

# Yovich & Co. Weekly Market Update

18<sup>th</sup> February 2025

## Market News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
<b>Previous Week 7<sup>th</sup> February</b>	12902.19	8780.28	3303.67	8700.53	44303.40	19523.40	0.9039	0.5660	4.25%
<b>Week Close 14<sup>th</sup> February</b>	12989.18	8825.09	3346.72	8732.46	44546.08	20026.77	0.9021	0.5731	4.25%
<b>Change</b>	0.67%	0.51%	1.30%	0.37%	0.55%	2.58%	-0.20%	1.26%	0.00%

The NZX 50 Index climbed 0.67% over the past week, closing at 12,989.18. This was primarily driven by expectations of a 0.50% cut to the Official Cash Rate on Wednesday, which would bring the Official Cash rate to 3.75%. Economists widely feel this will be the case and some banks have already lowered their mortgage rates in anticipation. Fisher & Paykel Healthcare rose 1.57% after share decline the previous week which helped bring the index up.

In Australia, the All-Ordinaries Index gained 0.51% over the week, supported in part by a stronger Australian dollar against the U.S. dollar. However, the index was weighed down by sharp declines in Cochlear and AMP, both of which saw double-digit losses following disappointing earnings results.

Chinese stocks rose on Friday, with the Shanghai Composite Index gaining 0.43% to close at 3,346.72 points. The index ended the week up 1.30%. The surge has been largely driven by ongoing government stimulus measures and the growing focus on artificial intelligence. With Beijing prioritising AI as a national initiative, investors are reassessing China's tech and innovation potential. U.S. President Donald Trump announced a delay in implementing reciprocal tariffs until April and TikTok returned on the U.S. app stores of Apple and Google.

In the UK, the FTSE 100 Index gained 0.37%. The Pound climbed above \$1.26 as the US dollar dips after disappointing retail sales. NatWest shares fall despite positive earnings following high expectations, while exporters weigh on the FTSE 100. There is also some optimism in the market around more monetary easing and hopes of an end to the Russia-Ukraine war.

In the United States, U.S. stocks were mixed, but ending the week with the Nasdaq rising 2.58%, and the Dow up 0.55%. Airbnb surged over 14% on strong earnings, Nvidia was up over 2.6% while Apple was up 1.3%. U.S. retail sales dropped 0.9%, pushing Treasury yields and the dollar lower as investors reassessed interest rate expectations and potential tariff impacts. Trump tasked his economic team on Thursday to devise plans for reciprocal tariffs on every country taxing U.S. import, although the directive stopped short of imposing fresh tariffs.

## Weekly Market Movers

The biggest movers of the Week ending 14 <sup>th</sup> February 2025			
Up		Down	
Vulcan Steel	9.96%	Gentrack Group	-7.15%
Fletcher Building	7.80%	Heartland Group	-5.26%
Serko	6.53%	Sky Network Television	-5.20%
Sanford	3.97%	Vista Group International	-3.29%
Investore Property	3.57%	Tourism Holdings	-2.60%

Source: Iress

## Investment News

### Skellerup Limited (SKL.NZ)

Skellerup reported a record first-half profit, driven by a strong rebound in its agricultural division, while also preparing for potential U.S. tariff increases. For the six months ending December, net profit rose to \$24.2 million, with revenue increasing to \$165.3 million and underlying profit reaching \$35.0 million. The company raised its gross interim dividend to 10.75 cents per share and expects full-year profit between \$52 million and \$56 million, though the upper range of guidance was lowered by \$1 million.

**Current Share Price:** \$5.30 **Consensus Target Price:** \$5.63, **Consensus Forecast Dividend Yield:** 5.5%, **Total Return:** 11.7%

### Vulcan Steel Limited (VSL.NZ)

Vulcan's share price jumped 9.96% last week after the company reported its first-half 2025 earnings. EBITDA came in at NZ\$57 million, beating estimates but still down 30% from the previous year. The dividend was reduced from 12 cents to 2.5 cents, as expected, with a further cut to the year-end payout range. While no full-year guidance was provided, the company noted signs of improvement for the next quarter. Following the update, forecasts for full-year EBITDA have been revised slightly higher from NZ\$107 million to NZ\$110 million.

**Current Share Price:** \$8.60 **Consensus Target Price:** \$7.83, **Consensus Forecast Dividend Yield:** 0.87%, **Total Return:** - 8.5%

### A2 Milk Limited (ATM.NZ)

A2 Milk reported strong first-half 2025 results, with revenue rising 10.1% to \$893.8 million and net profit increasing 7.6% to \$91.7 million, despite temporary supply constraints impacting margins. EBITDA grew 5% to \$118.9 million, including \$8 million in one-off airfreight costs, while earnings per share rose 7.4% to 12.7 cents. The company has announced its maiden dividend of 8.5 cents per share, representing a 67% payout ratio. ATM is using its vast cash reserves (forecasted to be over \$1 billion within the next few years), and future profits to underpin its dividend policy. With upgraded full-year guidance and strong cash flow, A2 Milk's share price surged over 13% as of market open on 17<sup>th</sup> February.

**Current Share Price:** \$7.54 **Consensus Target Price:** \$6.87, **Consensus Forecast Dividend Yield:** 1.7%, **Total Return:** - 7.2%

## Spotlight on Risk Profiling – A Practical Approach to Understanding Your Investment Risk

Over the past few years, we have developed our own Risk Profiler to help clients make informed investment decisions. Now, we are making this tool available to everyone. Unlike many risk-profiling tools designed primarily for regulatory compliance, ours is built on practical experience and a deep understanding of investor behavior, both of which are essential in managing personalised portfolios.

We have refined our approach based on industry best practices, including principles outlined in the CFA Institute's Investment Risk Profiling: A Guide for Financial Advisors, along with insights from working with clients. This has helped us develop a structured yet practical tool that assesses two key dimensions:

- **Risk-Taking Ability:** Your financial capacity to take on risk, based on investment horizon, withdrawals, and reliance on portfolio income.
- **Behavioural Loss Tolerance:** Your ability to remain invested through market fluctuations.

This tool provides a structured foundation for us, as your financial adviser, to analyse and discuss how these factors interact to aid in portfolio construction decisions.

While “risk need” is a separate consideration primarily determined by the required rate of return (ROR), our process ensures that risk-taking ability and behavioural loss tolerance are effectively reconciled into a portfolio strategy tailored to your investment profile. We cover the “risk need” concept in our Goals and Objectives sections of our fact find.

The feasibility of an investor’s ROR is assessed based on market conditions, financial objectives, and the level of volatility they are willing to accept to achieve that return. Ultimately, these factors determine whether an investor’s desired ROR is realistic and sustainable, as they are directly tied to risk-taking ability and behavioural loss tolerance.

For investors with high return expectations but a limited risk appetite, this typically leads to two key considerations: increasing contributions or extending the investment timeframe to achieve their financial goals without taking on excessive risk.

Given our extensive discussion on risk, it’s worth clarifying what it means in this context. Here, risk refers to the potential for financial loss in an investment decision, typically measured by downside portfolio standard deviation or, more simply, volatility.

### How It Works: A Structured Approach to Risk Profiling

Expanding on the concepts of Risk-Taking Ability and Behavioural Loss Tolerance, it is essential to understand how these factors influence investment decisions. Risk-Taking Ability determines how much financial risk an investor can afford based on objective factors such as investment horizon, liquidity needs, and financial capacity.

## Assessing Risk-Taking Ability

An investor’s Risk-Taking Ability is shaped by three key factors:

- **Investment Horizon:** The longer the timeframe before needing funds, the greater the ability to withstand market fluctuations. Investors with shorter time horizons may need to prioritise stability.
- **Liquidity Needs:** Investors with frequent or significant withdrawal needs have less flexibility to take on risk, whereas those with minimal liquidity needs can adopt a longer-term approach.
- **Financial Capacity:** This refers to the ability to absorb losses without affecting financial stability. It depends on available assets, income sources, and overall net worth.

## Risk-Taking Ability Levels

Risk-Taking Ability	Characteristics
Very Low	If you need access to your money soon, your investment choices should prioritise stability and low volatility.
Low Risk	If you rely heavily on your portfolio for income and plan to withdraw funds regularly, your investment approach should focus on security and steady returns.
Moderate	If you have a medium-term investment horizon and are not completely dependent on withdrawals, you can take some calculated risks while maintaining balance in your portfolio.
High	If you have a long investment horizon and are not making frequent withdrawals, you can take on more risk to pursue higher returns.
Very High	If you have a long-time horizon, do not need to withdraw money, and have other income sources, you can afford to invest aggressively and maximise growth potential.

## Assessing Behaviour Loss Tolerance

While Risk-Taking Ability can be measured using objective financial data, Behavioural Loss Tolerance is more complex and unique to each investor. Unlike time horizons or liquidity needs, which can be quantified using financial models, behavioural factors require deeper evaluation. These insights are typically gathered through structured questionnaires, investor discussions, and, in some cases, an analysis of past asset allocation decisions. Relying on a single input can lead to a misinterpretation of an investor’s ability to handle market fluctuations.

## Key Elements of Behavioural Loss Tolerance

An investor’s Behavioural Loss Tolerance is shaped by six key elements:

- **Risk Tolerance** – The willingness to take on financial risk.
- **Risk Preference** – Personal comfort with different levels of risk.
- **Financial Knowledge** – Understanding of financial markets and investment principles.
- **Investing Experience** – Past exposure to market cycles and investment decisions.
- **Risk Perception** – How an investor interprets and reacts to risk.
- **Risk Composure** – The ability to stay invested and make rational decisions during market volatility.

## Behavioural Loss Tolerance Levels

By incorporating these behavioural factors, our Risk Profiler provides a well-rounded assessment, ensuring that investors' portfolios align with both their financial capacity and emotional tolerance for risk.

Behavioural Loss Tolerance Level	Characteristics
Very Low	Prefers stability, minimal experience, avoids risk, uncomfortable with any loss.
Low	Some risk awareness, cautious, willing to take small risks for growth.
Moderate	Balanced approach, understands risk, accepts moderate losses for potential gains.
High	Experienced, willing to tolerate higher losses for better returns.
Very High	Highly risk-tolerant, experienced, comfortable with market fluctuations and losses.

## Understanding Your Risk Profile

Investment decisions should be guided by more than just gut instinct. Our Risk Profiler provides a structured assessment of your investment approach using a traffic light system to evaluate how well your Behavioural Loss Tolerance aligns with your Risk-Taking Ability.

### Traffic Light System

- Green Light: Your Behaviour Loss Tolerance matches your Risk-Taking Ability, indicating a well-balanced investment approach.
- Yellow Light: Your Behaviour Loss Tolerance is lower than your Risk-Taking Ability, meaning your investment profile is more conservative than your ability allows. You may want to consider a higher-risk profile to pursue better long-term returns.
- Red Light: Your Behaviour Loss Tolerance is higher than your Risk-Taking Ability, which limits your investment risk level. This could restrict your ability to achieve higher long-term returns.

Once we determine your Behavioural Loss Tolerance and Risk-Taking Ability, we classify you into one of the following investment profiles. This classification serves as an essential discussion point between you and your financial adviser, particularly when there is a mismatch between your willingness to take risk and your financial capacity to do so. At this stage, a deeper conversation can help align these factors, ensuring that your portfolio is structured to best support your investment goals.

## Portfolio Composition: Income vs Growth Assets & Strategic Asset Allocation

By default, the lower scoring factor between Risk-Taking Ability and Behavioural Loss Tolerance determines the portfolio composition. However, in cases of misalignment, adjustments may be made based on improved understanding through discussion. This is where subjectivity and professional expertise come into play, ensuring the portfolio reflects both financial realities and an investor's evolving risk perspective. A change in circumstances and financial situation may also impact an investor's risk profile, requiring adjustments to the portfolio to maintain alignment with their evolving objectives.

Determining Risk Profile (Lower Score of Risk-Taking Ability & Behavioural Loss Tolerance)	Risk Profile	Strategic Asset Allocation	Portfolio Composition (% Growth vs % Defensive)
Very Low	Conservative	Conservative	30% Growth / 70% Defensive
Low	Moderately Conservative	Balanced / Conservative	45% Growth / 55% Defensive
Moderate	Moderate	Balanced	55% Growth / 45% Defensive
High	Moderately Aggressive	Balanced / Growth	70% Growth / 30% Defensive
Very High	Aggressive	Growth	80% Growth / 20% Defensive

Strategic Asset Allocation (SAA) serves as the foundation for long-term investment performance, typically over a period of 10 years or more. Taking into perspective correlation and diversification, which are key in managing overall portfolio risk, SAA further categorises portfolio composition across multiple asset classes, including New Zealand, Australian, and international markets, ensuring effective risk management. However, regular reviews are conducted to maintain robustness and ensure the allocation remains aligned with evolving market conditions and client requirements.

### Why It Matters

Understanding your investment risk profile is essential to ensuring that your financial strategy aligns with your goals, time horizon, and comfort with risk. A well-structured approach balances risk need, risk-taking ability, and behavioural loss tolerance, helping you build a portfolio that works for you - not against you.

Our Risk Profiler takes the guesswork out of the process by providing a clear and objective assessment of your investment profile. Whether you're a conservative investor looking to protect your wealth or a growth-focused investor seeking higher returns, knowing your risk profile is the first step toward making informed, confident investment decisions.

Ready to discover your risk profile? Click on the following link to get your results.

<https://www.yovich.co.nz/risk-profiler>

### Upcoming Dividends: 18th February to 18th March.

Description	Security	ExDivDate	BooksClose	Gross Dividend Amount	Pay Date
Downer	DOW	26-Feb-25	27-Feb-25	12cps	27-Mar-25
Skellerup	SKL	06-Mar-25	07-Mar-25	10.75cps	20-Mar-25
Vulcan Steel	VSL	13-Mar-25	14-Mar-25	2.69cps	27-Mar-25

Source: Iress

For more information and to stay updated subscribe to our newsletter and consult with your Financial Adviser to tailor your investment strategy.