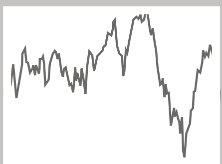
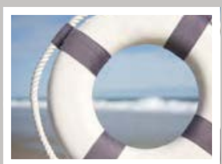
Quarterly
2015 SUMMER EDITION

Welcome to the 2015 Summer edition of the **NeoWealth Management** Quarterly

INSIDE:





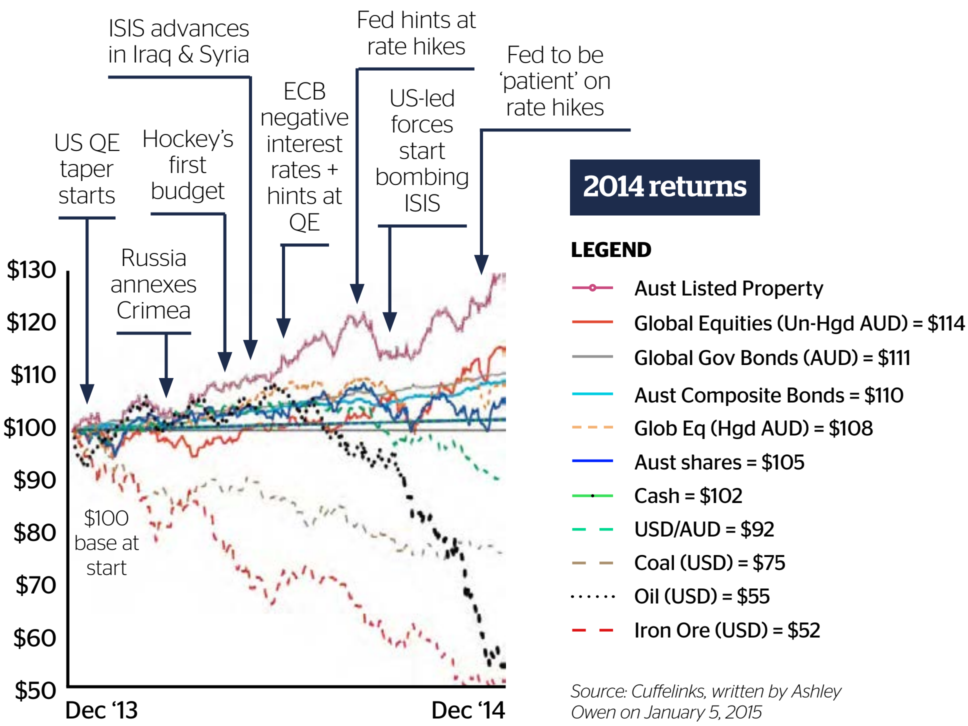
Oil industry in West Siberia

Another good year for most investors

In 2014, all the major asset class generated positive returns and beat inflation and cash, like in 2012 and 2013. Slowing economies, recessions, war in the Middle East, fears of deflation in Europe and of rate hikes in the US did not prevent 2014 from being another good year for investors. Prices of housing and direct commercial properties were also stronger this year, driven by cheap debt and foreign buying.

Shares had a good year globally, driven by low interest rates and cost-cutting. Bonds also did well globally, with yields falling across the board in almost all countries as investors chased yield in a low-yield world as a result of record low interest rates, money-printing and asset-buying by central banks.

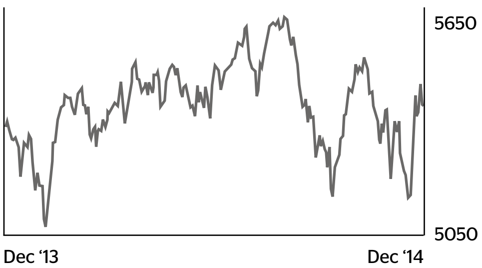
The lower part of the chart tells a different story: commodity prices collapsed mainly due to over supply. This hit share prices in Australia's overweight mining sector, and it also battered tax revenues, sending the government budget into another huge deficit, adversely affecting consumer and business confidence and spending. Falling prices are also causing mines to be closed and new resource projects to be delayed, scaled back or abandoned.



Source: Cuffelinks, written by Ashley Owen on January 5, 2015

Market review

THIS MONTH WE REVIEW THE MAJOR ECONOMIC AND MARKET DEVELOPMENTS OVER 2014 AND THE TOP AND BOTTOM STOCK PERFORMERS FOR THE PORTFOLIOS.



The US economy was the bright spot over 2014, with growth accelerating throughout the year. Following a weather-impacted first quarter, GDP growth rebounded strongly with third quarter GDP revised up to 5%. The pace of new job creation was maintained above 200,000 for the best part of the year and the unemployment rate fell to a six-year low of 5.8% by year end.

China's economic weakness continued as the year progressed. Europe and Japan remained the major hindrance to on global growth, with Europe threatening a third recession in almost as many years, while Japan again ended the year in recession.

Bond markets rallied over the course of the year as economic data continued to disappoint and a broad global economic recovery again failed to materialise. Notwithstanding the US economy's relative strength, US 10-year treasury yield moved progressively lower over the year to end at a yield of 2.17%, well down from the year's high of 3.04%, reflecting continued concerns surrounding weak global growth.

The most surprising commodity price development over 2014 was the sharp drop in the price of oil. Brent prices plunged from $110/bbl to $60/bbl reflecting the weaker global demand but driven mostly by the rise in oil production by non-OPEC countries, particularly US shale, and OPEC's decision not to cut back its own output despite sluggish demand from China and the Eurozone. Importantly, this unexpected slump in oil prices should provide a much-needed boost to otherwise subdued global demand by shifting purchasing power from producers to consumers.

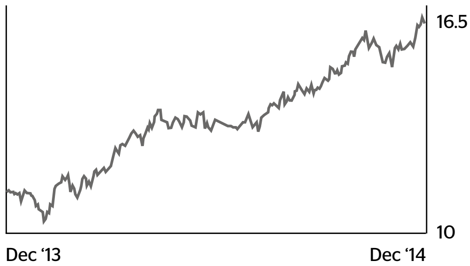
For Australia, iron ore and coal prices retreated over the course of the year. After starting at US$135/t iron ore prices fell sharply in the second half to finish at $71/t as the major producers continued ramping up production. The domestic economy suffered over the year as consumer sentiment and retail sales were weaker following fiscal tightening outlined in the 2014 Federal Budget. The A$ finally shifted to reflect the weaker economic outlook for Australia, falling sharply in the last few months of the year. After staging a recovery early on and reaching a mid-year high of $0.95, the A$ retreated to a low of $0.812 in December as expectations around a US rate rise gathered pace.

The Australian Equities High Conviction and Socially Responsible Portfolios outperformed their respective benchmarks in 2014, while the Income Portfolio underperformed. This month we take some time to reflect on some of the key contributors and detractors to this relative return.

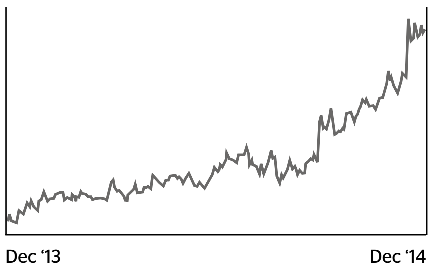
Australian Equities High Conviction Portfolio:

THE TOP STOCK CONTRIBUTORS FOR THE PORTFOLIO WERE:

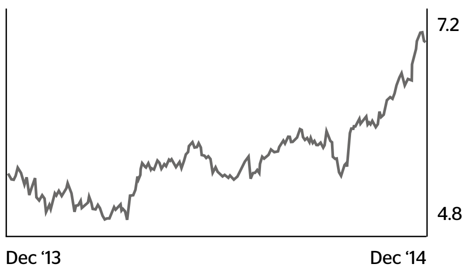
- **Lend Lease Group (ASX:LLC)** – Rallied strongly throughout the year and was the top contributor to the portfolio's performance. The company made good progress on their key project, Barangaroo, signing up a number of marquee tenants. The company has built up a strong backlog of projects as the residential and construction industries gain momentum. Lend Lease reported a solid FY14 result and the company confirmed it is comfortable with market forecasts for FY15 earnings.



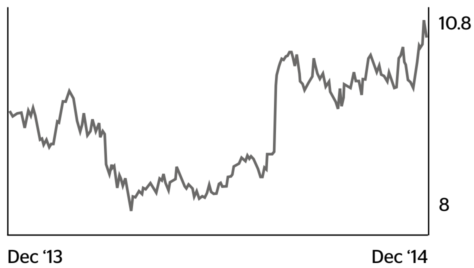
- **Recall Holdings (ASX:REC)** – Shares surged towards the latter part of the year as the company received an indicative and non-binding proposal from Iron Mountain to acquire all of the shares in Recall for A$7.00 per share. The Recall board rejected the offer, citing that the proposal does not reflect the significant value creation that the combination of these businesses would generate.



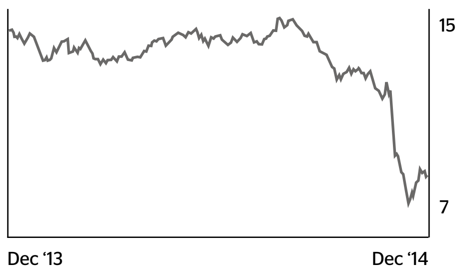
- **Resmed (ASX:RMD)** – Shares rallied on the back of a weakening A$/US$ and the launch of a new range of masks that have been well received by customers.



- **IRESS (ASX:IRE)** – A solid 1H14 result was the catalyst for the sharp rise in shares in August. The Australian wealth management and the UK businesses are making good progress and management increased profit guidance for the full year to 20 – 25%. The UK business remains an exciting opportunity for IRESS with market penetration and multiple products available for management to grow the business over the medium to longer term.



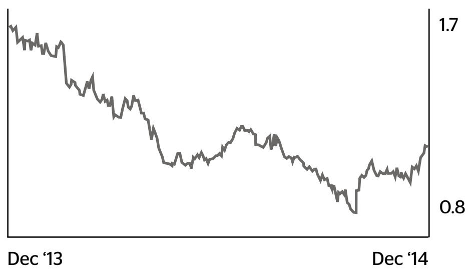
- **Santos (ASX:STO)** – Santos succumbed to the savage fall in the oil price which raised concerns around the funding position as the company develops the Gladstone LNG project. The portfolio benefited by holding no position in Santos.



THE TOP STOCK DETRACTORS WERE:

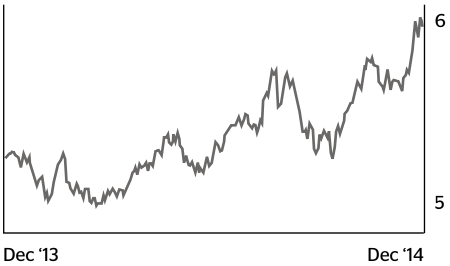
- **Southern Cross Media Group (ASX:SXL)** – Southern Cross was a key detractor as key media departures affected market share in the metropolitan radio space. Falls in consumer confidence and softening advertising outlooks also contributed to the weakness.

  Where we feel the quality of a business is being detracted, we normally like to make a quick exit. However, in the case of Southern Cross Media Group, speculation about a change of media laws encouraged us enough to maintain a small position. The change of laws would have resulted in a probable takeover of Southern Cross Media Group however, due to uncertainty in the senate at the moment, we reluctantly decided that this deregulation would be delayed. As a result we exited our position during the year in Southern Cross Media Group.

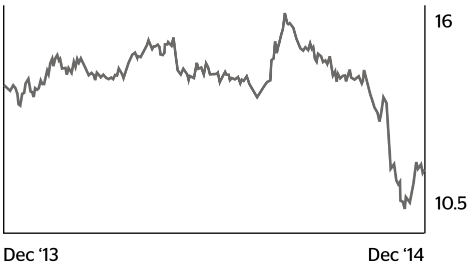


(Continued from page 2)

- **Telstra** (ASX:TLS) – Telstra continues to benefit from the markets focus on yield and holding no position in Telstra affected the portfolio's performance. While the company offers high yielding defensive attributes, we feel Telstra will lose some of its attractiveness from an eventual rise in bond rates.



- **Origin Energy** (ASX:ORG) – Origin shares suffered on the back of sharp falls in the oil price. Origin issued a statement highlighting that even at oil prices of US$40 – $45, APLNG is still cash flow positive. Origin is progressing well on the APLNG project and funding remains adequate. We believe shares have oversold and we added to our position late last year.



- **CSL Limited** (ASX:CSL) – Had a strong year driven by solid plasma industry growth at ~9%. We hold no position in CSL as we struggle to justify the lofty valuation.
- **Rio Tinto** (ASX:RIO) – Sentiment towards China continued to be weak in 2014. Commodity prices came under further pressure, and the threat of iron ore oversupply continues to weigh on price expectations. This has led to relative underperformance from RIO during 2014. However, China has initiated a number of reforms to stamp out corruption and drive financial liberalisation. Additionally the company, which is in a strong balance sheet position, continues to focus on driving efficiency improvements that may result in capital management.

Australian Equities Socially Responsible Portfolio

THE TOP STOCK CONTRIBUTORS FOR THE PORTFOLIO WERE:

- **Lend Lease** (ASX:LLC) – as above.
- **Recall Holdings** (ASX:REC) – as above.
- **Slater & Gordon** (ASX:SGH) – Slater & Gordon outperformed in 2014 given the UK growth opportunity. The UK market is substantial and Slater & Gordon can support expansion through acquisition opportunities as they pursue a market-leading position. We do not see the current multiples as demanding (slight premium to market) considering the defensive nature of earnings, exposure to offshore earnings and the potential upside from further UK expansion.
- **Resmed** (ASX:RMD) – as above.
- **IRESS** (ASX:IRE) – as above.

THE TOP STOCK DETRACTORS WERE:

- **Southern Cross Media Group** (ASX:SXL) – as above.
- **Cardno** (ASX:CDD) – Had a disappointing year as they downgraded earnings 18 – 29% on the prior half. Management cited a soft mining and oil and gas sector while demand from new infrastructure projects was not enough to offset the falls. This follows the company's AGM commentary on 21 October in which it was targeting a return to positive earnings growth. We were concerned around the sharp deterioration in conditions in only a few short weeks since the AGM update. The material fall in the oil price will result in delays/cancellations of projects and this creates earnings uncertainty for Cardno. As a result we exited the position.
- **Telstra** (ASX:TLS) – as above.
- **CSL Limited** (ASX:CSL) – as above.
- **Westfield Corporation** (ASX:WFD) – Westfield had a strong year given its defensive characteristics and $US earnings stream. We struggle to justify the company's valuation and think that the shares are susceptible to falls should yields rise. As a consequence, the portfolio's underweight position in Westfield had a negative impact on relative performance.

Australian Equities Income Portfolio

THE TOP STOCK CONTRIBUTORS FOR THE PORTFOLIO WERE:

- **Lend Lease** (ASX:LLC) – as above.
- **Recall Holdings** (ASX:REC) – as above.
- **Woolworths Limited** (ASX:WOW) – The portfolio benefited from holding no Woolworths. We think the company will face margin pressure from increased competition from Coles and Aldi. The company's foray into hardware is looking difficult and remains loss making.
- **Treasury Wine Estate** (ASX:TWE) – Treasury Wines contributed despite a mixed year. The company downgraded earnings during the year and then received indicative takeover offers from private equity, which were subsequently pulled. The company's fundamentals remain on track.
- **IRESS** (ASX:IRE) – as above.

THE TOP STOCK DETRACTORS WERE:

- **Origin Energy** (ASX:ORG) – as above.
- **Southern Cross Media Group** (ASX:SXL) – as above.
- **Cardno** (ASX:CDD) – as above.
- **Westfield Corporation** (ASX:WFD) – as above.
- **Aurizon Holdings** (ASX:AZJ) – Aurizon detracted from the portfolio's performance as the market became concerned about growth options and higher capex. We see opportunity for network expansion and corporate restructuring and operation efficiencies to drive margins higher.

Source of graphs: IRESS

What are you really worth?

Great, you've realised how important it is to protect your family if something happens to you!

It is easy to ignore the issue, nobody likes to talk about the worst case scenario. So… bravo.

If you are in your 20's, 30's or even 40's, now is the best time to take out cover. You are probably in the best health of your life. Inevitably the older you get the more likely you are to experience a health "event" and this might make cover more expensive or difficult to get.

BUT WHAT ARE YOU WORTH?

Quite rightly, you are priceless to those who love you the most! However, there are limits on how much cover life insurance companies will offer you. The higher the cover, inevitably the higher the premium cost.

For example a 35 year old male, non-smoker (office worker) could expect to pay approximately $300 a year for $500,000 life cover, and $558 for $1,000,000 cover.*

So it is not so much about what you are worth, but rather what your loved ones need to cover existing debts and to live comfortably without you around.

ARE YOU SINGLE?

You probably need just enough to cover your debts and funeral arrangements.

MARRIED OR DE-FACTO?

Got a mortgage? If one of you dies you need to make sure the other can cover repayments and any other debts that you might have.

GOT KIDS?

This is where insurance really comes into its own.

You need to take into account debts as well as the costs of raising your kids. AMP and the National Centre for Social and Economic Modelling estimate an average family spend $448,000 in today's dollars, to raise two kids from birth to age twenty.#

So, if you've got two kids this might mean that $1 million might be the minimum cover that you might need.

It is important to remember though that this doesn't take into account medical or living costs if you or your partner are seriously injured or unwell for a period of time. You would need to consider other types of cover such as TDP, trauma or Income Protection for more comprehensive coverage.

** Source Iress (Xplan) Based on a male 35 – non smoker white collar – mid-premium estimate as at January 14, 2015*
 # AMP.NATSEM Income and Wealth Report – Cost of Raising Children in Australia Issue 33, May 2013

Give the NeoWealth Management office a call to discuss what cover might suit both what you need as well as what you can reasonably afford.

Boosting happiness and mental health in retirement

The transition from work to retirement can be exciting and liberating — but it can also be stressful and even confronting.

Research shows a high proportion of retirees find themselves unexpectedly affected by feelings of purposelessness and boredom, too often leading to depression and other health problems.

Fortunately, there's a lot you can do to stay happy and mentally resilient in retirement, so you can enjoy your new freedom to the fullest. There are also organisations to support you as you enter a new stage of life,

> "Like a muscle, the brain needs regular training to stay healthy. The core of neuroplasticity is simple but powerful – use it or lose it."

So why are retirees especially vulnerable to depression — and what can we do to overcome or prevent it?

A time of change

Age Discrimination Commissioner and former Senator and Minister for Education, Susan Ryan, says many retirees are not prepared for the challenges that retirement brings.

"Many people are affected by issues with their finances, how they get a sense purpose and how they contribute to society. Relationship changes can also be difficult — for instance, you may suddenly be staying at home with a spouse who you've only seen sporadically over their working lives."

But while a lack of purposeful activity can increase the risk of becoming depressed, Ryan says retirement can also bring enormous opportunities to devote time and energy to the causes and activities that matter most to us.

"Once you retire you can decide to contribute to society in your own way, through part-time employment or volunteering. You can also choose to develop yourself — taking up an interest you've never had time for, writing a book, painting, or pursuing a sport."

Keeping the brain active

Todd Sampson, TV personality and ABC Mental Health Week Ambassador says this kind of activity and stimulation is vital for warding off depression and staying mentally fit. In the popular ABC TV documentary *Redesign My Brain*, Sampson investigated brain plasticity and the effectiveness of targeted training in reversing mental ageing.

"Plasticity has shown us that we all have the ability to improve our brain," he said.

"Like a muscle, it needs regular training to stay healthy. The core of neuroplasticity is simple but powerful — use it or lose it." Fortunately, Sampson says, brain training is easier than people might think.

"All the scientists agreed that 20 minutes of brisk walking a day is excellent for your brain. And, if you can add a strategy like memorising locations or license plates, even better."

"I also recommend finding ways to incorporate brain exercise into everyday life. Try and remember all the names of the people at the next dinner party. Stop using your phone as a surrogate brain and memorise some of the numbers yourself. The next time you need to do a calculation, do it in your head. Making brain health a priority is the critical first step."

Give your mental health a boost

If you're finding the shift to retirement challenging, remember that you're not on your own. Organisations like *beyondblue* are there to help you rediscover your sense of purpose and put valuable skills and experience to work in a good cause.

beyondblue 24 hour help line: 1300 22 46 36

1 Butterworth et al, Retirement and mental health: analysis of the Australian national survey of mental health and well-being, Soc Sci Med, 2006. 2 Black Dog Institute: (2014) Exercise and depression. www.blackdoginstitute.org.au/docs/ExerciseandDepression.pdf

Source: Colonial First State www.colonialfirststate.com.au — October 29, 2014

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