Investment Solutions

Summer 2017

Welcome

In this edition of Investment Solutions magazine we take a look at how you can enjoy the festive season without the financial stress.

BT Financial Group Investment Specialist, Riccardo Briganti, provides us with a market update on local and international markets.

Finally, we share insights on what makes a good investment strategy.

Until next time – happy reading.

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Market update

BT Financial Group Investment Specialist *Riccardo Briganti* brings you our latest market update on both local and international markets, from overseas tensions to the RBA cash rate.

As the year draws to a close, we consider recent market and economic performance in the context of the broader trends seen during the year. US and global equities have performed strongly over the course of 2017, posting positive returns in each quarter. This occurred despite a number of setbacks that had the potential to derail the positive momentum, including increased tensions with North Korea, delays in the implementation of Trump's policy agenda and US natural disasters. The US S&P500 looks likely to post a return greater than 15% for 2017 with a solid 3%-plus return for the final quarter of the year. Valuations continue to be the major concern, but this has been offset by increased confidence in the economic outlook.

Emerging markets have been a strong beneficiary of the improved global economic outlook and were furthered boosted by the positive response to the 19th National Congress of the Communist Party of China, which took place in October. Held every five years, the National Congress was closely watched for clues to any change in the Government's priorities or possible shifts in power within the Communist Party. Most believe Xi Jinping has been able to cement his position as General Secretary for the next five years and probably beyond. As a result, the main thrust of Chinese policy is expected to be largely unchanged. In particular, there has been a renewed emphasis on the anti-corruption drive and the Belt and Road initiative which will see an expansion of Chinese infrastructure projects across Asia, Europe and Africa.

European economic data has maintained recent strength but as is often the case European politics has intervened to once again increase concerns about the stability of the European Union. French, Dutch and German elections during the year proved to be less problematic than initially expected. However, the Basque separatist movement in Spain was a reminder of the difficulty of holding the European Union together.

In Australia, the equities market rebounded strongly in October following five months of lacklustre returns driven in part by concerns following the Commonwealth Budget and uninspiring economic data. The rebound was partly due to an improvement in economic data with June quarter GDP surprising on the upside and the composition of employment growth changing for the positive. Whereas previously, part-time workers dominated improvements in employment, more recent data showed full time workers increasing sharply. Consumer sentiment remains subdued despite the recovery in full-time employment, most likely reflecting the fact that wages growth remains stuck at around 2%.

As a result, there is little to suggest that the positive economic developments will be sufficient to see the Reserve Bank of Australia increase official interest rates any time soon. In fact, market expectations of a rate hike have been wound back to the point that few expect higher interest rates until the middle of 2018.

Enjoy the holiday season without financial stress

Christmas is just around the corner, along with a hectic round of parties, family get-togethers and gift-giving. By the time the New Year rolls around, your waistline might not be the only thing showing the strain.

To make sure you start 2018 fit and refreshed, rather than financially flattened, here's a seven-step plan to consider for managing your upcoming expenses.

1. Create a budget

Any money you can put away in advance will take the pressure off over Christmas. Work out how much you can afford to spend on gifts, food and drink and a trip away and stick to it.

"Budgeting is the most important thing. Use a spreadsheet or use one of the many budgeting apps available to track your spending", says Michelle Hutchinson, money expert at Finder.com.

2. Be a sensible Santa

If money is tight, you could talk to family and friends about setting a dollar limit on presents. Rather than buying a gift for everyone, consider a Secret Santa or pitching in as a group to buy big ticket items. "Maybe you could agree to buy gifts for children only, or a shared item for the household", says Hutchinson.

Gift cards are a good idea for children and teens so they can stretch their money further by shopping at the post-Christmas sales. And don't overlook old-fashioned lay-by where you pay for retail purchases in instalments, rather than using credit.

3. Start early

Nothing is guaranteed to ruin your mood on Christmas morning more than running yourself ragged on Christmas Eve shopping for last minute gifts. So save yourself time and money by starting your shopping early. Draw up a gift list with price limits and shop only for those items.

If you enjoy cooking, you could kill two birds with one stone by setting aside a day to make Christmas treats for your own table and to give as gifts. Christmas cakes and puddings can be made as much as six weeks ahead. Not only does homemade taste better, but you could potentially save a packet.

4. Do your homework

Before you hit the local shopping center, research the market and compare prices online. Hutchinson says you can potentially save money by shopping online for coupons, vouchers and special deals on everything from clothing and wine to international flights. Sites include OzBargain, RetailMeNot Australia and Finder Deals. If you decide to buy online, make sure you leave enough time for delivery before Christmas.

"Set yourself a budget, look for discounts and buy food in bulk from wholesale or farmers' markets", says Hutchinson.

5. Eat, drink, save

Entertaining goes into overdrive from early December through to the big New Year's Eve celebrations. To avoid a debt hangover, party smarter, not harder. If you are hosting a gathering, ask everyone to bring a dish as well as something to drink. This could not only save money but it could also save you the stress of preparing everything yourself.

6. Use credit wisely

Before you begin spending, it's a good idea to review your credit card. Australians' average credit card debt currently stands at around $4,074 per cardholder, with an annual interest bill of $700 if the interest rate is between 15% and 20%1. The interest alone could buy a lot of Christmas presents. So if you plan to give your credit card a workout this Christmas consider shopping around for a good card deal.

7. Holiday at home

If your budget won't stretch for an overseas destination, why not holiday in your own back yard instead? Not under the shade of the Hills Hoist but under the stars at one of Australia's thousands of picturesque camping sites. If you like a bit more luxury, you could rent a room or a whole house via Airbnb for potentially a fraction of the cost of a hotel.

Budgeting and planning ahead may not help your waistline, but it will do wonders for your bottom line this festive season.

What makes a good investment strategy?

If you have a self-managed super fund (SMSF), then you should be aware one of the obligations that is placed on you as a trustee is that you must have an investment strategy for the fund that is reviewed regularly. But what makes a good investment strategy? How long does it need to be? How detailed?

These are all great questions, but unfortunately there is no single right answer. However, here are 5 considerations that can help you along the way.

1. Diversification

Super law does require that when formulating an investment strategy, trustees must have regard to diversification. Diversification relates to a consideration about the spread of different investments you might have – or thinking about ensuring you don't end up with all your eggs in one basket. However, there isn't a requirement that an SMSF's investments must be diversified, and there are some SMSFs that have large investments in a single asset (or asset class). Most commonly this occurs where the SMSF has a direct property investment, with a comparatively smaller investment in cash in order to make any relevant payments as necessary.

The big risk being so concentrated with your investments into one asset or one segment of the market is what if something went wrong? What if a property bubble bursts?

2. Risk and return

The risk involved with, and the likely return from, the investments are also important considerations, and really ties back into the issue of diversification of investment.

What can sound like an exciting possible return on any particular investment, should always be balanced against a consideration of any risks involved with that investment. The difficulty is that both risk and return are assessments of what may happen in the future. It's important to remember that any historical performance data availability is purely that – it's history! It can provide some guidance as to how well a portfolio manager has looked after the monies under their control, thereby providing some insight into their level of governance, but you should always be cautious when it comes to relying on performance history.

You shouldn't look at any investment in isolation, and always compare their performance against peers and over multiple periods of time. For example, whilst a share fund that provided an 8% return in the last 12 months might sound relatively good, it's not if all other comparable share funds were returning in excess of 10%.

Overall, a good investment strategy is one that aligns to the future goals of the members and what they are trying to achieve, and ensures this is done with appropriate consideration of the risks in achieving these goals.

In addition to pure investment risk, you need to consider how much risk the members of the SMSF are willing to take on. The answer may be different for each member of the fund, so you also need to think about whether each member has their own investment portfolio in the fund, or whether everything is pooled together.

3. Liquidity

As a trustee, you need to ensure that your SMSF is able to pay its liabilities as and when they fall due. Doing this for the ongoing running costs of your fund, sounds relatively easy. But you can't forget about the additional liquidity required as members of the fund approach retirement and start to draw on a pension from the fund.

4. Insurance

Trustees are also required to consider the insurance needs of members. This doesn't mean that the fund has to hold insurance for the members, but this is actually an important consideration. Given that the trustees of an SMSF are also the members, this is about considering whether you have enough insurance of your own, and if not, should you acquire more coverage through your super. But don't constrain yourself to personal insurance considerations, even though that's all that's technically required. Depending on the type of investments in your SMSF, you should also consider if you need the fund to take out other types of insurance. This could be a vitally important consideration if you hold property.

5. Documenting it all

Ensure you document your plans. The actual investment strategy document can be long or short, but you need to show you have considered the above elements. Most good investment strategies will have two key positions within them.

1. An overall goal that the investments of the fund are trying to deliver. For example, the fund could be targeting an overall return 2% above Consumer Price Index on a 5 year rolling basis.
2. Second, its sets out acceptable investment parameters. For example, it may say the fund is happy to hold between 30% and 60% of its investments in Australian shares, but is targeting a holding of 45%.

These elements taken together give the trustees something to measure performance against. If the SMSF isn't meeting these objectives, or its investments fall outside of the expressed permitted range, then the trustees need to be doing something to bring it back in line.

The good news is that as a trustee of a SMSF, you don't have to do it all yourself. Professional support can help you understand how your fund has performed in the past and is currently performing, and also help you to identify the requirements of members and select investment to give them a chance of future success.

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