



FINANCIAL ONE



# Autumn Newsletter 2018

Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime we hope you enjoy the read.

All the best,  
The team at Financial One

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# 5 ways to keep a cool head in a falling share market

**Despite concern, falling share prices are not necessarily a sign of a mild or major bear market situation, according to Dr Shane Oliver.**

The share market correction many people are talking about at the moment is causing concern for a number of investors, including those accumulating super and drawing money from their super savings, which is understandable given the rapid falls we've seen in recent days.

From share market highs to the lows witnessed recently, we saw United States and Japanese shares fall 10%, Eurozone shares fall 8%, Chinese shares fall 9%, while Australian shares fell 5%.

Sharp falls, with talk of billions of dollars being wiped off the share market, are stressful for investors as no one likes to see the value of their investments decline.

However, it's worth noting that periodic corrections in share markets in the order of 5% to 15% are actually normal.

We believe these market movements are indeed corrections, and not a sign of what market watchers would call a mild or major 'bear market' situation.

A mild bear market would be a share market decline of say 20% that turns around relatively quickly, like we saw in 2015-2016. A major bear market would

be a decline of more than 20% in market valuation, like what we saw during the 2008 global financial crisis (GFC).

Our assessment remains that this recent volatility is a correction, not a bear market, and we're not seeing signs of a recession.

## 5 insights to help you keep a cool head

1. Selling shares or switching to a more conservative investment strategy or super option after a major fall just locks in a loss. With all the talk of billions of dollars being wiped off the share market, it may be tempting to sell, but this just turns a paper loss into a real loss with no hope of recovery. The best way to guard against making a decision to sell, on the basis of emotion after a sharp fall in markets, is to adopt a well thought out long-term investment strategy and stick to it.
2. Shares have a tendency to literally climb a wall of worry over many years with numerous events dragging them down periodically, but with the long-term trend ultimately rising and providing higher returns than other more stable assets. Keep in mind, bouts of volatility are the price we pay for typically higher, longer-term returns from shares.
3. When shares and growth assets fall they are cheaper and offer higher long-term return prospects. So, the key is to look for opportunities that the pullback provides.
4. While shares may have fallen in value, the dividends from the market haven't. So, the income flow you are receiving from a well-diversified portfolio of shares continues to remain attractive, particularly against bank deposits.
5. The economic environment globally and in Australia is still quite stimulatory, meaning interest rates remain at historically low levels (for the time being at least) making debt relatively cheap, which encourages investment. Monetary conditions in the US might be tightening, but they are still what we would consider easy, and they are still very easy globally, with monetary tightening still a fair way off in Europe, Japan and Australia. We are a long way from the sort of monetary tightening that leads into recession.

**Dr Shane Oliver**

*Head of Investment Strategy and Chief Economist, AMP Capital*





# Spread your money, reduce risk

Six out of ten Australians own investments outside of the family home and super. That's good news. The only problem is that many people are still putting all their eggs in one, or just a few, baskets.

The latest investor study by the Australian Securities Exchange (ASX) found 40% of investors admit they don't have a diversified portfolio. Almost one in two investors think their portfolio is diverse, yet they hold, on average, less than three different investment products.

## The role of diversification

Diversification plays a key role in long term investing. To understand why, it can help to think about what goes on at the racetrack, where the bookies always seem to win while the punters are invariably left empty-handed.

The secret to bookmakers' success is that they spread their risk by continually changing the odds to encourage punters to back as many different horses in a single race as possible. This spread of money means the wins should outweigh losses.

Punters, on the other hand, concentrate risk by betting on just one horse in each race. Unless the horse wins, the punter loses his money.

When it comes to investing, the strategy of spreading your money so you have a little in a broad number of investments, not a lot in one, can strengthen long term returns and

minimise losses in much the same way that bookies hedge their bets.

## Sticking to what we know

However, a wealth of research shows diversification is a weak spot for many investors. The ASX found we tend to stick to cash, property and Australian shares. In addition to concentrating risk, this can mean missing out on decent returns earned by other asset classes.

As a guide, a recent ASX/Russell report found residential property topped the league table of returns for mainstream investments over the last 10 years, averaging gains of 8.1% annually. What's surprising is that over the same period, global bonds (hedged) and Australian bonds were the next best performing investments with average annual returns of 7.4% and 6.1% respectively.

Aussie shares didn't even make the top four, earning an average of 4.3% annually over the past decade (though to be fair, this period includes the global downturn when sharemarkets tanked). Cash delivered woeful returns of just 2.8% annually over the 10-year period.

## Expanding your portfolio

It's a compelling argument to consider expanding your portfolio beyond the mainstays of cash, bricks and mortar and local shares.

This is an area where your adviser can deliver tailored recommendations. However, investments like bonds, infrastructure (which incidentally returned 13.3% globally over the last year), or international shares (10.6%) can be good additions to a portfolio.

These types of investments can be difficult to access as an individual investor, and a managed investment fund – either listed or unlisted, offers an easy way to expand your portfolio into new areas and reap the rewards of diversification. It's worthwhile seeking advice about what could work best for your portfolio.

– by Paul Clitheroe AM

*Paul Clitheroe AM, co-founder and Executive Director of ipac securities limited, Chairman of the Australian Government Financial Literacy Board and Chief Commentator for Money magazine.*

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# Love and money? It's not about control

While talking about money is not the most romantic way to spend an evening, it's worth putting some time aside to explore shared goals and the way you manage your money as a twosome.

Our approach to managing household finances can make a big difference to the health of a relationship. Thankfully, the old line about "I earn the money. She spends it" no longer has relevance in modern relationships. Today's lifestyles, housing commitments and our career ambitions mean that in many households both adults work, each making a valuable contribution to overall income.

Yet the question of who controls the purse strings continues to throw up some interesting responses. There's no shortage of research on this issue, and the general gist is that the majority of men say they make the financial decisions in a household while the majority of women believe they control the money. Confusing, right?

## Harness the power of two

The thing is, the real issue shouldn't be who controls the cash but rather how you manage your finances as a couple.

This is an area where there are plenty of variations, and there's no right or wrong approach. Some couples like to maintain

almost entirely separate financial lives by only pooling money where necessary to pay the mortgage or rent and other shared bills. Others maintain a joint account, pooling most or part of each individual pay packet to cover household expenses, and holding only a limited quantity of cash in individual accounts to cover personal spending like hobbies or treats.

Exactly how you run your system is entirely a matter of choice, and it is a case of determining what works best for you and your partner.

Maintaining multiple bank accounts can mean paying more in bank fees though this can be a small price to pay if it gives you both a degree of financial independence – this in itself can be a relationship saver.

## Know what works for you

There is virtually no limit to the options available to divide and share a household's combined income and expenses. What matters is that you take the time to devise a system that works for you. Be prepared to fine-tune your approach, or scrap it

altogether, if it isn't living up to expectations. The whole point of the exercise is to work as a team.

At the very least, both parties of a couple should know where household money is being spent. Having a clear idea of your combined financial position could stand you in good stead – and help you avoid unpleasant surprises if the relationship ever hits the rocks.

In our experience though, working together to achieve shared financial goals can really strengthen a relationship over time.

Contact us for a tailored plan of action that can help you and your spouse or partner achieve financial harmony – and harness the power of two.

– by *Paul Clitheroe AM*

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