Dear Friends

April to April

I started writing this note thinking that we had enjoyed 30 great years since the 'Recession we had to have' and it dawned on me – it was an illusion.

There have been significant bumps over this time (Tech Wreck, Y2K, GFC, wars in Afghanistan and Iraq etc). So, I decided to reel it in to remind myself where we were last year on 30 April 2019 – and compare it to the end of April this year.

Around 12 months ago, at the end of April, the All Ordinaries Index was at 6418 points*. At the end of last month, it was at 5,597.70.

I have often used the analogy that the regular gyrations of the All Ords Accumulation Index is like looking at a blood pressure reading. One moment it is up, the next down – overall, it is the trend that matters.

Over its history, the ASX has returned a medium to long term average return of:

- Since 1st May 2010 - (to the end of April 2020) – 5.88% pa
- Since 1st May 2000 - (to the end of April 2020) – 7.36% pa
- Since 1st May 1990 - (to the end of April 2020) – 9.00% pa
- Since 1st May 1980 - (to the end of April 2020) – 10.77% pa

It is obvious from the past that the market has always recovered (and relatively quickly), not in terms of weeks, but certainly in months.

Even after the Spanish Flu 100 years ago (the pandemic most like what we are experiencing now) the market came back. In the short term, there are always gyrations, and we may or may not be at the bottom – we just do not know.

After the 1918-1919 flu came the roaring 20s, followed by WWII; the cycle is one of boom, bust and boom… therefore, as I always say, "stay in your seats and stick to your long-term strategy."

So where are we now?

Bear markets, like the one we are currently experiencing, often have two distinct 'down' periods with a brief recovery in between. Just as often, the second 'down' leg is worse that the first!

Will that happen in the weeks or months ahead before the market recovers? Nobody knows that, particularly as this Bear market was triggered by the pandemic. If, as we move back to normal activity, the virus can be contained and controlled, then we may not have a further large market fall.

It may well be a 'V' shaped recovery; it is what I believe will happen.

I also believe the 2020s will be roaring 20s too, as we all celebrate getting through what is, and has been, an existential threat!

Before we get to that stage, however, if society needs to be locked down again due to the virus resurging in the next few months, the resulting second economic downturn will precipitate a further down period in the markets.

That is why my advice (as it has been to a few of you have asked recently) is now is not the time to be gambling by changing your long term strategy, or worse (as a few of you recently suggested) by drawing significantly on a line of credit to "pick up some investments that are on sale!"

It is always the long-term trend line that matters. Click here to read my article in the April edition of Alan Kohler's 'InvestSMART' Magazine about the experience from the GFC to now of my friend and client 'Bill'.

(NOTE: 'Bill' is still a client even though the InvestSMART piece incorrectly claims he is an ex-client)!

Part of the 'boom' recovery experienced by Bill and all my medium to long term clients is capital growth, and over the medium to long term, part of that is due to the compounding effect of interest, rent and dividends.

But that is only some of the story.

I have always believed in portfolio diversification to effectively spread around the investment risk. This means that all my clients (including me and my family) have a portfolio construction 'stake' in real estate, fixed income (bonds), cash, Australian and International shares to balance our investment risk across all investment sectors.

During the last 12 months, when the average fund was up 14% in 2019, we have seen ridiculous headlines about how wonderfully the markets have performed. And now – how terrible things are – with the average fund down 10% in the 12 months to 31 March 2020.

Who was it that said, "Things are never as good as they seem, or as bad as they seem"? In my view, we are badly served by sensationalist commentators who ignore longer term trends.

In many ways, investment market volatility is irrelevant if the participants (such as the Marinis community) have a robust medium to long-term strategy – and we stick to it. In the income draw-down phase, we also have a 'Marinis Buffer' to protect us in the inevitable downturns.

The reality is that my clients will never get the 'top' of the market because of my conservative investment approach – but I sleep well at night (as I think most of you do) because I also know that you won't get to the bottom of the market.

Very recently, I've experienced great joy in meeting a new generation of future clients – the adult children and young friends of existing clients who have reacted to the COVID-19 crisis by seeking to get their personal financial affairs 'shock-proofed'.

The uncertainty of our times, the sensible advice of their mentors, and, no doubt, the great communication skills of 'The Barefoot Investor' Scott Pape (who really resonates with young people and whose philosophies are consistent with the Marinis approach) has encouraged them to chat with us.

Millennials do not have the 'get rich quick' baggage of those of us who lived through the 'Gordon Gecko - Greed is Good' period of the 1980s. They get the message about putting into long-term investment "as much as you can, as soon as you can, for as long as you can."

I am also delighted to hear the peace of mind experienced by many of our retiree clients, now they are in the draw-down phase of their superannuation.

These clients are seeing first-hand, over the medium to long-term, how they have been protected from the gyrations of investment markets. I advise most of them to forget about the stock exchange, and just look forward to spending their fortnightly or monthly income – with the knowledge that the team at Marinis is here for them in this period of uncertainty, as well as in the good times.

Speaking of our team, over this April to April period I have certainly challenged our wonderful staff – we have moved premises to co-locate with Piteo Accounting, recruited some great new people, and now we've undertaken a geographic dispersal, so that we can all work from home.

We are truly blessed to have special people who have not dropped the ball at all during this upheaval. I believe that tough times such as these really do bring out the best in good people.

I'd like to thank everyone who has sent us their best wishes, and to reinforce our commitment to be here for you in the good times, like last April, and now – during the not-so-great times – ensuring that we can always do the right thing by you.

And one more thing:

You may recall I wrote to the PM and senior ministers in early April recommending they bring forward the Centrelink balance 'auto update' for part pensioners. See my letter here.

I am pleased to report that the Department of Human Services (Centrelink) requested exactly that, and all Account Based Pension fund balance updates were brought forward and actioned in April!

If you would like to see my other recent media comments, please click here.

Finally, please click here to read a recent update from Shane Oliver (my favourite economist) that confirms we all can and should, remain optimistic in this lucky country.

However, in my observation “the harder you work the luckier you get.”

I too genuinely believe whilst the Pandemic is not over the worst is over for South Australia and Australia!

*https://www.asx.com.au/about/historical-market-statistics.htm, accessed April 24, 2020

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,

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