Waverley Wealth News - Autumn 18

Welcome to the latest edition of our client newsletter, Waverley Wealth News.

As predicted in our Summer 18 Newsletter edition, the market volatility has certainly returned in the first quarter of 2018. I hope that you are coping with the daily ups and downs, which will always flatten out over the long term. Please don't hesitate to contact me if you have any concerns, or would like to discuss your portfolio in more detail.

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.

In this edition we discuss '5 ways to keep a cool head in a falling share market'. We also provide you with information on 'Bitcoin - is it really for you' as well as an article on 'Sports lovers enjoy better financial fitness'.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us on 0403 879 982 or email at - enquiries@waverleywealth.com.au

In the meantime, enjoy whats left of the warm weather before Winter arrives, and we hope you enjoy the read.

Kind regards,
Scott.

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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

Bitcoin – is it really for you?

If I could sum up the contents of my junk emails over the last 12 months in a single word it would be: Bitcoin. I can't tell you how many unsolicited invitations I've received to start trading bitcoin – you may have experienced the same thing. This alone is a concern but when heavy hitters like the International Monetary Fund (IMF) start calling out the risks of bitcoin, the warning bells should definitely start ringing.

By way of background, bitcoin is one of many "cryptocurrencies" or digital currencies that aren't backed by governments or banks. Instead it relies on a decentralised peer-to-peer network called a blockchain – a vast digital ledger that uses complicated calculations to record all transactions made using bitcoin.

The technical details are complex. What's much easier to grasp is the meteoric rise of bitcoin.

Big gains means big risks

For many years you could buy bitcoin for the price of a restaurant meal. Then in 2016 it started to take off. By mid-December 2017 bitcoin had soared in value to $AUD25,410. And that's where things headed south. In mid-January 2018 bitcoin's value had tanked to $AUD12,893.

As so often happens in speculative markets, some people have made big money. But plenty of latecomers would have experienced dreadful losses.

Security concerns

Hindsight is always a wonderful thing. But one of the fundamental rules of investing is that big returns come with big risks. Another maxim for successful investing is to only invest in something you understand, and it's a reasonable bet plenty of people don't fully grasp how cryptocurrencies work.

The problem is, crooks do. A report by the University of Cambridge notes that 22% of bitcoin exchanges have experienced security breaches. The same report says less than half the cryptocurrency payment companies in the Asia-Pacific, Europe and Latin America hold a government license.

It's hardly reassuring stuff. And just recently the IMF warned that cryptocurrencies can "post considerable risks as potential vehicles for money laundering, terrorist financing, tax evasion and fraud".

Yet despite all this, investors are still pouring money in, hoping to ride a second wave of gains.

Is bitcoin a good investment?

History is littered with the fallout from speculative markets, and the pattern is often similar – a steep rise in value fueled by investors coming on board late in the cycle for fear of missing out.

For my money, a good investment is backed by a quality asset – like shares in a successful company, a well-located investment property, or units in a managed fund run by a reputable team. There are plenty of such investments to choose from, and we can help you narrow down the choice of what's right for you.

As it stands, cryptocurrencies are largely unregulated, and without the backing of an underlying asset there is no real reason why their value should continue to rise other than demand from over-exuberant investors. If you do plan to invest in bitcoin, my advice is to only tip in money you can afford to lose.

If you'd like to invest in proven assets with a track record of ongoing returns and long term capital gains, backed by best of breed research, contact us for professional advice on a portfolio tailored to your goals.

– 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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Sport lovers enjoy better financial fitness

If your golf clubs have been under wraps or your tennis racquet has been tucked away for some time, it could be worth dusting them off. Research by AMP found Australians who play sport regularly are 64% more likely to achieve their financial goals than those who don't.

While it can be a challenge to fit a regular sporting commitment into our busy lives, getting out and doing the occasional activity can be a good thing. That can mean heading outdoors for a round of golf, a dip in the ocean or just kicking a ball around the local oval with the kids. The health benefits of physical activity are well documented, but AMP's study also found a clear link between our sportiness and the way we manage our money.

Link between sport and money management

According to the survey, playing sport on a regular basis makes us more likely to think about our long term financial wellbeing. As a guide, people who frequently play sport are 66% more likely to make extra contributions to their super fund, and more than twice as likely to own an investment property as less active people.

If you ride a bike or play netball, take a bow – the AMP survey found you're likely to be among the nation's most financially savvy thinkers. Cricketers are most likely to have a financial advisor, and golfers top the league table for personal savings – with one in three having more than $50,000 in savings.

When you think about it, these results aren't all that surprising. Keen sportspeople often achieve success by setting personal or team-based goals. So it's a natural step to set goals in other areas of life like money management.

A number of overseas studies confirm AMP's findings that physical and financial health often go hand-in-hand.

One group of US researchers explained the link, saying that people who make healthy choices today to enjoy good health tomorrow, are also more likely to regularly put money aside to achieve greater financial security in the future.

I freely admit I'm no sports scientist, but it's fair to say there's another link between physical health and fiscal fitness – both can be achieved when you make it part of a regular routine.

Getting in good habits

Getting physically fit involves taking the time to exercise regularly. It may not happen overnight but your fitness should improve over time.

The same applies to financial security. It's all about developing and sticking to good money habits – like using a budget to gain control of your cash, spending less than you earn, and saving and investing for the long term. It's not hard and it delivers great results without working up a sweat.

People who take their sport seriously use a coach for help lifting their game, and you can think of us like a mentor for your money. It could even be worth thinking about having your next review meeting over a round of golf, and achieve two goals at the same time.

– by Paul Clitheroe AM

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