Dear Friends

Inflation……. perhaps stagflation? What should you do?

Perhaps as I'm getting into my late 50s, I'm becoming a bit grumpy.

Nevertheless, it is frustrating that so many commentators are pursuing the naïve argument (or hatching the Machiavellian plot) for the return of inflation. This is a practice which is motivated by self-interest to coax or frighten investors to 'buy' what the snake oil peddlers are currently selling.

Wearing the economist's hat, I know that a little inflation is good for the economy. In fact, the inflation target range (or the 'Goldilocks' position) set by the Reserve Bank is currently around 1-3%.

If the much clichéd 'inflation genie' gets out of the bottle, however, it will act as a brake on the economy.

It has happened before. Most of our readers will remember the mid1970s when Australia was hit by 'stagflation'; stagnant growth, high unemployment and rapidly rising prices. The world did not end, and we have prospered like no other time in history over the last seventy years!

There is no need to panic.

The mistake made by many of the people quoted in the media is based on the expectancy of a smooth investment growth graph returning 7.5% every year[1]. It doesn't work like that. Investment values simply reflect a view today of what something will be worth in the future. Economic and political shocks impact those prices dramatically …and regularly.

Some 'experts' are currently recommending that investors sell out of shares and move into gold as a way to avoid inflation risks. This approach rejects the three fundamental rules for growing and protecting wealth – diversify, diversify and diversify.

Whilst a little gold in your investment portfolio might be right for you, risking everything by investing in one asset sector is a huge gamble – one which I would never recommend, inflation or not.

There is really no secret to successfully growing and protecting your wealth. It is all about developing a suitable strategy, sticking to it in good times and bad, and keeping the costs as low as possible.

Naturally, we all get emotional where our finances are concerned. It is easy to start reading selectively or basing investment decisions solely on one (often short term) economic indicator. Having a financial adviser with the specialist knowledge and experience to help you to avoid making emotional decisions – which can result in an expensive mistake – is the 'value add' in this scenario.

Inflation is the topic of fearmongering now, and it will be replaced with something else soon. Most likely it will again be 'deflation' – the fearmongers 'go to' after the 2008 GFC, next. Deflection to the next 'crisis' is the nature of financial commentary ….and the snake oil peddlers.

What is the reality? Thinking back on the days of 'stagflation' – those difficult times passed. We currently enjoy the best standard of living of any people who have ever walked the planet. None of the fear mongering then or now has factored our propensity for ingenuity and innovation.

One innovation which points so blindingly to the truth of our current situation is that "the operating system of the iPhone 6 is reportedly 120,000,000 times faster than the best Apollo era computers[2]."

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[1] *The ASX200 has grown on average by (9.2%) pa over the last 30 years. However, some years have been negative (40%) and others positive (25%). It is the trend that counts.*

[2] *https://www.zmescience.com/science/news-science/smartphone-power-compared-to-apollo-432/*

The world today is unrecognisable to the word in July 1969 and through the 1970s, and the changes will continue – at an even faster clip. The pace of innovation is increasing exponentially – and as my investment hero Warren Buffet always says, "The best days always lie ahead of us!"

Please remain optimistic – and focused on a positive future.

I can promise the markets will 'break' at some time, they do regularly. I can also promise there will be economic and political shocks. The patient investors who 'stay in their seats' will always be rewarded. Those who panic will lose.

And one more thing….

For further perspective of market returns since well before and through the Stagflation of the 1970s please refer to the Firstlinks' article here.

You will note all the peaks and troughs – but please pay close attention to the long-term trend. As the old saying goes "the trend is you friend."

And ANOTHER thing….. the "Your Future, Your Super performance test"

The Federal Government has proven once again its ability to take a good idea, communicate it poorly and cause mass confusion. This time, it is the "Your Future, Your Super performance test".

It sounds great that there is a tool to compare super funds and explain which ones are duds. If that was, in fact, the case, I would be 100% in support.

However, this tool only compares the default funds that employers use if a staff member fails to make a superannuation choice.

You can view details of the test here.

It is important to bear in mind that none of the '13 failed' funds in the recent Your Future, Your Super performance test have ever been recommended to any of our clients.

These 13 are basic MySuper superannuation funds. Investment options are 'defaults' for members who don't make an investment choice. The list includes industry funds, retail funds and corporate funds.

Marinis does not generally recommend that our clients invest in MySuper funds.

Our investment methodology is based on firstly, the selection of an administration provider or platform. Within the recommended administration platform and based on our 'best of breed' research, we use a range of individual investment managers to provide the underlying portfolio investments (generally these will fall into the category of asset sector specific 'index' and some 'actively' Managed Funds and ETFs).

The important distinction with this approach is that as our client, the asset allocation of your portfolio is tailored to your investment risk tolerance. It is not a 'one size fits all' portfolio.

Further, the underlying investments in your portfolio are chosen for a) their ability to track an index for the relevant asset class in which they are invested, eg shares, property, bonds, and b) to be measured against it, after taking into account all fees and expenses.

Conversely, the benchmark against which the MySuper funds are compared is the median average performing fund of the 80 funds included in the performance test (rather than an index benchmark which is net of their fees) and therefore arguably – not a meaningful comparison.

It is a pity that the people advising our government were not able to be clearer (or perhaps have a better understanding) about what was being measured. If this was the case, perhaps the communication might have been better and the resulting confusion less.

Keep well, stay safe and remain positive.

As always, if I or any of the Marinis team can be of assistance, please don't hesitate to contact us on (08) 8130 5130 or via email at admin@marinisgroup.com.au.

Yours sincerely

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