Quarterly

2015-16 SUMMER EDITION

Welcome to the Summer 2015-16 edition of the NeoWealth Management Quarterly

The outlook for 2016

In terms of considering the outlook for 2016 we first discuss the poor start to the year. The reason for this weakness can be summarised as follows:

1. China triggering circuit breakers on their equity market at the same time as devaluing the currency which encouraged investors to rush for the exits to liquidate into US$. The Federal Reserve raising at much the same time played into investors desire to exit Chinese holdings.

2. Growth figures have been a little soft but not overwhelmingly negative. In fact there are a few green shoots in some Chinese data – service sector is strong, property sales improving as are car sales. US manufacturing has softened but the economy looks reasonably robust.

3. The oil price has been strongly correlated to equity markets. This is surprising as we would expect it would provide a boost to global growth. However the impact of slowing investment in oil projects has overwhelmed the consumer benefit at this stage. It has been estimated that consumers have saved half the positive benefit from the lower oil price. Sooner or later the lower oil price should have a benefit (as the decline in investment spend will slow).

Overall investors and market participants are struggling to clearly annunciate a reason for the fall which suggests it is a liquidity driven event more than a fundamental event (and should ease over time). Nonetheless the overall environment remains challenging. Growth remains modest (albeit positive) and the Federal Reserve is no longer providing the monetary stimulus.

When we consider 2016, we are considering the following issues:

- The Australian economy has been responding to the lower A$ and we are seeing a range of positive signals (low unemployment, increasing infrastructure spend). However, offsetting this is the fact housing starts will slow, and resource spend will remain low.
- Banks are offering very strong yields and steady growth. Balance sheets are strong (post raisings) and the lift in mortgage rates should support earnings.
- Resources will be more difficult to predict given the volatility in commodity prices and earnings. Resource earnings have fallen from 33% of the ASX 200 earnings to 11%, with much of this already reflected in company market caps. We continue to look for signs of improvement, given most investors remain negative regarding the outlook.
- While the Chinese economy remains soft with manufacturing indicators showing little signs of life, China has been undergoing significant levels of fiscal and monetary stimulus.
- We continue to see issues in industry structures in the larger companies and mid-cap growth stocks should benefit in an environment where growth is scarce and interest rates are low. The market has pushed up valuations on these companies with a strong growth outlook, a thematic which has been supportive for our portfolios during the year, and we expect it to continue into 2016.
- We remain cautious on defensive names with high yields. These stocks have baked in lower yields for an irrational period of time into valuations, and in the face of the US normalising interest rates, performance in these segments becomes more challenging.
- We continue to support segments of the economy exposed to the lower A$ that are growing—tourism, agricultural exports and education. We continue to also support stocks exposed to offshore markets (particularly US$).

(continued on page 2)

NeoWealth MANAGEMENT

(continued from page 1)

From a valuation perspective we see three factors impacting the outlook for the market:

1. The PE of the market is 14.5x, which is in line with long term averages and reasonably cheap compared to the current low interest rates.
2. If bond yields trade towards 3.3% then we think Australian equities can trade towards 16.5x (6% earnings yield). This would represent bond yields trading at 55% of the equities earnings yield, which is a more-than-appropriate discount for the greater volatility of equities.
3. Earnings growth has been flat for the past few years as the market cycles the deterioration in resource earnings.

The Outlook in summary

The outlook should begin to improve (5–7% growth) from here given that:

- Resource earnings have already fallen (law of small numbers applies)
- Currency will continue to provide a tailwind for exporters
- A small improvement in domestic demand will have outsized impact on profits, given the level of cost cutting that has been occurring
- It is offset by a slowdown in housing-related activity. In summary, despite the current volatility caused by macroeconomic concerns (driving flows across borders), we can see a good platform for 2016 and remain optimistic. Earnings should begin to grow from a low base, while yields should be supportive for valuations, combined with a grossed-up dividend yield of ~6.5%.

Source: Jamie Nicol, Chief Investment Manager, DNR Capital

Trust your head over your heart … don't sell up in a down market

It is never more important than when you are close to retirement or already there, to be considered and rational when it comes to reacting to market upheaval.

2016 has begun with the unpredictability that really signified what we all experienced in 2015. Investors are incredibly reactive at the moment, and confidence in the markets is low. This is not helped by the media overwhelmingly focusing on the doom and gloom potential of Australian and global markets.

Everyone would agree that an inevitable by-product of retirement is the overriding fear of losing your retirement savings.

You no longer are building this asset with your superannuation contributions, and now that you are retired, you are forced to make a withdrawal every year in the form of a pension payment (5% for example if you are 65).

This can mean that when markets are volatile, you are not only reducing your retirement savings when the markets are down, but also potentially losing asset value at the same time.

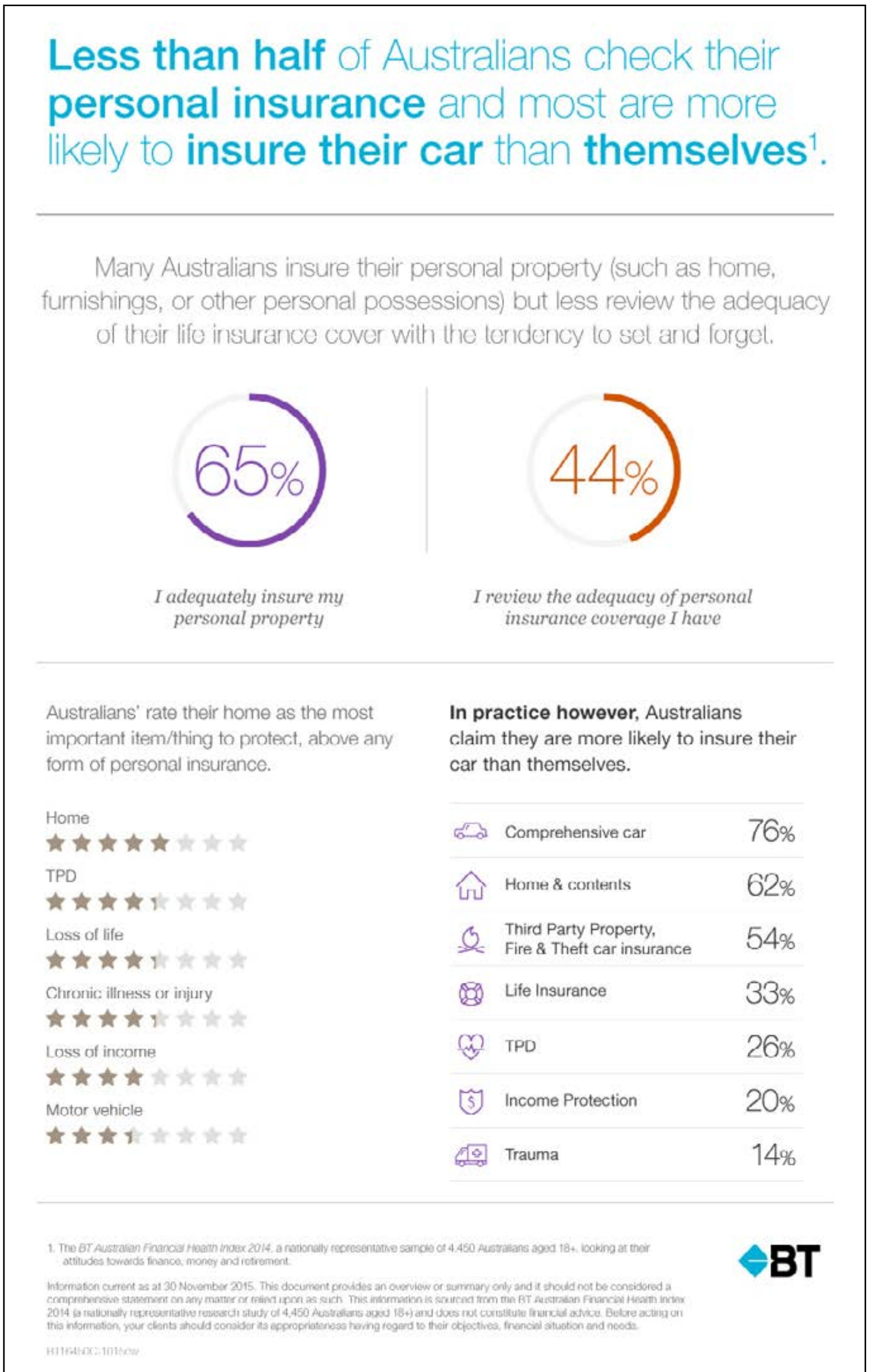
You might be tempted to try to "time the markets". Even the professionals find this difficult, perhaps near impossible. You are effectively pulling out of an investment or investment class when the price is at its lowest. By the time you are "brave" enough to re-enter, you will probably have missed any possible upside or market gains.

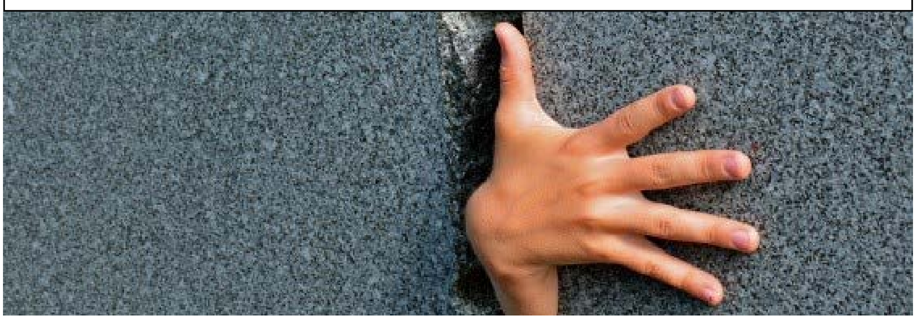
Following you head not your heart is a constant battle for most of us. What make this battle even more epic, is when you have no considered investment strategy in place to deal with investment volatility.

The trick is to seek professional advice and set a retirement strategy even before you are near retirement. This strategy will then evolve with you when you hit retirement. It will also, with ongoing review and discussion, mould into what you need for what potentially could be many years of retirement. Having enough of your retirement savings in cash to ride out this volatility is a strategy that can assist in avoiding selling up with the markets are down. Knowing exactly how much to hold in cash, or liquid investments, is where we really prove our value to you as a financial advice professionals. This is not an area where you want to take a stab in the dark!

Key points to think about:

- Ensure that you are not just chasing performance and have realistic expectations of investment returns. There is no such thing as "something for nothing". A promised 14% return for next to no risk … way too good to be true!
- Don't over-react to bad market news – if you have a solid investment strategy in place, it will have factored in this volatility
- Understand that income security is probably one of your most important concerns. Discuss these with your adviser. We help our clients make smart decisions so that they can be confident in their retirement incomes, whilst continuing to keep pace with inflation. This is important to make sure that your savings do not unreasonably depreciate over time.





Mind the gap!

When it comes to personal protection, Australians are making a worrying return to a 'she'll be right' approach, with fewer than one in five checking their levels of personal insurance.

WE'RE MORE LIKELY TO INSURE OUR CAR THAN OURSELVES

Personal insurance often plays second fiddle to other types of cover. Assets that we own and are "tangible" are often seen to be more important to insure than ourselves ... Are you starting to see that something is potentially out of kilter here?

- 76% of Australians claim to insure their car, yet only 33% also claim to have life cover and just one in five (20%) claim to have income protection insurance.
- One in three (35%) Australians rate their home as their most important insurable asset.
- Only 26% rate life insurance as the most important form of cover.
- Protection against loss of income (11%), total and permanent disability (10%) and chronic illness or injury (9%) all rank poorly as a priority to insure.[#]

A LACK OF CONFIDENCE IN PERSONAL INSURANCE

The bottom line really is that the average Australian generally doesn't hold a lot of confidence in personal insurance products.

Around one-third (31%) of Australians are 'very confident' their car insurance will meet their financial needs if a claim is lodged. By contrast, just 20% are confident that life cover will meet their financial needs – a figure that falls to 14% for total and permanent disability (TPD) insurance.

Life insurance is of course, more complex than car insurance for example. A car has a "market" or "real" value and this is the amount insured. However insuring your income, or your life for that matter actually takes some expertise. The process can be daunting if you "go it alone", and in the end the outcome might not be what you had intended. This is where too often than not, getting this insurance falls into the "too hard" basket.

That is where NeoWealth Management can help. We help our clients to get the amount of protection that they need, and that they can reasonably afford. We aim to make the process as simple as possible, and help you to work through the complexities and all of the documentation that is required. Don't go it alone. It's not worth it.

DON'T JUST GOOGLE IT!

The BT Financial Health Index 2014 indicates that Australians are increasingly turning to the internet to research financial decisions. (80%) and family or friends (73%) when it comes to making decisions on insurance.

Internet research is a good starting point. It will help you find out what in fact you do or don't already know. However, applying the theory to your own personal circumstances is a complex process whereas seeking professional advice will actually make the process a lot simpler!

It is important to ensure that you have enough insurance, that it is structured properly, and that you will in fact be able to successfully claim on the policy in the future!

1 The BT Australian Financial Health Index 2014, a nationally representative sample of n=4,450 Australians aged 18+, looking at their attitudes towards finance, money and retirement.

Source: http://insights.bt.com.au/mind-the-gap/

Client in Focus

Phillip Chambers
Jnr & BARGO EVENTS

After 30-years with CUB (Carlton United Brewery) looking after small and large hospitality venues around Melbourne, Phillip Chambers uncovered a need for portable bars for outdoor events. This turned out to be seed for his company, Bargo Events. The very first mobile bar in Melbourne was designed and built – housing not only beer taps for dispensing but also with a BBQ – doesn't get any more Aussie than that!

In 2001, this seed of an idea developed into an actual business. Starting on a part time basis, in his backyard, with his wife Amalia and son Phil Jnr and has since evolved into a full blown business that has outgrown its previous location and relocated to larger premises in Port Melbourne late in 2015. This family-business continues to grow with an additional staff of 6, plus casuals, complementing the original 3 from the Chambers family.

Today, Bargo Events supplies mobile bars, furniture and equipment for hire for major events and festivals and also builds custom-made bars to order. Working with councils, festival directors, event organisers and small and large businesses, Bargo Events remains leaders in this field.

Further to this original offering, they provide flexible and customized solutions for trade partners including CUB and other major and microbreweries, wine companies and other suppliers to the events and festival industries. The growth has seen the business diversify so it now also offers diverse services including staff and catering for events and functions, storage facilities, distribution and transport and most recently, an Office Hub whereby small businesses rent desks, storage space and car parking at their premises in Port Melbourne – providing networking opportunities for complementary services.

Bargo Events started with an emphasis on personalised and flexible service and to this day this remains their mantra.

7 tips to build and protect your "hard earned" wealth in 2016

If you have been working for some time now, navigating that space in between having a family, building your savings and investments, and dealing with your mortgage and other debts, all whilst keeping half an eye on your retirement savings, these tips are for you! Prioritise what is keeping you up at night, and give us a call to discuss how we can help.

1. Manage your risk

- **Protect your salary/wages** with the right type and level of insurance.
- **Protect the assets you own.** These are the "tangible" assets like your home, car, contents etc.

2. Protect the wealth you have worked so hard for over the years

- **For your family** – seek professional advice on how to protect and plan your estate.
- **Ensure it is tax effective** – get the right advice.
- **Ensure that your loved ones receive as much as possible**, by ensuring that your plan is structured correctly, and in a tax effective manner.
- **Provide for guardianships** – Ensure those you have entrusted with your children are well provided for.

3. Get the best mortgage and finance solution available

- The difference of 0.25-0.5% in an interest rate could make a lifetime of difference.

4. Invest for the future

- **Super is really just a "tax-effective" enforced vehicle for savings.** Get on the band-wagon!
- If you are in the "middle of your working lifetime" **there is no time better than now to make your super work hard for you** – get in the right fund, with the most relevant investment profile for your needs.
- If you are away from the workforce looking after the family, continue to contribute to your super where you can.

5. Maximise your earning capability

- If you are taking that career break do your best to stay involved and **remain connected to the workforce** whilst having kids.
- **Make learning a lifelong pursuit.**

6. Understand what you are spending

- Keep track of it in a way that suits you, and that isn't a hassle. There are many great apps out there that do a great job managing your personal cash flow.

7. Have a "Plan B"

- If you continue investing in your super as you are now, would it be enough? What if you want to retire before you are 70? You might need another solution, to work hard alongside your super.

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