Media Release 107 **17th February 2020**

Time to top up your cash

"To say 2019 was a stellar year for investors is an understatement. With most balanced portfolios generating returns of around 14%, now is an ideal time to top up your cash" says Adelaide based financial strategist Theo Marinis.

"I generally advise our clients to plan conservatively for an average 5.0% per annum return on investment. Considering that the 30-year average of a balanced fund return is a net 7.3% per annum (based on an allocation of 65% growth assets and 35%defensive assets) they are usually delighted on the upside.

Regular portfolio rebalancing is essential for those who are serious about investing (as opposed to speculating or gambling – which is NOT investing).

With returns last year almost 100% above par, and with the current bull run now into its eleventh year, now is the time for even more caution that usual. It is time to consider Warren Buffett's mantra *"When the markets are greedy, it's time to be fearful, and then when the markets are fearful, it's time to be greedy!"*

Caution and prudence are investment virtues, especially if you are already retired or heading into retirement. If you are drawing on your investments for retirement income, it is time to start growing your 'Marinis Buffer' (allocating the equivalent of 2 years income to cash) to guard against a prolonged downturn" Theo said.

"For example, if a portfolio valued at $1m has grown to $1.14m over the past year, it would be wise to take some profits and switch approximately $100,000 out of the market into defensive assets (i.e. cash and fixed interest).

Many investors will see this approach as one which would deprive them of the ability to generate even higher returns in 2020, but I see it as part of a risk minimisation strategy. The returns forgone on the $100,000 switched to defensive assets is essentially the insurance premium paid.

The remaining portfolio balance of $1.04m still has exposure to the market in line with the asset allocation for their particular risk profile, to receive whatever returns come their way.

For retirees in income draw-down phase, a market 'break' can have serious implications for peace of mind and long-term financial health if good quality shares must be sold at a discounted rate to provide income on which to live.

Consider the same balanced portfolio of $1.14m in the event of a 25% share market correction; it is now worth approximately $955,000 (based on a 25% reduction on the 65% of portfolio invested in growth assets). With a 'Marinis Buffer' to act as a shock absorber, income is able to be drawn from this cash source, plus the income on the portfolio for the next 2 years, if necessary – while markets recover – and history tells us that markets do generally recover!

This is EXACTLY how our clients rode through the GFC without the need to dramatically alter their lifestyles and reaped the rewards in the last 10 – 11 years.

It is foolhardy to expect the market to continue to boom (just as much as it is equally ill-informed to expect it to tank) for a long period of time. You do get mountains and valleys on the returns graph, and therefore it is wise to smooth them in a reasonable manner, by holding enough cash reserves to ride out the downturns.

That is why real investors regularly rebalance their portfolios.

In doing so they take some of the profits off the table and park them for a rainy day, rather than allowing the emotion of greed to fog a wiser, longer term strategy.

As any visitor to a casino will tell you, only fools continue to chase winning streaks. To quote 1980s financial journalist Edna Carew, I believe in "getting rich slowly – and staying rich."

Rolling the dice again in 2020 without preparing for a downturn is an investment recipe for disaster, as we witnessed in 2008/09. The market will correct, but we don't know when. As long as you have put away enough cash to tide you over in the difficult times, it won't matter to you.

The stock market has often been described as a very efficient way to transfer wealth between the greedy and the patient. I know which group I would want my clients to be in."

To check if this approach is right for you, contact your financial adviser.

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