



NOVEMBER 2015

Welcome to the November 2015 Update

This month we have some interesting reading. Elio's article discusses the effect of the media on our investing habits, here is an article about funding retirement from home equity, and Peter Rawle discusses the risk attached to seeking a good yield in this climate. Enjoy!

In this issue

- ◆ **Every day, Australian share market investors are literally bombarded with noise.**
Elio D'Amato
- ◆ **Unlocking home equity to fund your retirement.**
Cromwell Property Group
- ◆ **Are investors ignoring risk in pursuit of yield?**
Peter Rawle

Every day, Australian share market investors are literally bombarded with noise

Elio D'Amato

As media outlets broadcast events on global markets overnight, local investors are often given a cursory view of what might happen during our own trading session. If offshore markets were down, ours will be tipped to fall as well. Conversely, when offshore markets rise, the Australian Securities Exchange (ASX) will be expected to follow suit. But that doesn't always happen. More often than not, the daily predictions are totally wide of the mark.

The constant stream of market and macroeconomic news, commentary and analysis, from experts, so-called experts, and those best described as financial quacks, is incessant, and largely designed to invoke fear. Unfortunately, it only serves to give investors a reason not to invest in the Australian stock market's great companies.

Upcoming Events

Melbourne Information Meeting

Global outlook and investment ideas,
Nathan Bell
Telstra Conference Centre, Room 2, Level
1, 242 Exhibition St, Melbourne VIC
1st December 2015 6.30pm

Perth Information Meeting & Christmas BBQ

John Abernethy
Wembley Downs Tennis Club, Wembley
Downs WA
1st December 2015 6.00pm

Frankston South Discussion Group

2nd December 2015 12.30pm

Blackburn Discussion Group

Naturalist Club of Victoria, 1 Gardenia
Street, Blackburn VIC
2nd December 2015 7.15pm

Brisbane Information Meeting

Broncos Leagues Club, Fulcher Rd Red Hill
2nd December 2015 1.30pm

Sydney North Shore Information Meeting

Christmas Special, The Chatswood Club, 11
Help Street Chatswood
9th December 2015 7.30pm

Canberra Discussion Group

Ginninderra Labor Club, Lhotsky St,
Charnwood ACT
14th December 2015 7.30pm

Every day, Australian share market investors are literally bombarded with noise (Cont'd)

As the world's greatest investor Warren Buffett says, "No adviser, economist, or TV commentator – and definitely not Charlie nor I – can tell you when chaos will occur. Market forecasters will fill your ear but will never fill your wallet."

It stands to reason that, by listening to uninformed and often inexperienced commentators, susceptible investors will invariably miss out on the opportunities the market presents. Because, while markets will always rise and fall on a daily basis, it's the long-term that really matters. Those investing with a short-term mindset have little chance of generating real wealth – wealth which can only be created over the longer term by selecting great investments and the power of compounding returns.

Being guided by fear is the worst possible strategy for share market investors, which is precisely why all the most successful investors in the world choose to block out the daily noise and stick to their long-term investment disciplines and objectives.

If anything, they are able to harness market fear and use it to their advantage. Experienced investors often buy into quality companies at heavily discounted prices when panicked investors, spooked by the market noise, choose to sell out, sometimes at a loss to their initial purchase price.

Investing on the share market is all about being proactive, and managing your investments in line with a sound intellectual framework. At Lincoln Indicators, we don't advocate a strategy of buying and holding forever. Sometimes it will make sense to sell, and that's why active portfolio management and optimisation, relative to your objectives, is imperative.

Economic turmoil is nothing new

Most macro-economic factors have been around for a long time, and always will be.

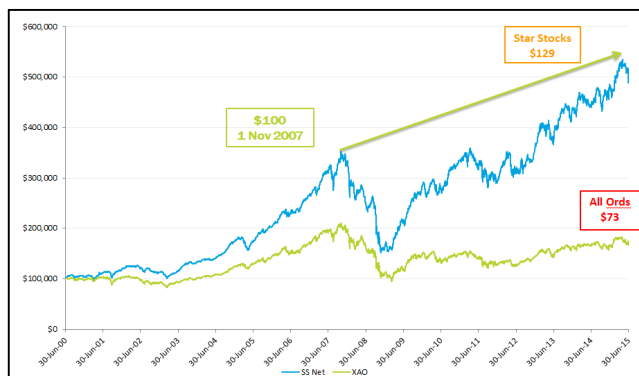
As Lincoln founder Dr Merv Lincoln stated: "The share market is a resilient beast and always finds a way to recover, because it is the underlying micro strength of the companies that drives the market over the long term not macroeconomic factors that get in the way and cloud our judgement."

Savvy investors see market volatility not as a threat, but as a great opportunity to buy into high-quality

companies at heavily discounted market prices when market events work in their favour. Over time, they invariably reap the rewards.

After all, history shows us that even when markets fall sharply, the best companies will be first to recover and deliver strong returns to investors over the long term. It's a matter of having the foresight and discipline to cut through the media and macroeconomic noise, and to focus on the investment fundamentals.

This is better highlighted than by our Star Growth Stock performance which if tracked from the last market peak on 1 November 2007 shows how the quality stocks rebounded and you are now well and truly ahead of the ordinary performance the market has delivered.

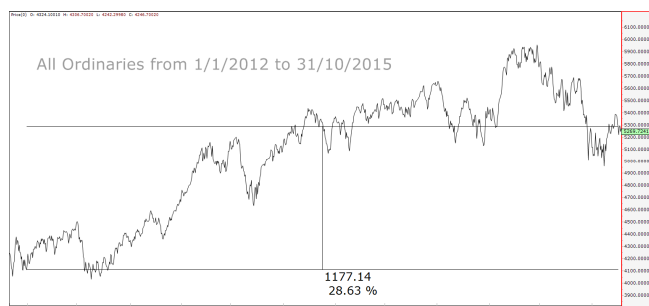


When you think that since the start of 2012 we have seen these huge geopolitical influences play havoc with investors psyche:

- Potential Greek default and Euro exit
- US Congress stand-off over debt ceiling
- China's rate of growth slowing down
- Rising deficit and sluggish growth in Australia
- Slumping commodity prices
- US Federal Reserve effectively printing money during QE3
- Argentina defaults on its loans, Brazil downgraded to junk
- The rising threat of terrorism

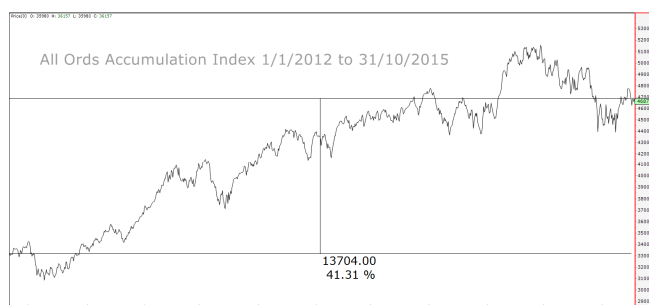
All these factors above would have been enough to convince many investors to be wary about share investing.

However this has been an unsuccessful strategy because it cost them significantly with the All Ordinaries rising +28.63% over the period



Source: Stock Doctor

This picture worsens still when you add dividends to the market's performance where over the period it returned +41.31%. This +12.68% increase highlighting the very attractive yields that have been on offer for investors.



Source: Stock Doctor

When will the bad news stop?

It is naïve to suggest that there will never be a reason to be nervous about the market. There will always be macro issues that we need to be cognisant of. However what we hope the above clearly identifies is that relying on global factors to make investment decisions is a zero sum gain.

Rather what you should focus on is the quality of the companies that you invest in and whether they will likely remain quality into the future. If you are successful at achieving that goal then there is a real likelihood of returning better returns than the above results.

Elio D'Amato, Chief Executive Officer, Lincoln Indicators

Membership –

Refer a friend or relative

Refer a friend to become an AIA member, and both you and your friend receive an additional three months membership FREE
Use the membership brochure to enrol your friend, and be sure to add your name at 'Referred By:'
Obtain more brochures from the office if required.

2016 AIA Annual Conference Volatility, Risk and Reward – Strategies for an uncertain world

7 – 10 August 2016

Marriott Resort and Spa Surfers Paradise

We have analysed the feedback from the 2015 conference and are tailoring the 2016 conference to suit the different audiences we are now attracting. There will be sessions for those new to the investing world, those who are highly knowledgeable and everyone in between.

The streams that we will put focus on in 2016 are:

Risk Off – Defensive assets like cash, bonds, hybrids, fixed interest

Risk On – Growth assets like shares, property and international

Alternatives – Non-core assets like infrastructure, hedge funds, collectables, ETF's and LICs.

Super – All topics related to Super, SMSF and Pensions

Strategies – Strategies covering wealth creation, wealth preservation, insurance, longevity, estate planning, aged care and Gen Y/X investors

We will have our brochure out early in 2016 so save the dates...

Unlocking Home Equity to Fund Your Retirement

Cromwell Property Group

Owning your own home remains the great Australian dream and the home is not something most people will easily part with, even if there are sound financial reasons to do so.

This can create a powerful dilemma because the average Australian has a huge percentage of their wealth tied up in their home, especially in cities where there has been significant capital appreciation.

According to the Australian Bureau of Statistics, in 2012 owner occupied properties were the largest asset held by households, accounting for 43% of total household assets. Across all households, the average net wealth tied up in the home was \$370,000 and for owner occupiers without a mortgage, the average dwelling value was \$546,000.

Even in the era of compulsory superannuation when most households have a substantial superannuation

balance, the superannuation sum was a fraction of their property wealth at \$132,000 per household.

For many older Australians in particular, their home is both their greatest asset and a place with a lifetime of memories.

So how can Australians unlock their wealth while retaining their home?

The most common method is the reverse mortgage which is offered by most banks to people over 65 years old. Using a reverse mortgage, retirees can typically borrow up to 40% of their property's value, while deferring repayments until they no longer live in the home. Interest, fees and charges will accumulate until the loan is repaid.

The funds advanced under the loan can be used for any personal purpose and typically incurs an interest rate only slightly higher than a regular mortgage. In an added benefit, the money can often be drawn down in small sums through an ATM over a period of years, ensuring that pensioners can supplement their living income stream and not fall foul of the assets test by drawing down a large lump sum and banking it all in one go. So far, reverse mortgages have failed to take off in Australia in part due to a fear of being evicted by a bank, leaving nothing for family members to inherit. However, this may change if the value of homes continues to increase.

Before retirement, mortgaging your home can also be a viable strategy to boost your retirement income if the proceeds are invested in income-producing assets including property and shares.

Finally, plenty of people have turned their homes into income earning assets while continuing to live there by renting out a room or a granny flat.

Any of these methods can be used to boost your retirement income while continuing to enjoy your home.

Are investors ignoring risk in pursuit of yield?

Peter Rawle

Still haunted by memories of the GFC – and with term deposits at historic lows – investors around the world continue to hunt down any investment with the hint of a half-decent yield.

In their relentless pursuit, many investors appear to be ignoring underlying risks associated with the quality of

the yield they are buying. This mispricing of risk may come back to haunt many investors when – not if – markets turn.



Asset prices are flying

Australia's official interest rates are now at 2.0%, their lowest-ever level with few people expecting them to rise any time soon. If you have cash or term deposits linked to these paltry rates, the desire to seek out an alternative is only natural.

Many investors' attention has turned to listed securities, where yields would appear to be much stronger and are easily accessible. As investors switch from cash to shares, the pressure on share prices increases, driving up valuations and placing enormous pressure on companies to deliver on earnings expectations.

Investors have also turned to Australian commercial property, where competition from domestic and offshore investors is also driving up prices. As prices increase, capitalisation rates on assets continue to tighten, making decent yielding assets increasingly hard to find.

Residential property markets are not immune to this trend and APRA has started to take action to force banks to tighten their lending criteria.

Across all of these markets we can see the hallmarks of a bull market. As prices increase and yields decrease, investors grapple with the temptation to increase their appetite for risk for fear of being left behind. The herd mentality quickly takes over and people begin to convince themselves that 'this time it's different'.

Warning signs emerging

History tells us that asset prices don't rise on a never-ending upward curve.

I'm not predicting another GFC, but many of the stresses and factors that contributed to that crisis are evident in the current market. Money is cheap due to low interest

rates, borrowing levels are high, and asset prices are continuing to rise.

When it comes to share markets, we need to always remember that earnings underpin yield and distributions via dividends.

When it comes to share markets, we need to always remember that earnings underpin yield and distributions via dividends. These earnings are not guaranteed, and rise and fall depending on a range of factors, many completely out of the control of the company itself. A slowing economy and stagnant consumer confidence are just two of the risks to company earnings. Both have been forecast by leading economists.

Warren Buffett told shareholders at his annual Berkshire Hathaway meeting in May that low interest rates had caused an expansion of price earnings ratios and a return to normal levels will make prices 'look high'. The warning from the world's best investor is clear – higher interest rates mean lower share prices.

The warning signs in the property sector are also clear. Distributions from commercial property are only as strong as the ability of the tenant to pay their rent. In simple terms, a slowing economy means less demand for space, less rental growth and increased risk of default.

Price risk properly

The risk in current markets ranges from mild correction to full-blown crisis, depending on the asset class and commentator you're reading. We're also experiencing occasional drops in the market that get touted as buying opportunities, further stoking the anxiety associated with non-participation. Only hindsight will tell us where the next event sits on the scale, so preparing for the unknown is challenging but essential.

The secret, as always, is to ensure you are properly diversified, undertaking regular stress testing and can manage the inevitable market falls.

Above all, don't focus on yield to the detriment of risk.

This article is based on a presentation to the Australian Investment Association conference on the Gold Coast in August.

Peter Rawle is an AIA Member, AIA Gold Coast Information Meeting Coordinator & QLD State Manager Cromwell Property Group



Stock Market Christmas Hamper
Sign up and receive a **FREE GIFT HAMPER**
www.stockmarketchristmashamper.com
eBooks
videos
trial subscriptions
discount vouchers
plus more...

We've brought together 6 stock market professionals for a SPECIAL OFFER for you in the spirit of Christmas.

Daryl Guppy, Nick Radge, Alan Hull
AG Capital Markets, Educated Investor and JustData

They've all contributed to a FREE GIFT HAMPER full to the brim with investment tools and educational products. Here's a list of a few of the items available...

- Earn a Second Income (ebook) by Nick Radge
- Lizard Brain talk - Mastering your Old Brain (video) by Alan Hull
- Discount coupon code (20% off RRP) from Educated Investor
- 3 month FREE TRIAL of EzyCharts 6 with data by JustData
- Plus much more...

For full details and the opportunity to sign up click on the button below.

This offer is only available until Christmas, 25th December 2015.

www.stockmarketchristmashamper.com

This publication has been prepared as information without consideration of any reader's specific investment objectives, personal financial situation or needs. No reader should rely upon the information and/or recommendations contained in these publications. Readers should, before acting on any information contained herein, consider the appropriateness of the information, having regard to their objectives, financial situation and needs.

The AIA believes that the material contained in these publications is based on the information from sources that are considered reliable and is accurate when issued. However, the AIA does not warrant its accuracy or reliability. All views and information expressed by the AIA, its officers, agents, representatives, and employees are for the purposes of discussion only.

Australian Investors Association Ltd
PO Box 1208
Oxenford QLD 4210
Tel 1300 555 061
Fax 07 5573 7319
Email aia@investors.asn.au
Web www.investors.asn.au