Dear Friends

The 'Marinis Buffer' is your first line of defence in uncertain times

Many of you will be familiar with my message to remain calm amid the stress caused by the downturn in investment markets (this is a cyclical event and therefore not unexpected, as any student of history will remind us).

This downturn is compounded by the severity of our global health crisis; for most, the situation in which we find the world at the present time is not part of our lived experience.

It is, therefore, perfectly natural for investors to be highly anxious about their financial future.

Many years ago, I was introduced to a book called 'Get Rich Slowly and Stay Rich' by financial journalist Edna Carew. Not only were we on the same page in terms of investment philosophy, I was particularly impressed by the title of the book. She had captured the essence of our shared philosophy in just six words!

It led me to refine my thinking around how to build on this idea, and the **'Marinis Buffer'** emerged.

The **'Marinis Buffer'** is designed to serve as the first line of defence, to help clients ride out the down times.

The best way to demonstrate the workings of this approach is to look at the portfolio structure of a long-term client and friend, Samantha (not her real name).

Samantha's Account Based Pension (ABP) is invested in line with her 'Moderate' risk profile, which means that like many of our clients in income drawdown phase, she has 50% of her portfolio invested in defensive assets and 50% in growth assets, via a 'Marinis sector specific' portfolio. Further, the entire portfolio has been constructed to deliver income.

The first line of Samantha's defence is her **'Marinis Buffer'** (an amount equal to her pension payments for 2 years) invested in the cash account of her ABP portfolio.

This means that even though the overall value of her portfolio has fallen in the current climate, Samantha's income requirements are covered for the next 2 years by this cash holding – without any need to sell down valuable assets into a volatile market.

The second and third lines of defence are represented by the portion of the portfolio which is held in defensive assets (or fixed interest investments, including Australian and International government bonds).

When share markets fall, the defensive sector of the portfolio will hold the line.

When I reviewed Samantha's portfolio as at 23 March 2020, she held the equivalent of two years' pension payments in cash (or 8.0% of her portfolio, based on her minimum annual drawdown requirement of 4.0% of her ABP).

In addition to her cash investments, she also holds 46.0% in fixed interest investments, resulting in 54.0% of Samantha's current portfolio being invested in defensive assets, irrespective of the fall in value of the growth asset sector (shares and property investments) of her portfolio.

That translates to approximately 13 years of defensive assets to pay pensions at her current rate of pension income!

Bear in mind too, that even in severe economic downturns, interest and dividends continue to be paid.

Over the last 12 months the income received on Samantha's portfolio was 3.76% pa, effectively covering most of her required pension payments of 4.0%. Consequently, she has not needed to top up her Marinis (cash) Buffer which remains at 8.0% of her portfolio.

Even if we assume in the current crisis a very low portfolio income rate of 1.0% pa, every four years the income received on the portfolio will provide another year of pension payment.

On that basis, Samantha's portfolio could self-fund pension payments from the defensive asset allocation of her portfolio for more than 16 years, before having to touch any of the growth the assets which have recently fallen in value.

Samantha is very comfortable that financially, she has nothing to worry about, because she took the advice to build in a **'Marinis Buffer'**.

As is the case for all Marinis clients, Samantha's portfolio will be able to sustain her income needs well after this contagion has passed.

Our superannuation savings as a retirement funding 'engine'.

Rather than being viewed solely in terms of its monetary value, I believe that superannuation should also be viewed as a retirement funding 'engine'. At the moment the engine is working hard to get up a steep hill – but if that engine is well made, well maintained and professionally serviced, it will get to the top and coast along to complete the journey.

This example follows the principles of sound retirement portfolio construction – it will result in an investment strategy which will get our clients up the inevitable steep hills, comfortably.

With a well-constructed portfolio, your pension income levels do not have to change, just as they didn't for any of our clients during the GFC and the post GFC recovery.

Remember too, that historically share markets rebound between 40% - 80% from their lows when the worst is over, then gradually climb back over the following years, exactly as we saw post the GFC in 2008/09.

Even during the Great Depression, in 1930 the stock market rebounded approximately 73% – one year after the 1929 crash.

Regular followers of my media may recall that in February, I distributed 'Media Release 107' which suggested that it was then time to take some of the excess growth in shares off the table to bolster the defensive side of investments. I am pleased to say that Marinis clients had already done so as part of our standard procedure in the management of your portfolios! You can read it here.

My message remains – stay in your seats, stick to your strategy, the markets will recover. Keep well, stay safe and remain positive. This approach will help us to get through this current period of uncertainty.

My mission is always to help my clients to 'Get Rich Slowly and Stay Rich' (with thanks to Ms Carew)!

And One More Thing:

Thank you to everyone who has provided feedback on our approach to the management of this virus challenge.

We are working remotely, and meeting with our clients via 'Zoom' and telephone interviews to ensure we can provide the same high level of service.

I am extremely proud of our team, and particularly privileged to be able repay their loyalty in these difficult times, with reassurance of their employment security. We all know people whose livelihoods have disappeared which is heartbreaking.

We are able to maintain our business continuity because of the ongoing support of you, our clients, and I am truly humbled. Thank you.

As always, if you wish to speak with me or any of the team, please do not hesitate to contact us on (08) 8130 5130 or via email at admin@marinisgroup.com.au.

Kind Regards,

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