Grow @ Marinis Group

From: Grow | Marinis Group
Sent: Friday, 2 September 2016 12:43 PM
Subject: Spring 2016 has Sprung! Money in the Market vs Money in the Bank
Attachments: 1. Vanguard 2016 Index Chart.pdf; 2. Retirees will Need $1.2M to Match Age Pension.pdf; 3. Stay Hot as Rates Cool Down.pdf

Dear friends

I often have people asking me why they should invest in managed funds rather than just put their cash into Term Deposits and it comes down to a discussion about Risk vs Reward.

Over the 30 years since I left university, the share market has generated an annual return of over 9.6% pa therefore if you invested $10,000 back in 1986, it would be worth $154,405 today.

Comparing apples, $10,000 invested in Term Deposits has on average paid 6.9% pa, which if you kept rolling over your money from 1986 to today you would have approximately $75,023.

But the story is not just as simple as that.

Yes, shares 'win', but they come with a lot of stress. There are highs and lows, which can sometimes cause very sensible people to feel like they are being financially ruined. Meanwhile, the Term Deposit ticks away with its (usually) government backed security. It is also predictable – even reliable but the returns are far lower.

Now, in my experience, there are three rules for success in investing and 'Getting rich slowly – and staying rich' and that is Diversify, Diversify and Diversify.

In other words, don't put all your eggs in the same basket. Hence don't just buy shares in one company, or one sector in your portfolio – buy 'the market' (a spread of shares) and similarly, look at various providers of Term Deposits.

There may well be a time where you want to lock in your gains in the share market and take the risk out of your investment by using a Term Deposit. You might sell your weekender or investment unit and feel you have too much exposure to property and the share market, in which case, a Term Deposit may be a safe choice.

At the end of the day, these are just different investment tools. You should make yourself aware of these 'itools' and decide with your adviser, how they match your appetite for risk and your stage in life.

Please be aware, if you are considering investing in shares, it is a medium to long term proposition. Not a short term one. I like to say it is not about your timing into the market – but the time you spend in the market!

As always, if you would like to discuss any aspect of this edition of eGrow or its attachments, please do not hesitate to contact me or any member of the Marinis Financial Group team on 08 8130 5130 or via email at admin@marinisgroup.com.au.

Attachments

* Source: Vanguard® 2016 Index Chart - Cash Asset Class Return = Average Term deposit rates over 30 years
** Source: Advertiser – 07/08/2016 – Retirees will need $1.2M to Match Age Pension
*** Source: Advertiser – 08/08/2016 – Stay Hot as Rates Cool Down

Kind Regards

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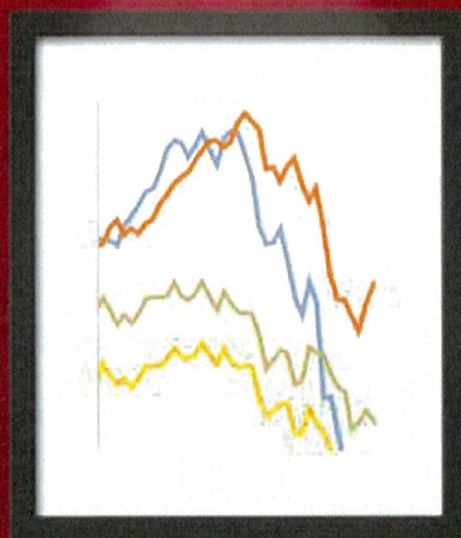
Vanguard®

The bigger picture

Vanguard 2016 Index Chart



The power of diversification

The table below shows the performance of various asset classes over the past 30 years.

When deciding where to invest their money, it is important investors understand that the best and worst performing asset classes will often vary from one year to the next. Having a diversified mix of investments across multiple asset classes can help smooth out returns over time.

The table also reinforces the importance of sticking to an investment strategy and focusing on the long term.

For example, the low returns from international shares in 2011 and 2012 may have swayed investors to move out of this asset class in search of better returns elsewhere. In taking this option, investors would then have missed out on the 33.1%, 20.4% and 25.2% returns in the subsequent 2013, 2014 and 2015 financial years.

Financial year total returns (%) for the major asset classes

Year	Australian Shares	International Shares	International Shares (Hedged)[1]	US Shares	Australian Bonds	International Bonds (Hedged)[2]	Cash	Australian Listed Property	International Listed Property[3]
1987	54.0	32.6	33.2	17.7	12.1	17.6	17.3	41.3	
1988	−8.6	−10.0	−5.3	−15.5	19.4	12.5	12.5	−2.8	
1989	3.5	18.1	18.3	26.7	3.0	16.3	15.7	−1.1	
1990	4.1	1.9	5.3	11.5	17.8	13.1	18.5	15.2	
1991	5.9	−2.0	−5.8	10.3	22.4	15.3	13.5	7.7	−15.9
1992	13.3	7.1	−3.0	16.3	22.0	15.8	9.0	14.7	6.9
1993	9.9	31.8	17.3	26.6	13.9	14.7	5.9	17.1	28.3
1994	18.5	0.0	6.7	−6.5	−1.1	2.1	4.9	9.8	8.4
1995	5.7	14.2	3.7	30.0	11.9	13.1	7.1	7.9	7.5
1996	15.8	6.7	27.7	12.9	9.5	11.2	7.8	3.6	2.4
1997	26.6	28.6	26.0	42.6	16.8	12.1	6.8	28.5	35.7
1998	1.6	42.2	22.1	58.2	10.9	11.0	5.1	10.0	25.0
1999	15.3	8.2	15.9	14.2	3.3	5.5	5.0	4.3	−6.8
2000	13.7	23.8	12.6	18.2	6.2	5.0	5.6	12.1	14.1
2001	8.8	−6.0	−16.0	0.5	7.4	9.0	6.1	14.1	38.2
2002	−4.5	−23.5	−19.3	−26.3	6.2	8.0	4.7	15.5	7.5
2003	−1.1	−18.5	−6.2	−15.2	9.8	12.2	5.0	12.1	−5.2
2004	22.4	19.4	20.2	15.4	2.3	3.5	5.3	17.2	28.7
2005	24.7	0.1	9.8	−4.1	7.8	12.3	5.6	18.1	21.2
2006	24.2	19.9	15.0	11.6	3.4	1.2	5.8	18.0	24.2
2007	30.3	7.8	21.4	5.6	4.0	5.2	6.4	25.9	3.0
2008	−12.1	−21.3	−15.7	−23.4	4.4	8.6	7.4	−36.3	−28.6
2009	−22.1	−16.3	−26.6	−12.5	10.8	11.5	5.5	−42.3	−31.2
2010	13.8	5.2	11.5	8.9	7.9	9.3	3.9	20.4	31.3
2011	12.2	2.7	22.3	3.7	5.5	5.7	5.0	5.8	9.2
2012	−7.0	−0.5	−2.1	11.1	12.4	11.9	4.7	11.0	7.5
2013	20.7	33.1	21.3	32.5	2.8	4.4	3.3	24.2	24.3
2014	17.6	20.4	21.9	22.7	6.1	7.2	2.7	11.1	11.8
2015	5.7	25.2	8.5	31.8	5.6	6.3	2.6	20.3	23.1
2016	2.0	0.4	-2.7	7.5	7.0	10.8	2.2	24.6	20.4
Average	**10.5**	**8.4**	**7.9**	**11.1**	**9.0**	**9.8**	**7.0**	**10.9**	**11.2**
Best	**54.0(4)**	**42.2(3)**	**33.2(3)**	**58.2(6)**	**22.4(4)**	**17.6(3)**	**18.5(1)**	**41.3(2)**	**38.2(4)**
Worst	−22.1(2)	−23.5(3)	−26.6(4)	−26.3(4)	−1.1(3)	1.2(2)	2.2(5)	−42.3(3)	−31.2(4)

(X) denotes the number of times each asset class was the best/worst performer during a financial year ending between 1987 and 2016.

Source: Andex Charts Pty Ltd.

Notes: 1. MSCI World ex-Australia Net Total Return Index (Local Currency) - represents a continuously hedged portfolio without any impact from foreign exchange fluctuations. 2. Index prior to 30 June 2008 is the Citigroup World Government Bond Index AUD hedged, from 30 June 2008 the index is the Barclays Global Treasury Index AUD hedged (previously: Lehman Global Treasury Index AUD hedged). 3. Prior to 1 May 2013, index is the UBS Global Real Estate Investors Index ex Australia with net dividends reinvested. From May 2013 the index is the FTSE EPRA/NAREIT Developed ex AUS Rental Index with net dividends reinvested. Past performance is not an indicator of future performance.

Vanguard

Vanguard® 2016 Index Chart

Market returns - 1 July 1986 to 30 June 2016

Sources: Australian Bureau of Statistics, ASX Limited, Bloomberg Finance L.P., Commonwealth Bank of Australia, Melbourne Institute of Applied Economic & Social Research, MSCI Inc., Reserve Bank of Australia, Standard & Poor's, Thompson Reuters. Notes: 1. One-year returns are total returns from 1 July 2015 to 30 June 2016. 5, 10, 20 and 30 year returns are average annual compound returns to 30 June 2016. 2. S&P/ASX All Ordinaries Accumulation Index. 3. MSCI World ex-Australia Net Total Return Index. 4. S&P500 Total Return Index. 5. Prior to December 1989 the index is the Commonwealth Bank All Series Greater Than 10 years Bond Accumulation Index. From September 1989 the index is the Bloomberg AusBond Composite 0+ Yr Index. 6. S&P/ASX 200 A-REIT Accumulation Index. 7. Data prior to March 1987 supplied by Reserve Bank of Australia. From March 1987 the index is the Bloomberg AusBond Bank Bill Index. 8. ABS Consumer Price Index (to March 2016). 9. Recessions as defined by the Melbourne Institute of Applied Economic and Social Research. 10. Annualised Rate of Inflation. All figures are Australian dollars. 11. Interest Rate is the Reserve Bank of Australia's Official Cash Rate. All marks are the exclusive property of their respective owners. Disclaimer: The information contained herein is intended for informational purposes only. It is not intended as investment advice, and must not be relied upon as such. No responsibility is accepted for inaccuracies. Past performance does not guarantee future returns.

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The bigger picture

As investors it's the moments we tend to remember. The highs and lows.

Lehman Brothers filing for bankruptcy in 2008. The dotcom bubble peaking in 2000. The stockmarket crashing in 1987.

It's easy to get caught up in the moment. When markets go down, it's easy to run for the safety of cash. And when markets go up, it's easy to start chasing returns.

But making short-term decisions on the basis of daily market noise can impact investors' low-cost, diversified portfolios and make it harder to reach their long-term goals. The *Vanguard 2016 Index Chart* can help you focus on the bigger picture.

Bull and bear markets may come and go, but the markets have consistently delivered long-term returns to help investors build their wealth.

Focus on strategic asset allocation

Building an investment strategy framework, one that aligns an investor's risk profile with their investments, provides a solid platform for investors to achieve their goals and expectations.

Research shows that the key to long-term investment performance is effective asset allocation. The chart below is from a study Vanguard conducted which looks at the returns of more than 300 fund managers across 20 years. It found that asset allocation was responsible for 90% of a diversified portfolio's return patterns over time. This leaves only 10% for factors such as market timing or securities selection.

Investment outcomes determined by asset allocation

Percentage of a portfolio's movements over time explained by:

Note: Calculations are based on the monthly returns for 336 Australian balanced funds from January 1990 through December 2011. For details of the methodology, see the Vanguard white paper *The Global Case for Strategic Asset Allocation* (Wallick et al. 2012).
Source: Vanguard calculations using data from Morningstar.

That's why it is important for investors to dedicate time to asset allocation decisions before they start investing – it can mean the difference between achieving their goals or simply aspiring to them.

Having a clear understanding of investment objectives, timeframe and attitude to risk provides a firm foundation on which to build an investment portfolio. The more specific investors are, the better their chances of success.

Invest for the long term

Market cycles play out against a backdrop of economic, social and political events and many investors can't resist trying to assign causes to every hiccup in the markets. But it's often impossible to explain market activities until long after the dust has settled.

Markets are unpredictable and trying to time them means investors must get two important decisions right: when to get out and when to get back in. This means there is a risk of having to pay a higher price to get back into the market, as well as missing out on the growth from any market recovery.

Allowing emotions to drive investment decisions, be it overconfidence in rising markets or fear in falling markets, rarely serves investors well.

Historical market returns show that investors who ignore the emotional swirl of short-term market conditions and focus on the long term are rewarded for their patience and discipline.

Diversify

The index chart illustrates the benefit of diversifying investments across asset classes to help reduce volatility and smooth out returns over time.

Diversification often starts by investing across different asset classes but it also includes holding a spread of investments within an asset class across a range of companies, industries and even countries.

While this strategy doesn't protect a portfolio against negative returns, it does reduce the impact of poorly performing asset classes.

Keep costs low

All else being equal, investments with consistently low management fees and transaction costs can provide a head start in achieving competitive returns.

Management fees create a drag on returns that can make it more difficult for a fund manager to add value. Factors such as high portfolio turnover within a fund can also lower its tax efficiency and drive up transaction costs.

The bottom line is – lower fees mean investors get to keep more of their returns, which can help them earn more over time.

What makes us different

What sets Vanguard apart – and lets Vanguard put investors first around the world – is the ownership structure of The Vanguard Group, Inc., in the United States.

Rather than being publicly traded or owned by a small group of individuals, The Vanguard Group is owned by Vanguard's US-domiciled funds. Those funds, in turn, are owned by their investors.

This mutual structure aligns our interests with those of our investors and drives the culture, philosophy and policies throughout the Vanguard organisation worldwide. As a result, Australian investors benefit from Vanguard's stability and experience, low costs and client focus.

Vanguard's interactive index chart—tell the story your way

Build your own customised version of the index chart with 45-years of investment performance of major asset classes as well as key economic, social, political and demographic changes at vanguard.com.au/indexchart.

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Retirees will need $1.2m to match age pension

TIFFANY KORSSEN
MILES KEMP

SELF-funded retirees would need $1.2 million in savings to get the same return as the old age pension after this week's rate cut slashed their earnings.

AMP Capital chief economist Shane Oliver said some self-funded retirees could now find themselves in the Centrelink office to make ends meet.

"The problem is we're seeing bank deposit rates fall from 6 or 7 per cent down to 2.5, depending on which bank you're with, in only a few years," Mr Oliver said.

"If their savings get so low, they might have no choice but to go on the pension to make ends meet, or they will have to take more risk with their investments, by investing in the share market, for example, to get a higher income flow."

CONCERNED: Michelle and Leigh Ratzmer with children Izabella and Stirling in Adelaide yesterday.
Picture: BIANCA DE MARCHI

The Reserve Bank cut the official interest rate by 25 basis points on Tuesday to a record low of 1.5 per cent.

As a result, investors are getting just 2.43 per cent on term deposits, while super funds returned only 2.81 per cent to June 30.

The age pension for a couple is $34,252.40 a year. To make the same returns on an annuity investment, a 65-year old couple need $1,207,925.

Adelaide financial strategist Theo Marinis, of Marinis Financial Group, agreed with the $1.2 million estimate and said people could prepare by diversifying their investments.

"Nothing that is going well lasts forever, that is why the first rule of investment is diversify, the second rule of investment is diversify and the third rule is diversify," he said.

"For example, commercial property through managed funds has had fantastic yields over the past 12 months in double figures."

SA winemaker Leigh Ratzmer, 37, said $1.2 million in savings was a lot of money for young families to contemplate as they thought ahead to retirement.

"With the rising cost of living it is not unreasonable to expect that's what we will need but it does seem a lot of money to have to put away," he said.

"We (wife Michelle) do think about it and are getting to a stage in our life where we will have to concentrate more heavily on the latter part of our working careers. Super is a consideration but our family has always been more property focused."

Newspaper columnist and investment adviser Scott Pape has warned against people relying on the pension, saying superannuation was a better bet in the long run.

"A study by HSBC spanning more than 16,000 people in 15 countries found that, on average, Australians run out of their savings 13 years before they die – one of the worst results in the world," he said.

"The best thing anybody can do is to make sure that their super fund is an ultra-low fee fund. The more your fund takes the less money you make."

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Stay Hot as Rates Cool Down

ANTHONY KEANE

LOW interest rates are likely to last longer than many Australians expect, meaning now is the time to make the most of the new financial landscape.

The Reserve Bank's 0.25 percentage point rate cut last week is tipped to be followed by another before Christmas, and economists say the world is stuck in a low-rate, low-growth cycle.

"Low interest rates are likely to be with us for some time," says Baillieu Holst financial adviser Alex Butler. "Now is the time to re-evaluate your financial health and strategy. Otherwise opportunities will be lost and wealth whittled away."

While the big banks only passed on a portion of the RBA rate cut, they lifted some of their term deposit rates more than three times as much to about 3 per cent.

That means it's more important than ever to shop around for deposit rates. Check online comparison websites and speak with your bank.

Investors, Butler says, should hold shares within their investment mix, focusing on proven stocks with solid dividend yields plus capital growth.

The income yield of the All Ordinaries index is currently about 4.2 per cent, and close to 6 per cent once you include tax benefits from dividend franking.

Financial strategist Theo Marinis says, "nobody's upset when markets go up, but when they go down, as long as you don't crystallise your loss by selling, they eventually go up again."

Longer lifespans mean people need their assets to grow at least in line with inflation. "For a couple of 65-year-olds, there's a 90 per cent probability that at least one of them will live into their 90s," Marinis says.

Wealth on Track principal Steve Greatrex says retirees should beware of investment schemes offering returns higher than cash in the bank. "People have to get used to lower returns across the board," he says. Embrace lower costs in areas such as petrol, electronics and holiday accommodation, he adds.

And borrowers should demand a better deal if their home loan rate is greater than 4 per cent.

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