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financiallyspeaking

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Economic outlook

What happened to the share market in 2018?

Globally, Share markets were down during the December 2018 quarter with the Australian share market falling 8.4% and the global share market index dropping 11.1%. Market volatility spiked - to the highest levels last seen in 2016 when the share market was dealing with a sharp decline in commodity prices.

"The stock market is the only market where things go on sale and all the customers run out of the store..."

Cullen Roche – US economical commentator

Why did the share market drop?

Market sentiment can be fragile. What was once good news can become bad news and vice versa and, once the selling begins, it can acquire a life of its own.

There were three main reasons for the selloff.

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- Five reasons to consider a lifetime annuity
- Four tips for boosting your super balance

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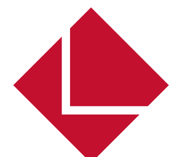

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Economic outlook continued

1. US interest rate rises

The US is the world's biggest share market. Some people say, "When the US sneezes, the world catches a cold". Last year the US raising interest rates had major flow-on effects.

As US interest rates rise:

- holding US dollars in a bank account offers a competitive return compared to other financial product(s) including savings accounts, bonds and shares
- other assets re-price lower as a result of people switching to cash and away from longer-term investments
- it is more expensive to borrow money. More expensive borrowing equals less borrowing which translates to less spending and fewer investments. People fear that this will result in slower growth or even a recession.

What does the future hold?

US interest rates may continue to rise in 2019 but probably not at the same pace as during 2018. Inflation will likely remain under control or even lower and this should limit the upward movement of interest rates in the medium term.

If US rates continue to rise in the short term, there will likely be negative implications for the Australian dollar unless the Chinese economy grows at a faster rate as higher commodity prices tend to push the Australian dollar upwards. This could result in further market fluctuations as seen in early 2018 and during the December 2018 quarter.

2. The US and China trade war

Tension between the US and China over 'unfair' trade policies turned into a saga of trading tariffs (meaning, over taxes placed on imports by each other), on billions of dollars-worth of goods.

The tariffs looked like they were beginning to cause an economic slowdown in China. It was unclear whether the US would continue to increase tariffs which further added to investor uncertainty.

What does the future hold?

There's been a tariff ceasefire between the US and China and they are holding talks with a view to reaching a new trade agreement. Markets are optimistic, perhaps overly so, and this situation may cause some investor uncertainty this year.

3. Peak business profits

Investors were worried that business profits, particularly in the US, had peaked and were headed lower as the economy slowed.

Technology is the biggest sector in the US market and lower growth expectations were triggered by Apple suppliers reporting lower sales which implied the iPhone was not selling as well as expected.

What does the future hold?

Lower profit growth is likely in 2019 particularly as US companies are not expected to get a boost from an extra tax cut, which they did in 2018.

However, profits are still expected to grow. This could result in a positive year ahead, particularly if concerns on trade and interest rates get resolved.

Losses aren't unusual

Losing money in the short term is not unusual when investing in the share market. The below table shows how this can change depending on the timeframe when exiting the market.

- If you invested on any day since 1 January 1980 you could have earned a positive return on that day **54% of the time**.
- If you invested on any day since 1 January 1980 and held onto that investment for 1 year you could have earned a positive annual return **78% of the time**.
- If you held onto your investment for 5 years you could have lost money **4% of the time**.
- But in the longer term (any 7-year period or longer), you never lost money.

Australian share market 1980 – present		
Time Frame	Positive	Negative
Daily	54%	46%
Monthly	61%	39%
Quarterly	68%	32%
Annual	78%	22%
3 Years	91%	9%
5 Years	96%	4%
7 Years	100%	0%
10 Years	100%	0%

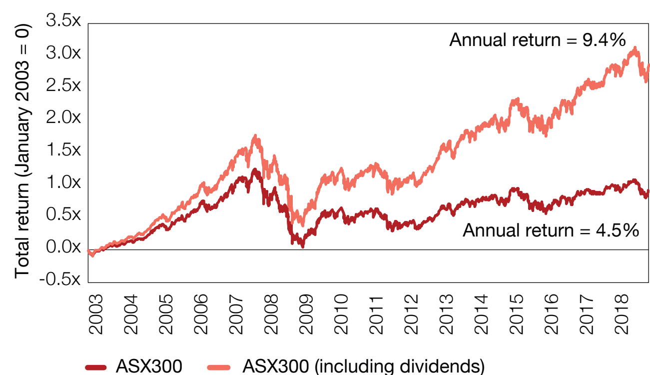
Source: Bloomberg

Losses can be buying opportunities in the long-run

On the positive side, when you're saving for retirement and still contributing to your super, declines in the share market can represent a buying opportunity. A combination of your super contributions plus the dividends you receive from your existing super investments mean you can buy shares at a cheaper price.

Over time this value compounds into greater wealth for retirement. The below chart Shows that between 2003 and 2018 the price paid for Australian shares grew at 4.5% per year. However, if you had reinvested your dividends over the same period you would have earned almost 300% on your initial investment and achieved a growth of 9.4% per year.

Growth of Australian sharemarket (including and excluding dividends)



Sources: IOOF, Bloomberg

This chart illustrates the importance of investing for the long term and how reinvesting your income can achieve even greater returns.

Understanding your comfort with taking risk is key.

In terms of risk tolerance, how did the period at the end of 2018 make you feel? Could you sleep at night? Were you bothered by the news headlines or did you feel afraid?

If you were worried, it may be a good time to consider how aggressive your portfolio should be for your level of risk tolerance. These volatile periods present the truest tests for how we feel about risk and how much we can take.

Source: IOOF

Understanding elder financial abuse to protect your ageing clients

To help protect your older clients, it's important to understand that elder financial abuse can take many different forms and can be committed by a variety of people, including strangers, friends or even family members.

People over the age of 50 and the elderly are particularly vulnerable to mistreatment, from scams and fraud to emotional blackmail and theft, and the impacts can extend beyond financial loss – for example, causing anxiety and depression, or preventing access to food, medical care and safety.

Similarly, people who are alone or isolated, have a physical or mental disability, are reliant on others for their care, experience language difficulties or have a limited understanding of finance are especially at risk of experiencing elder financial abuse.

A bigger impact than imagined

Older people tend to be less tech-savvy than their younger counterparts, and this puts them at greater risk of falling victim to online scams or fraud.

Additionally, it's hard to assess the full magnitude of the problem because a lot of people don't realise they've been the victim of a scam or fraud. And those who are aware may feel ashamed to admit it or report it.

However, that the real impact of these scams and fraudulent activity is a great deal larger than many people may imagine, with the available statistics not making for pleasant reading – for example, in FY2014/15 there were more than 1.6 million Australians affected by financial abuse costing $3 billion[1], 76% of which affected individuals aged 50 years or older.[2]

Identifying elder financial abuse

As older people are often dependent on family members and other people for their day-to-day care or social contact, they can be particularly vulnerable to people in this circle abusing their position to get control their money or other assets.

Some of the most common types of abuse can include:

- **Abusing power of attorney** – Abuse can happen when a trusted person is given power of attorney over someone's assets, and they abuse their ability to make decisions for them.
- **Pressure, threats and intimidation** – This could be physical or emotional pressure on an older person to make them a beneficiary of their Will or sign over ownership of assets.
- **Theft** – Older people are particularly at risk of theft, especially if they have care needs. Thieves can exploit anyone's physical or mental vulnerabilities.

To help identify other warning signs indicating possible elder financial abuse, visit the ASIC MoneySmart website.

Common types of fraud and scams

Fraud usually happens when somebody accesses another person's funds without their knowledge or authority. They might not even be aware of the fraud until they notice it on their statement or receive a call from their bank. Common types of fraud can include:

- **'Phishing'** is where your client is tricked into providing login or credit card details via a suspicious phone call or a link to a fake website.
- **Malware** installs software on your client's computer after they click on a link in a legitimate looking-email, giving criminals access to your client's bank accounts.
- **Skimming** happens when a device is installed on an ATM or EFTPOS machine that stores information from cards to use fraudulently later.
- **Card fraud** is when a client's credit card details are used without their authorisation.
- **Identity fraud** occurs when your client's identity or personal information is used to commit a crime, often through false financial documents.
- **Cheque fraud** uses fake, forged or altered cheques to pay for goods and services.

A scam happens when somebody gains someone's confidence in order to steal their money or information. Scammers often use sophisticated lies to trick people.

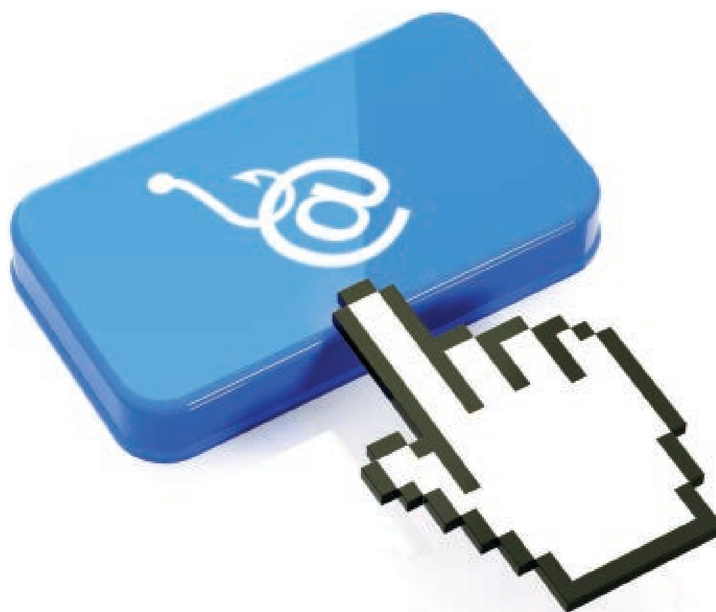
Educating your older clients about common scams and fraud can help them recognise the warning signs and avoid losing their money to someone who is trying to take advantage of them. Common scams attempted can include:

- **IT Support** that requires access to your client's computer via installed software.
- **Romance & dating scams** where the scammer forms a relationship to extract money or gifts.
- **Investment scams** where the scammer offers fast, high returns.
- **Unexpected money** offered through a lottery or Nigerian scam where clients pay a small amount upfront for a larger share later.
- **Travel scams** offer fake free or discount holidays and ask for credit card or bank details.
- **Fake charity** scammers prey on someone's compassion to get bank details for one-off or ongoing donations.

1 ABS, Personal Fraud, 2014-15

2 Commonwealth Bank, 2018

Source: Colonial First State



Unhealthy Attachments

Have you ever made yourself suffer through a bad movie because, having paid for the cinema ticket, you felt you had to get your money's worth? Some people treat investment the same way.

Behavioural economists have a name for this tendency of people and organisations to stick with a losing strategy purely on the basis that they have put so much time and money into it already. It's called the "sunk cost fallacy".

It works like this in the share market too. People bet on a particular stock on the basis of articles about prospects for the company or industry. When those forecasts don't come to pass, they hold on regardless.

The motivations behind the sunk cost fallacy are understandable. We want our investments to do well and we don't want to believe our efforts have been in vain. But there are ways of dealing with this challenge.

Here are seven guidelines:

1. **Accept that not every investment will be a winner.** Stocks rise and fall based on news and on the markets' collective view of their prospects. That there is risk around outcomes is why there is the prospect of a return.
2. **While risk and return are related, not every risk is worth taking.** Taking big bets on individual stocks or industries leaves you open to idiosyncratic influences like changing technology. Remember Kodak?
3. **Diversification can smooth the path.** Over time, we know there is a capital market rate of return. But it is not divided equally among stocks or uniformly across time. So, spread your risk.
4. **Accept that markets work.** If you hear on the news about the great prospects for a company or sector, chances are the market has already priced that in.
5. **Look to the future.** Financial news is interesting, but it is about things that are in the past. Investment is about what happens next.
6. **Don't fall in love with your investments.** It's easier to maintain discipline if you maintain a little emotional distance from your portfolio.
7. **Rebalance regularly.** This is another way of staying disciplined without seeking to time the market.

These are simple rules. But they are all practical ways of taking your ego out of the investment process and avoiding the sunk cost fallacy.

Source: Dimensional

Five reasons to consider a lifetime annuity

Looking for a secure and guaranteed investment for your retirement? Here are five reasons why you may want to consider a lifetime annuity.

1

Complement other investments

Together with the Age Pension (if you're eligible), a lifetime annuity provides a foundation that you can depend upon to cover your basic living costs – including groceries, bills and clothing.

Lifetime annuities complement other retirement investments and sources of income, such as account-based pensions and the Age Pension. They provide a secure lifetime income which can be used as the foundation of your retirement plan.

2

Flexibility to withdraw if your circumstances change

Enjoy the flexibility and freedom of knowing you can access cash if you need it. While lifetime annuities are designed to be held for life, there are withdrawal periods where you may access a lump sum if your circumstances change.

3

Spend confidently in retirement

Just like when you were earning a salary and receiving a regular pay cheque, income from an annuity provides a known regular amount, making it easy to budget your spending in retirement.

This means you can maintain your lifestyle with confidence that your savings will last the distance. And if you choose a reversionary, regular payments will continue to your spouse or partner you pass away.

4

Make your money last a lifetime

Lifetime annuities give you an additional layer of protection in retirement by providing guaranteed income payments. They act as a safety net ensuring that you will receive income for life, regardless of how long you live or how investment markets perform.

5

Protect against market risks

Unlike other types of investments, the income you receive from a lifetime annuity is not affected by share market or interest rate movements. This means the dollar value of your payments will stay the same, no matter how the market is performing.

Payments can also be linked to yearly changes in inflation, allowing you to continue to afford tomorrow what you can today.

Speak to an expert

Everyone's financial situation is different – so it's a good idea to seek professional advice.

Your financial adviser can weigh up your retirement goals and needs, and help you decide whether a lifetime annuity is the right investment option for your retirement.

Source: Challenger

Four tips for boosting your super balance

If you could add $61,000 to your super fund in 10 years, would you do it?

Of course you would, however by choosing, or defaulting into, funds that underperform and charge high fees, you may be leaving money like that on the table.

Super is the biggest investment most Australians will ever make, yet too many unknowingly behave as if they are starring in the TV show, "Married at First Sight." They commit to something they haven't gotten to know or understand.

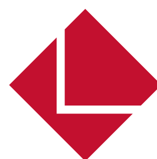
It can be a very expensive error. The recent Productivity Commission estimated that super investors would gain $3.9 billion yearly by choosing better-performing funds and reducing fees by consolidating accounts. That would give a 55-year-old today an additional $61,000 by retirement, and a new job entrant an additional $407,000 when they retire in 2064.

Here's a few ideas on how to send some of that money your way:

- Match your investment option to your goals. If you're young and have many years until retirement, a growth fund may make sense for you. On the other hand, your age may not matter if you have difficulty watching wild market swings. In that case, you may prefer a more conservative option.
- Once you know how you want to invest, compare the long-term performance (five years or more) of funds in that category. Compare growth funds to growth funds, balanced funds to balanced funds, etc, and be aware of differences between funds in the same investment category. Some funds labeled "growth" may have higher allocations to growth assets such as shares and property, compared to another super funds "growth" option, for example. What is important, however, is that you select an asset allocation that matches your financial goals and risk tolerance.
- If you have more than one super fund, consolidate them to eliminate redundant and high fees. This is actually a very easy and profitable move. In most cases, the super fund you decide to consolidate to will have a 'find my super' option and will do all the hard work for you. If you need to know more, the Australian Securities & Investments Commission (ASIC) shows you how. Be sure to review how switching your super affects any insurance you have with it.
- As we all know from watching the daily gyrations of the share market, you can't control everything. But you can control your costs, and that will make a huge difference to your super fund over time. According to Canstar, the average cost on an $80,000 super balance ranges from $466 to more than $2,000 – a year. While you cannot control future performance, you can control costs. This ASIC calculator helps you compare funds, including fees.

Finally, don't make yourself crazy. Constant tinkering is more likely to hurt than help but do get to know your super and increase your odds of a decades-long blissful union.

Source: Vanguard



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