seminars, and been invited to present on this topic at 2 major accounting annual conferences.

We have 5 clients proceeding through the project, taking advantage of our knowledge of the investment cycle and applying it to undertaking a major investment, which will enable them to retire much more comfortably, and even go some way towards being able to provide their own kids with a house one day.

The definition of insanity is doing the same thing and expecting things to change.

Interest Rates

On average the USA enters recession 3.5 years after they commence raising interest rates.

Australian Shares

What a shocking place to have been invested in for the last 11 years, either directly or via your Superannuation Fund!

Still can't retire?

Regretting another year of procrastination?
Has the opportunity to make the equivalent of 30 years saving in Super, in the space of 2 years gone? No!

Call us Now!
(Or after the 14th January when our office reopens!)

We again extend our deepest appreciation for your custom, your loyalty and your support during 2018.

Wishing you a very
Merry Christmas & see you
during a Fantastic 2019

Grant, Emma,
Renate & Anthony