Dear Friends

Time to remain rational

To quote the great leader and orator FDR in his inauguration speech in the middle of the Great Depression "You have nothing to fear but fear itself"

What we are currently experiencing economically is nothing new – but the difference this time is that we are so much more aware of the human factor in this COVID-19 'event'.

Ignore the investment noise, short-term thinking means long-term financial pain.

I would like to encourage everyone to forget about the investment markets at the moment and to just worry about being helpful to other people. The markets will repair themselves over time, as they have done repeatedly in the past.

Now is not the time to be buying – or selling. We must remain rational and stick to our medium to long term plans.

As at 16 March 2020, the market is down around 30% from its dizzying heights, just remember that in the 2008 Global Financial Crisis it fell another 20% – losing half its value. The decade since the GFC, however, has produced incredible returns for investors.

If you have concerns, I urge you to read my three Media Releases from early 2009 (attached) when the GFC was causing the most havoc. They demonstrate the consistency of my message even in that VERY dark time.

Also, don't forget that you have the "*Marinis Buffer*". Within your pension portfolios, we recommend an allocation of cash equal to your pension payments for the next 2 years. Designed precisely for such events, this allocation allows you to draw your income from cash without having to sell down assets at fire sale prices. Our clients at the time of the GFC (most of whom are still our clients) can attest to the fact that the "*Marinis Buffer*" is the insurance policy we build into their portfolios.

What we should be doing now

It is clear from the information that we have available to us, that a small percentage of people will have their lives shortened as a result of COVID-19, a lot of people will get sick, and some will need the emergency department and intensive care to survive.

We should all keep those who are affected in our thoughts and prayers and do what we can to help people who need it such as the elderly, the disabled and the ill.

We can also ALL do our bit to 'flatten the curve' of infection to spread the disease base out over a longer time period – so that our fantastic, but very busy, medical system is not overstretched. The best way we can do this is to follow the chief medical officer's advice on social distancing, hand hygiene etc.

As a rational precaution, I have decided to ask half the Marinis Financial Team to work remotely, from home. That way, if someone does get ill, we will be able to send those in the office home, clean down the workplace and ask those who had been offsite to come back in and take over.

As an alternative to face-to-face meetings, we are currently offering Zoom (video) or teleconferences to minimise contact risk for our clients and staff.

I do understand, however, that some of you will be worried about your investments.

If you feel concerned, please do not hesitate to contact me – but in the meantime please also have a wander through our portfolio of media releases and back editions of eGrow… they demonstrate that I have been expecting this kind of event for some time. The recent exuberance in the investment markets has not been rational, and the time has come to let off some steam.

For your information, please click here to read a very relevant and interesting paper by Shane Oliver about COVID-19. If you are interested in the investment implications, please read it.

In a nutshell this is a major crisis but still nothing by comparison to some of the major crises of the last 100 years.

This too shall pass.

And one more thing:

Thank you to everyone who commented on Sam Molloy's guest authorship of eGrow's last edition. Sam and his family are very passionate about ethical investing, as readers would appreciate. Sam and I look forward to bringing you news of the possibility of being able to access an 'ethical investment index' fund sometime in the near future.

As always, if I or any of my team can be of further assistance, please do not hesitate to call us on (08) 8130 5130.

Kind Regards,

Theo Marinis B.A., B.Ec., CPA., FPA®
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Media Release No: 24 – 5th January 2009

Generation X – Stunned!

For most Generation X'ers (those people born between 1961 and 1981) the wonderful, easy world of making money, full employment, buying a plasma TV on easy credit and 20 per cent investment returns has evaporated and as a result, many are stunned by all the negative reports on the current economic downturn. However, these are actually good times for those smart enough to take advantage of it, says Adelaide-based financial strategist Theo Marinis.

"What we are really experiencing at the moment is the pendulum swing of correction which was due in reaction to the greed and excesses of the recent few years." Theo said.

"For Generation X'ers these are unprecedented times. You can understand why so many are worried that Australia may be facing a depression. Clearly however, we are not heading for a depression, it simply feels that way for a generation which has little personal life experience other than the unprecedented good economic times to draw upon.

Perhaps they should chat to their grandparents about what a real depression is like!" We all need to remember that there was no Social Security system in place in the 1920's or 1930's. The social security system was introduced due to the terrible hardships experienced during the Great Depression. This was to ensure there will always be a safety net to reduce the pain during times such as we are currently experiencing."

"For those Generation X'ers who maintain employment (and this will be the vast majority of them) these times are brilliant opportunity for those smart enough to subscribe to the old axiom 'Get Rich Slow.'"

"Petrol prices have fallen by 30 per cent, interest rates have dramatically reduced and for those eligible, the Federal Government has been very generous in giving away free money to working families."

"It is what the Generation X'ers do with these windfall gains which will make a dramatic difference to their long term wealth."

"Firstly, any extra money should be used to pay off short term debt such as credit cards and/or car loans, then any extra funds should go to their home mortgage. Paying off debt as quickly as possible gives you the chance to later supercharge your superannuation by making significant personal contributions."

Now Super has of course recently been getting a lot of bad press, which is quite unfortunate and ill informed.

You need to remember that Super is simply and undeniably the most tax effective way to save for your retirement. It is the investments held within Super that are being hit at the moment, but they have whether held in super or not!

The wonderful thing is that for Generation X'ers with more than 20 years to go to retirement, their super contributions are buying into shares which just 18 months ago cost twice what they do today. This means those super contributions will get a supercharge rebound when the share market rebounds (as it always does) in the medium to long term.

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Many Generation X families often have one partner working part time. There remains a great opportunity for those earning less than $60,342 to contribute up to an extra $1,000 to their superannuation to pick up the Federal Government's co-contribution payment and there is nothing stopping the higher earning partner from making this contribution on their behalf!"

In fact, for those Generation X'ers who are clever enough to recognise that the world has changed, but that the sun will still come up each day, these are great times to build family wealth. It is like the famous opening lines of the classic Charles Dickens novel '*A tale of Two Citie*s' It was the best of times; it was the worst of times…"

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Media Release No: 25 – 5th January 2009

Great Time to be Generation Y!

The world might be coming to a financial end if you believe all the hype, but there has never been a better time to be a young working person between the ages of 16-25, also known as Generation Y or “Gen Y’ers,” according to Adelaide-based financial strategist Theo Marinis.

“So long as a Gen Y’er is able to hold down a job, we should not get too caught up in the gloom. A 7 per cent unemployment rate still means 93 per cent of us have got paid employment. Times could not be better economically for working Gen Y’ers and don’t forget that unemployment is still currently around four per cent!” he said.

“A smart Gen Y'er will be taking advantage of the lower interest rates to pay off as much as possible from any “lazy” short-term debt such as credit cards and car loans. The lower cost of fuel, down almost 30 per cent will also help.”

Once the credit card and the car problems are sorted, an older Gen Y’er with some get up and go will be getting themselves a home loan with cheers all around from their parents, move into it later in the year or early in 2010 when property prices which traditionally lag the stock market are likely to be at their most affordable in the cycle. If the rumours are right, the Federal Government will have extended its unbelievably generous first home owners support scheme which will essentially pay off the stamp duty and solicitor’s fees.

“For those Gen Y’ers who perhaps don’t earn sufficient to take on a home loan, believe it or not, they will do really well in the long term by putting extra money (after paying off lazy debts) into their superannuation.”

“There are two great reasons for putting more money into super right now – the first is you will be buying assets at around 50 per cent of what they cost just 18 months ago which is a terrific bargain that will stand you in great stead when the markets return. The second is to take advantage of the superannuation co-contribution offered by the Federal Government.”

“Under the co-contribution, workers who put extra into their super and earn less than $60,342 pa will find the Federal Government will give them additional superannuation money for free – up to $1,500 in a year for those earning less than $30,342 who contribute just $1,000 extra themselves. There is nothing stopping a generous parent or grandparent from making this payment on their behalf!”

“So how much impact will this approach have – a huge amount particularly if repeated each year. If a 19 year old earns $27,000 pa, their employer will be compulsorily contributing almost $2,500 into super for them under the Super Guarantee (SG) rules. When you then personally add a further contribution of $1,000 from a relative and the Federal Government’s $1,500 you get a total gross super contribution of around $5,000 pa.

It is reasonable to expect just the $1,000 pa personal extra contribution and the resulting $1,500 government contribution to grow to $250,000* by the time that person is 65 years of age.

Further, this $250,000 super saving is over and above the value of the compulsory SG contributions and earnings balance over that time!

"Now, human nature being what it is, most Gen Y'ers will notice a few extra dollars in their wallets and go and buy a trendy new outfit. However, for those who have a view which expands further than next weekend's dance party, the opportunities presented at the moment are fantastic."

"It is unlikely that the people I'm talking about will be reading this article. However, their parents and grandparents might be able to pass on the message. I recommend texting!"

***Based on an assumed 6% pa net earning rate.**

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Media Release No: 26 – 9th February 2009

Boomers & Retirees: See Your Adviser

Despite widespread headlines of doom and gloom as a result of the much over-hyped Global Financial Crisis, it could actually prove to be the real break Baby-Boomer and Retirees have been hanging out for – they just need to make sure they have had their portfolio reviewed and if necessary, reweighted says Adelaide-based financial strategist Theo Marinis.

“Baby Boomers who are over 55 and still working are in a fantastic position so long as they are using Transition to Retirement (T2R) legislation to help them supercharge their retirement savings. They are using near tax-free dollars to buy heavily discounted assets which means when the market returns to good health (and it will as sure as day follows night) they will have had a double win,” he said.

“Working Baby Boomers should make sure their adviser reviews the asset classes of their existing portfolio and if necessary, reweight it to take advantage of the time they have left until retirement and the projected income they will be getting between now and then.”

“While many predict the future will be bleak for Boomers and Retirees, these prophets of gloom are forgetting that there is still a looming skills shortage in Australia. If you look at the public service, one of the major employers in the country, for example, it is estimated that 30 per cent of the work force will be eligible to retire by 2013. Further, it is a similar situation in every sector of the economy!”

“Baby Boomers will have the potential to be recruited and even retrained for new careers, on their own terms (probably therefore on a part-time basis) to fill these vital roles in administering the Government’s policies and the great news is that they will be able to do so using a T2R approach thereby paying little or no tax.”

“As strange as it seems, retirees who have provided well for their own retirement are in a very good position as well, so long as their portfolio has a balance between a strong cash buffer and believe it or not, growth assets. The cash buffer allows them to see out the present difficulties while the growth assets will help them make the most of the impending upswing in the medium to longer term.”

“In fact, retirees will be enjoying the cost of living reductions brought on by the Global Financial Crisis including cheaper fuel, airfares and food items.

“In addition, people should not lose sight of the fact that 21st Century Australia is very generous by world standards. We look after pensioners by providing up to 25 per cent of the average working man’s wage in Centrelink Age Pension benefits in addition to allowing people have their own private pensions (through super) providing significant additional income to supplement the basic Age pension even for those with relatively modest private savings.”

“All those scaremongers talking of another Great Depression need to be reminded that this was not the case in the 1920’s and 1930’s.”

“In fact, the Great Depression was the main impetus for the creation of our safety net Social Security system. It was to ensure that in time of economic downturn people would not be forced to live in the streets and line up at soup kitchens for a feed.”

"Self funded retirees too, need not panic. For example, a self funded retiree of 65 with $1.0 million in a superannuation pension has options even if their pension investments are not currently, correctly allocated.

In this case, they need to review their investment allocation with the aid of a quality adviser. A good adviser could for example, reallocate $200,000 of the portfolio into cash investments with the balance remaining exposed to growth assets (subject to the clients risk tolerance).

This cash allocation acts as the portfolio's "shock absorber" to cushion the portfolio from market volatility and is the account where the pension payments will be paid from, ensuring none of the growth orientated assets in the portfolio are crystallised at a loss, in the current environment.

Now, if this self funded retiree pensioner draws $50,000 pa (tax free super pension) as "pay" taken from their "shock absorber" cash portfolio, they have about four years of pension payments in the starting $200,000 cash account.

However, this ignores that the entire portfolio is receiving income (eg; interest and dividends) even though the portfolio value has fallen during the current crisis. If we assume a conservative 4% pa net income yield that equates to around $40,000 in income flowing into the cash account whilst drawing $50,000 pa in pension payments from the cash account.

Quite clearly therefore, the $200 000 cash account will be self funding for many, many years providing plenty of time to ride out the current volatility and allow the growth assets to recover their capital value, as they certainly will in due course.

"In my more than 20-year career including my time at the ATO, Centrelink and the Insurance and Superannuation Commission before establishing Marinis Financial Group, I have observed one golden rule of the world – times are never as good as they seem and they are never as bad as they seem.

"I remain very optimistic that Australia will pull through the current global financial crisis and will spring back to its position of robust growth, having learned the lesson about getting rich slowly – it is about the strategy rather than the trying to pick the best underlying investments or the best time to buy."

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