

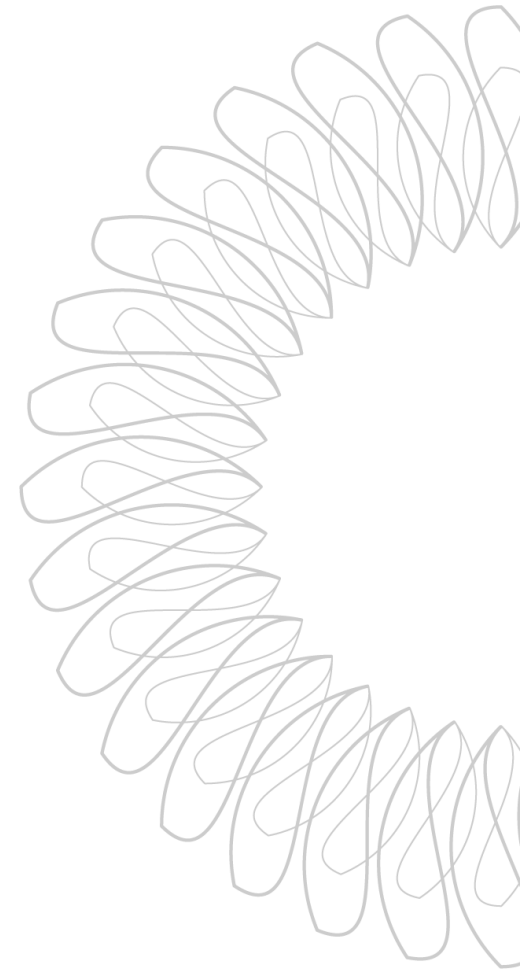
Super safe investing



**National Conference
8 August 2016**

**Dr Doug Turek
Managing Director**

Professional  Wealth



No investment is perfectly safe

But some investments are safer than others

And some aren't as safe as you think

Here we will challenge some assumptions about risk and reward

... and offer a view of what are the safest investments

About this presentation



This is general information ... not advice

I don't know you and by law I can't give you advice until I do ...

... and only in writing and not via a lectern

Please do your own research, or speak to a licensed financial advisor, before making any investment decisions.

Products referred here aren't here recommended

Please respect our © of this presentation

About Doug Turek



MD Professional Wealth

- Independently owned wealth advisory and money management firm

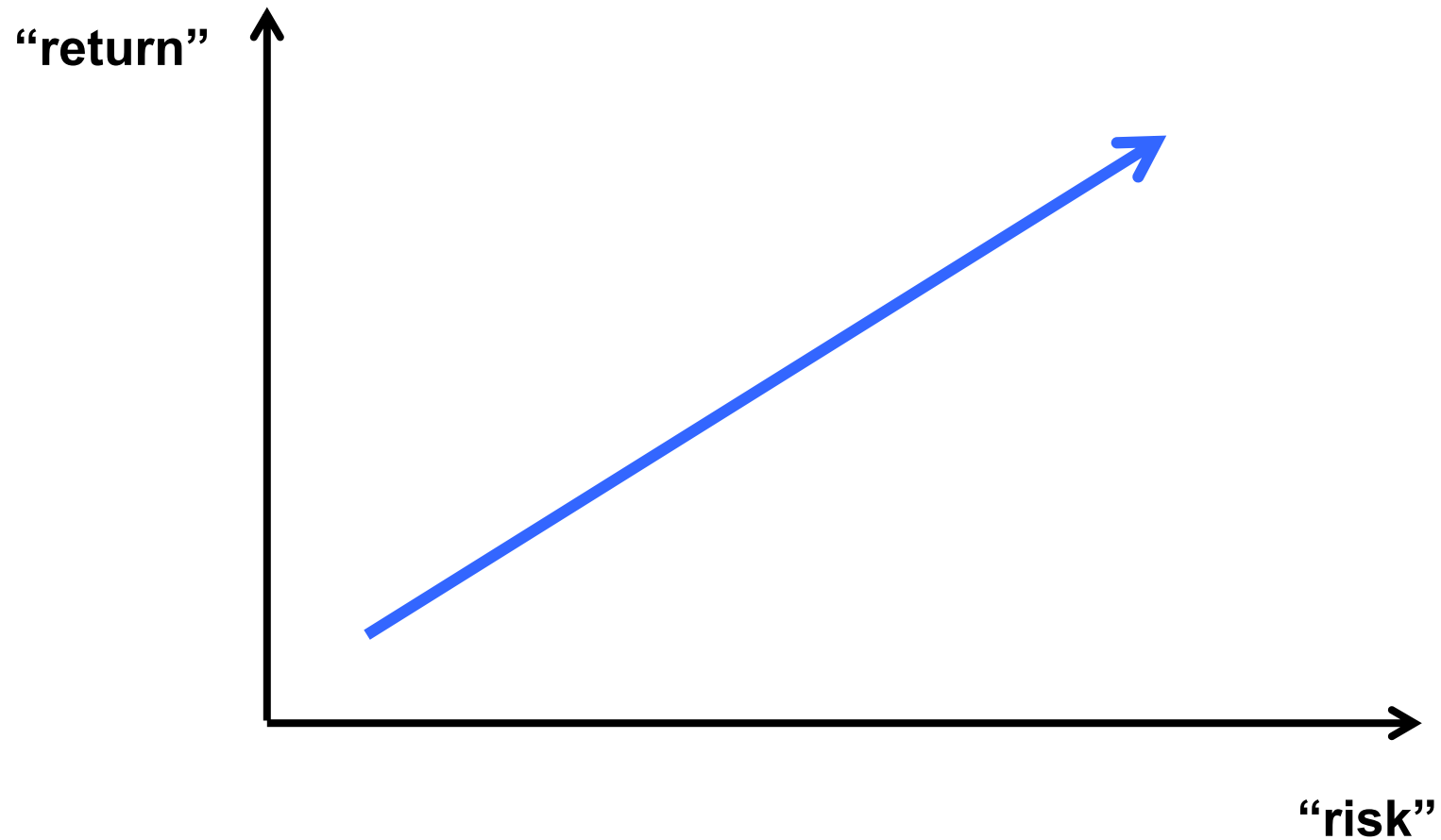
Passionate about financial literacy via...

(ABC, Eureka, AIA, Wealth benchmarks)

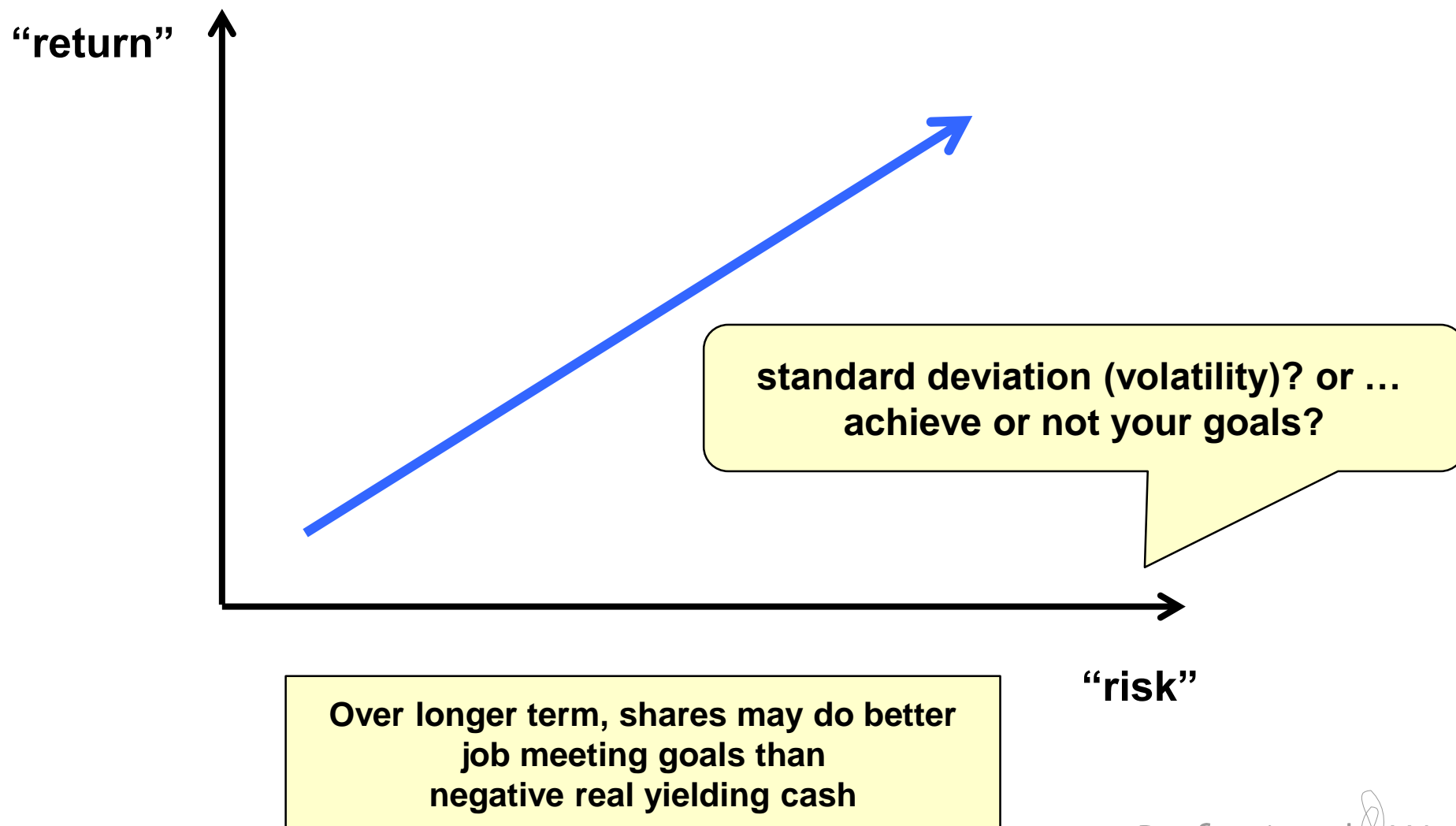
Former industry consultant with The Boston Consulting Group

Australian by birth, despite accent

Generally safety means foregoing extra return but ...

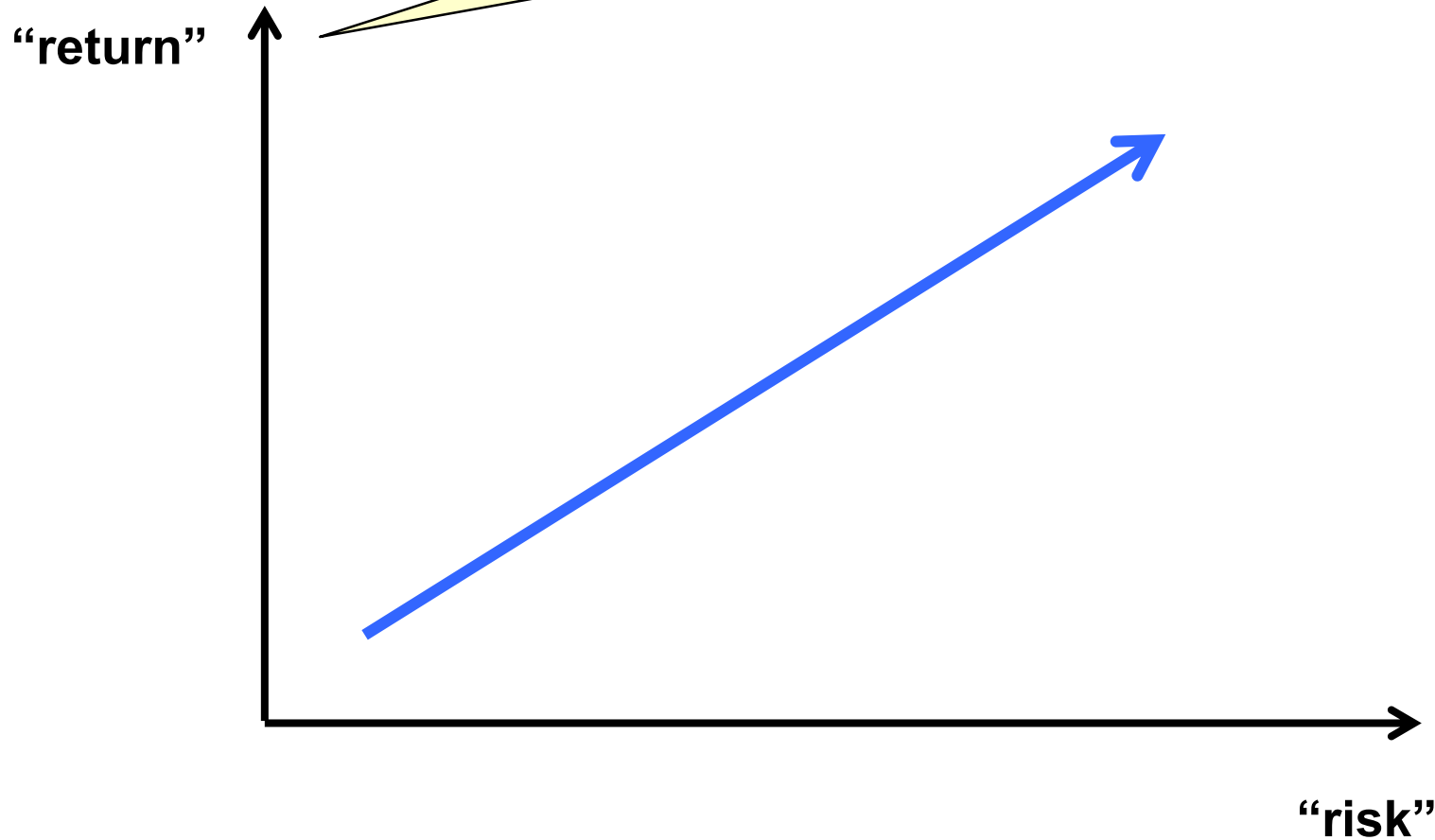


... we can confuse what risk we're trying to manage



During difficult times ...
we worry about return of capital,
not return on capital

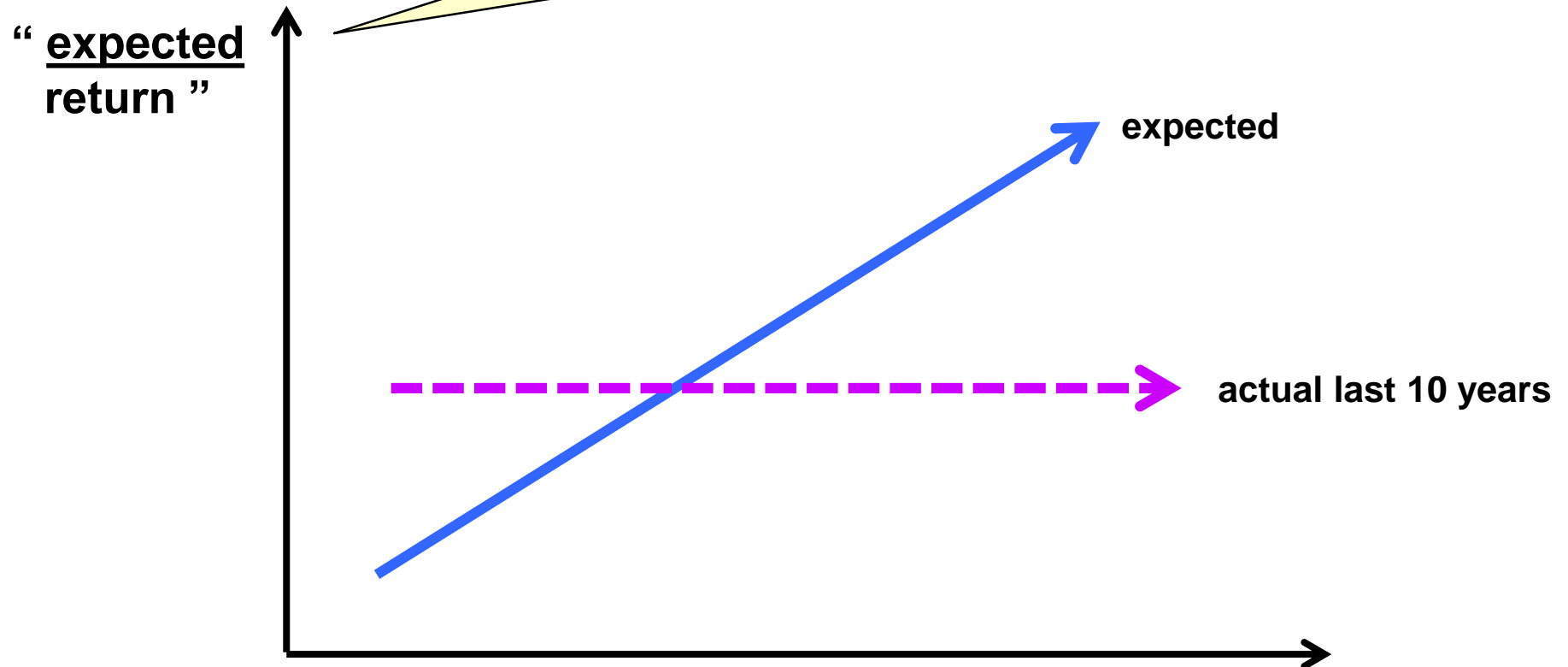
eg. frozen mortgage
and property trusts





"Why do they make such a big deal about frozen assets?"

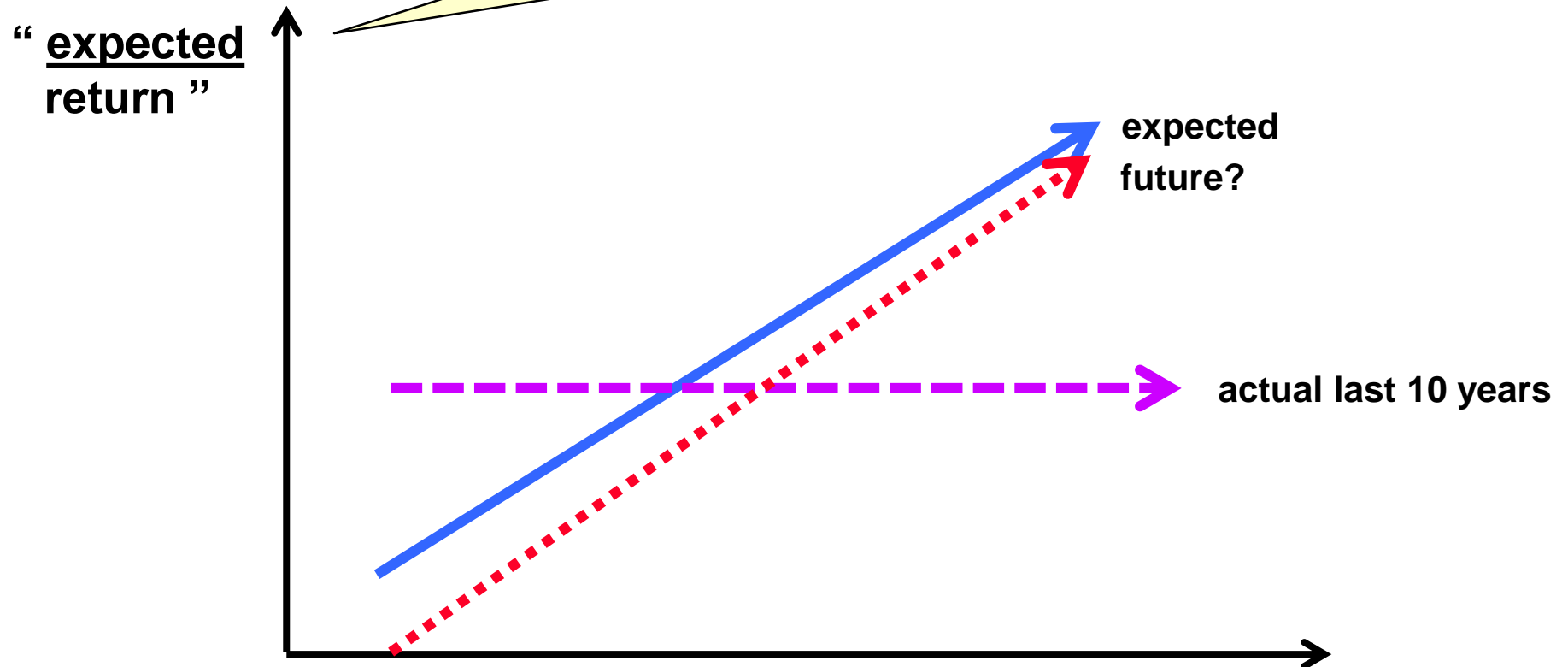
Higher returns for risk aren't guaranteed, they are just expected



Wasn't expected that over last 10 years bonds would equal equities

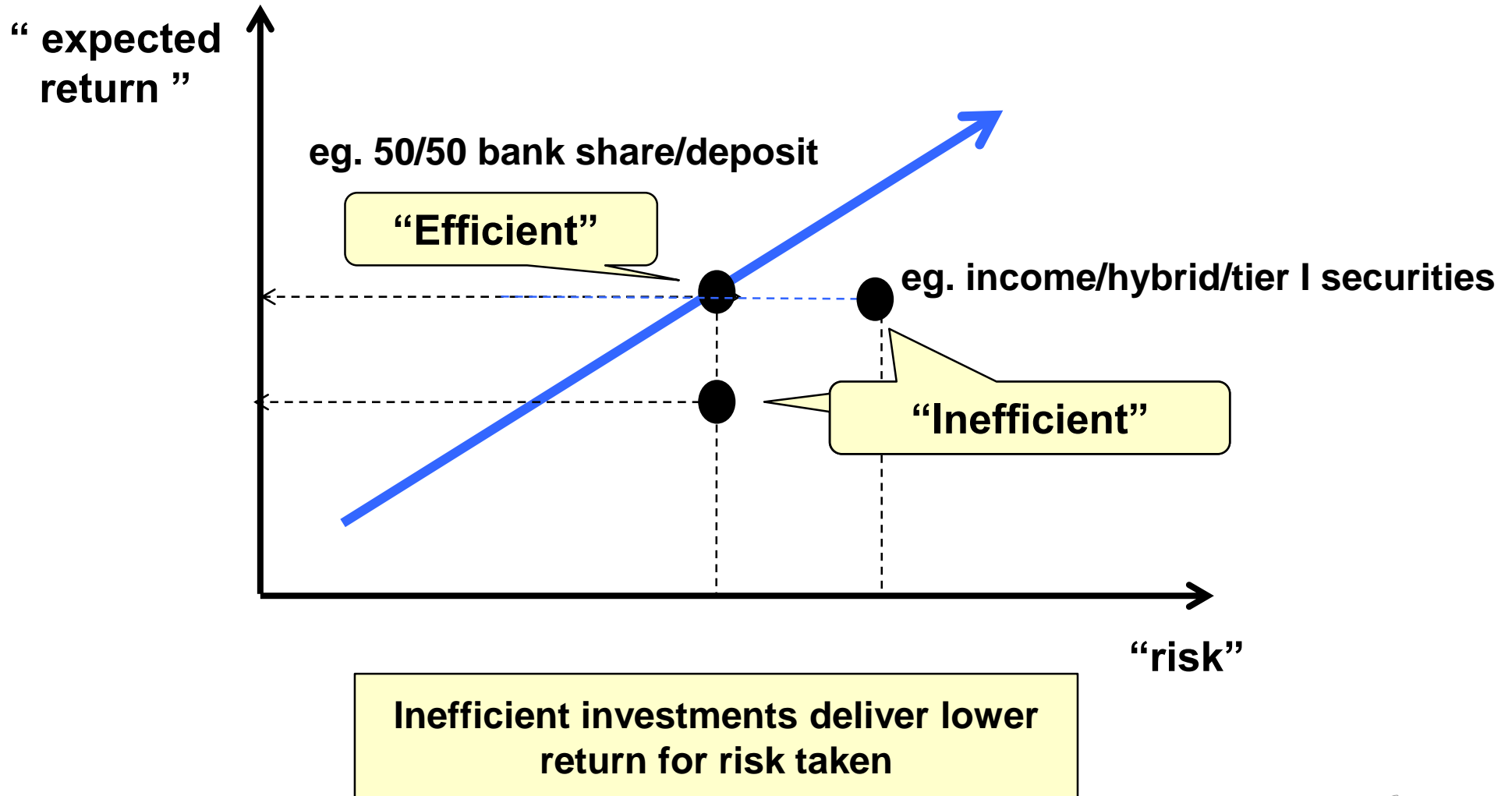
"risk"

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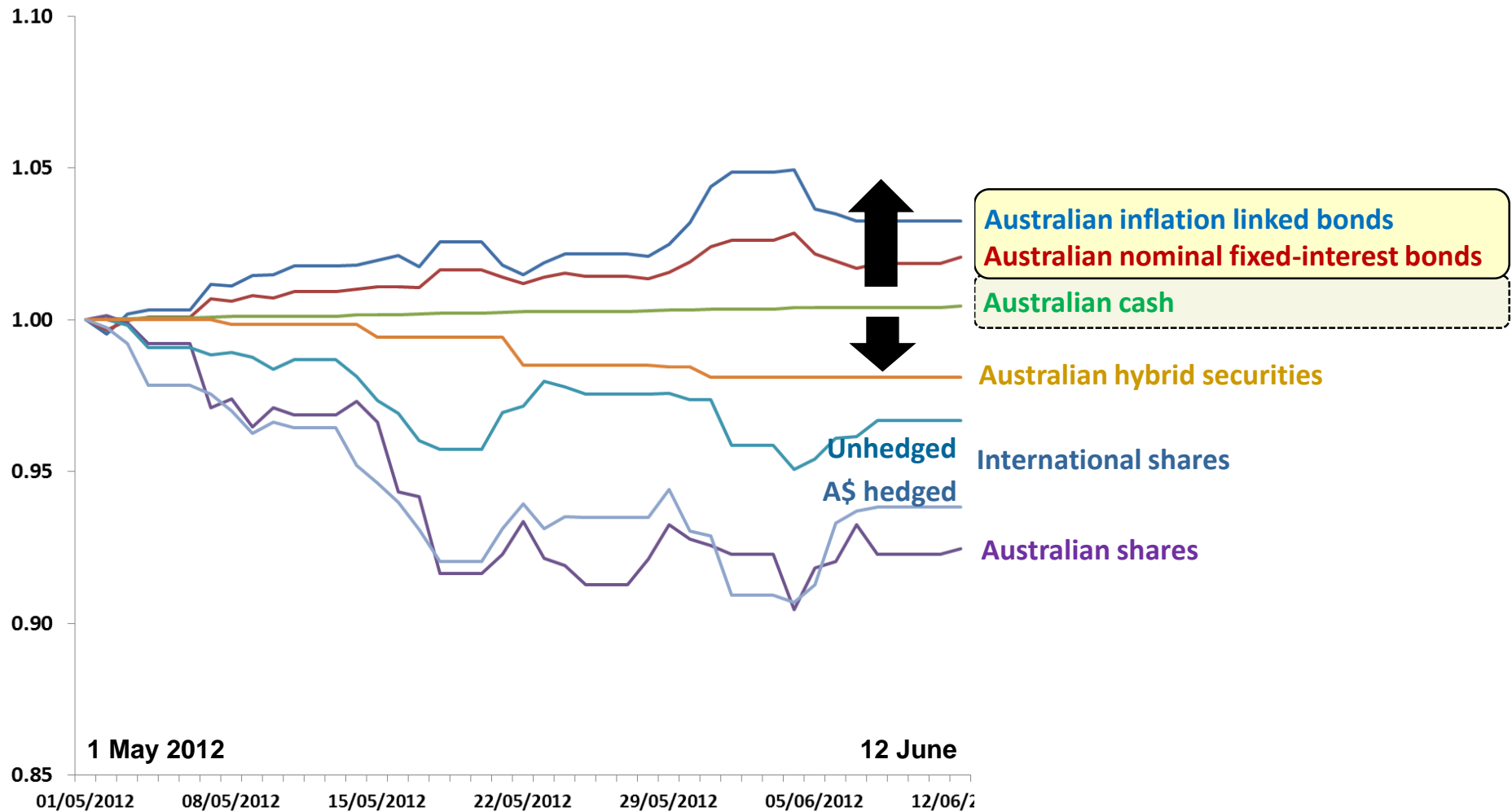


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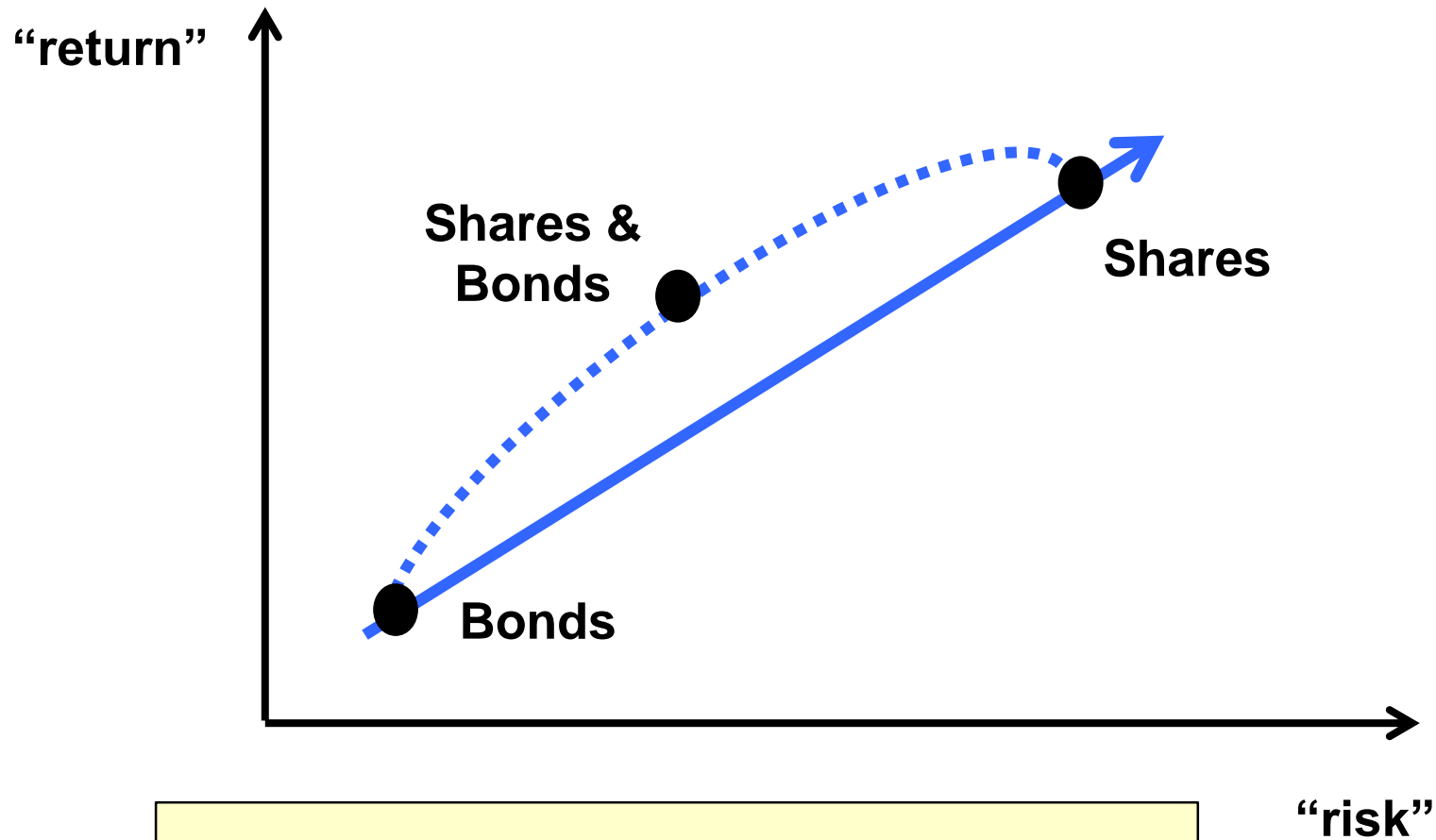
There are many inefficient investments



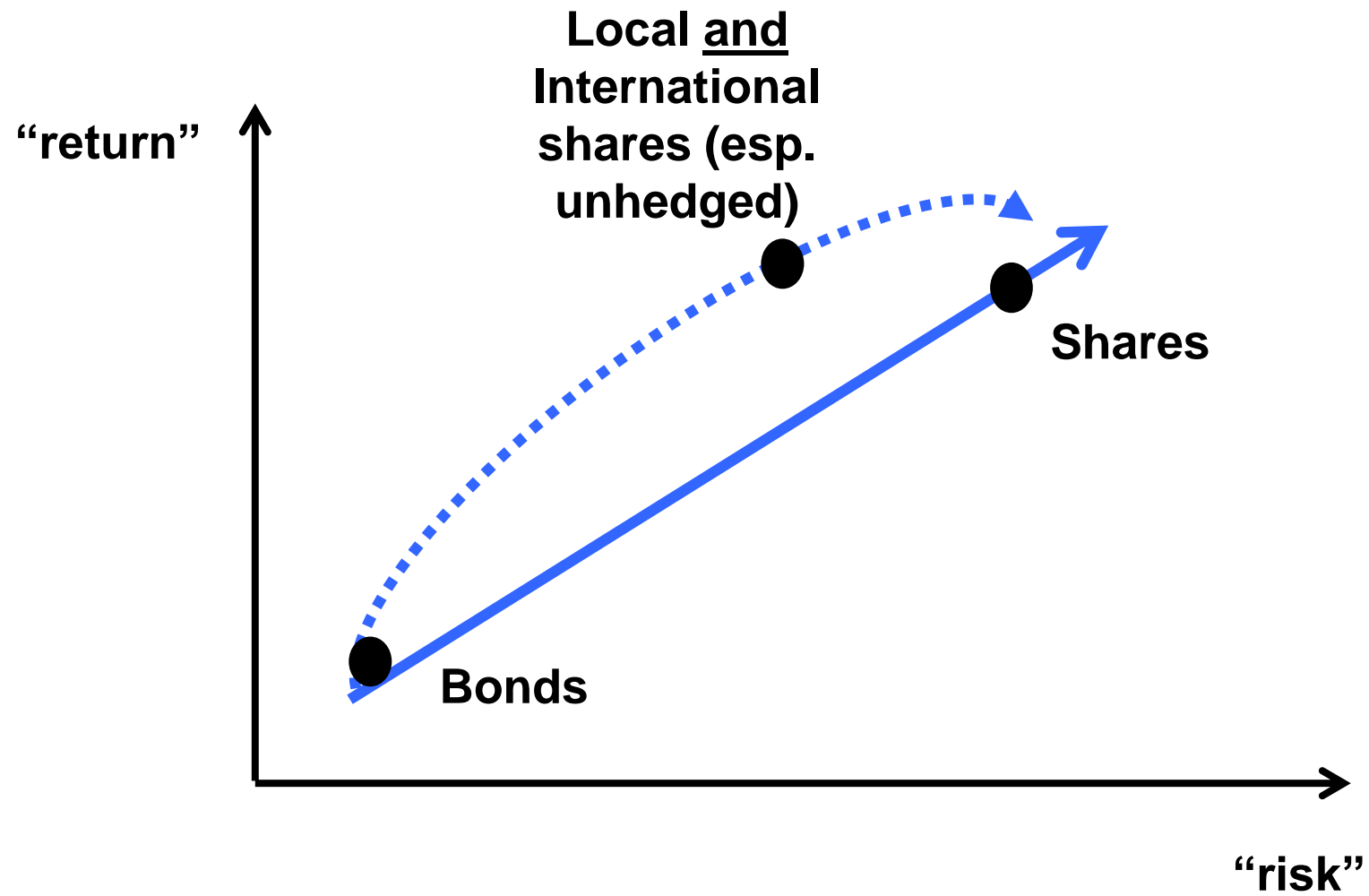
Truly defensive assets increase in value in difficult times ... and thereby help you hold more volatile growth assets



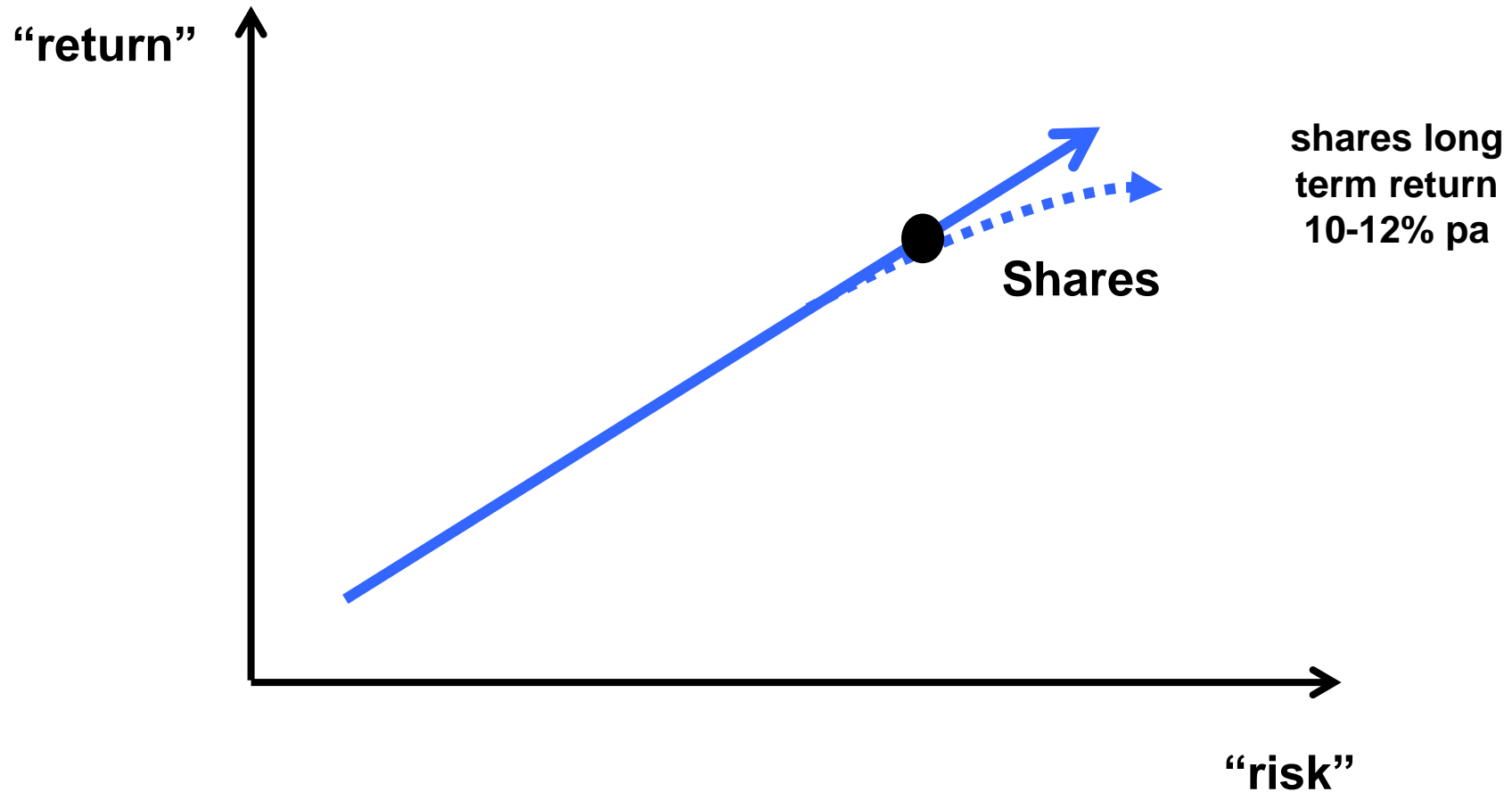
Trade-off isn't linear if you blend negatively correlating assets



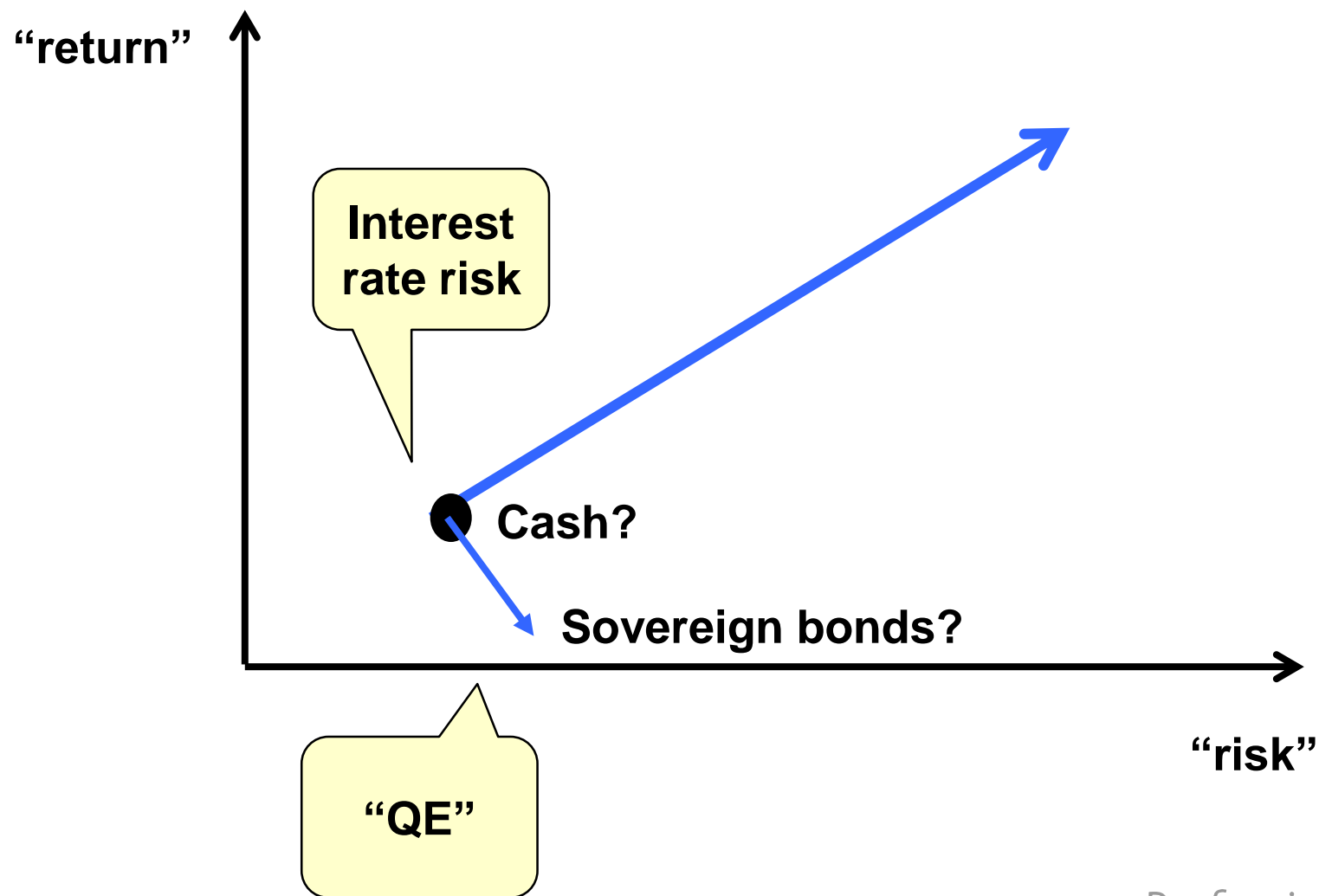
"Diversification the only free lunch in finance"



Probably cap on extra returns you can generate with more risk



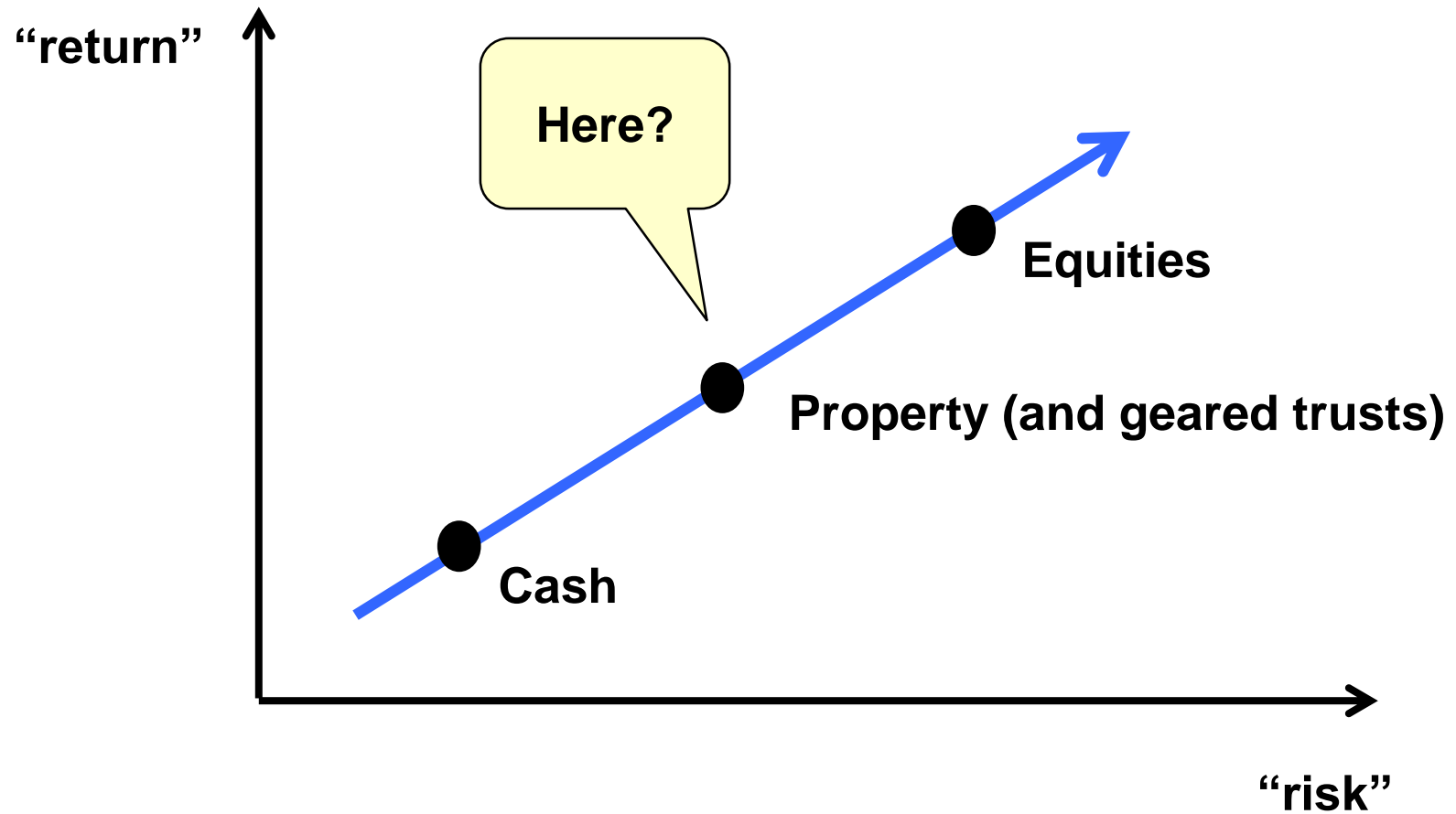
Are cash and bonds low risk?



**You are low in
their priorities**



Safe as houses?



Australia's safest investment?



1.25% Treasury Indexed Bonds due 21 August 2040

AAA rated Australian Government issued capital index bond

Maturing in 2040 or 24 years from now (Australia's longest duration investment)

Issued in 2015 for \$100

... increases in value every quarter with CPI, now \$102 adjusted face value

... pays 1.25% of rising capital value annual income (rising, inflating income)

... at 1 July 2016 trading at \$120 so yielding only 0.4% + CPI

Tradeable on ASX as "GSIO40" and therefore divisible

Closest investment aligned to your goal funding inflating expenses?

Safer if hold to maturity, enjoy rising income and eventual capital increase

Less safe if sell prior, uncertain price depends on interest rates and inflation expectations

Next safest investment?

Private annuity from Comminsure then Challenger

- Built using inflation linked bonds
- Comminsure credit rating higher, yield little lower
- Annuities have never been so expensive (low yielding)
 - Cost 30% higher than pre-GFC (or income 30% lower for capital)

Defined benefit pension from ...

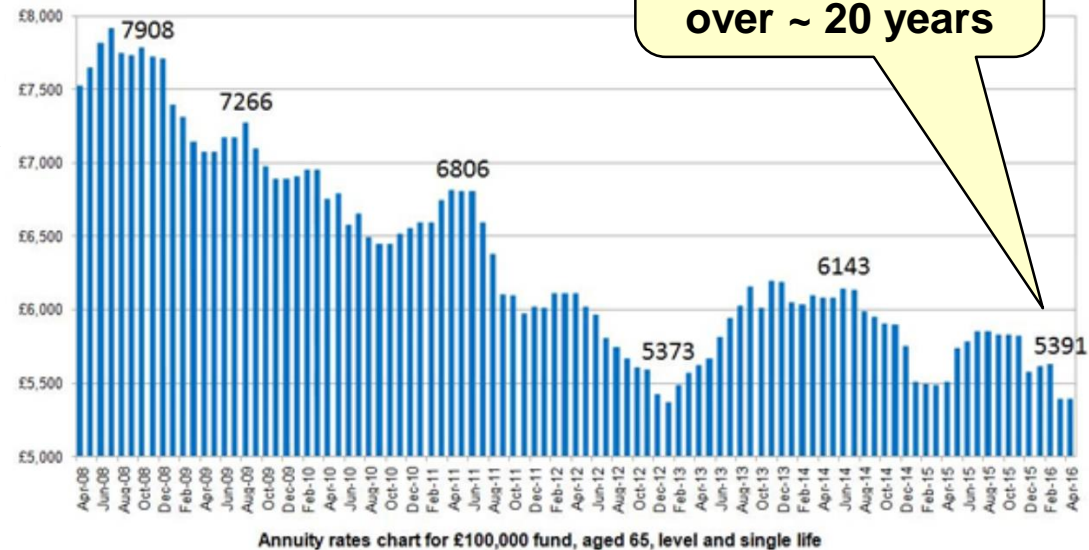
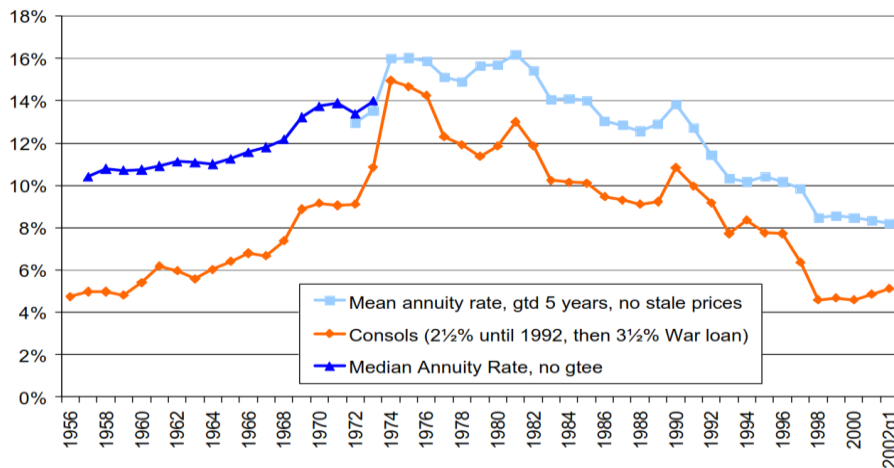
- Federal Government then ...
 - State Government ...
 - Statutory Authority ...
 - Private Company

**While income guaranteed, how safe is the guarantor?
Investing using same instruments largely you do
Advantaged by pooling risk and planning for average**

Annuities (guaranteed retirement) never so expensive

Annual income from £100,000 since 1956 and since 2008

Figure 2: Annuity Rate, Male 65, level



Now only get
back £5,200 pa
over ~ 20 years

Interest rate sensitive deposits and bonds next safest?

< \$250k pp deposits probably now safer than many bonds and better value

- Guaranteed by Federal Gov't
- Pay a margin of 1% over equivalent bond
 - Money printing central banks don't deposit, institutions don't enjoy guarantee

Next, bonds

- Short duration Commonwealth bonds then ..
 - State Gov't Bonds
 - Bonds issued by statutory authorities
 - A rated Banks and corporates
- Long duration bonds likely more risky owing to low rates then ...
 - Unless “we are turning Japanese”
- “High yield” / non-investment grade / “junk” bonds / hybrids fine only until next crisis?

**Deposits not supposed to yield more than bonds
Do now, so I've reordered them first**

How safe are Government bonds?

US 30 year yielding 2.3% pa

UK 30 year “GILT” yielding 1.8%

German 30 year yielding 0.4%

- 10 year -0.1%

Swiss 30 year yielding 0%

- 10 year -0.5%

Japan 30 year 0.1%

- 10 year -0.2%

Australia 15 year 2.2%

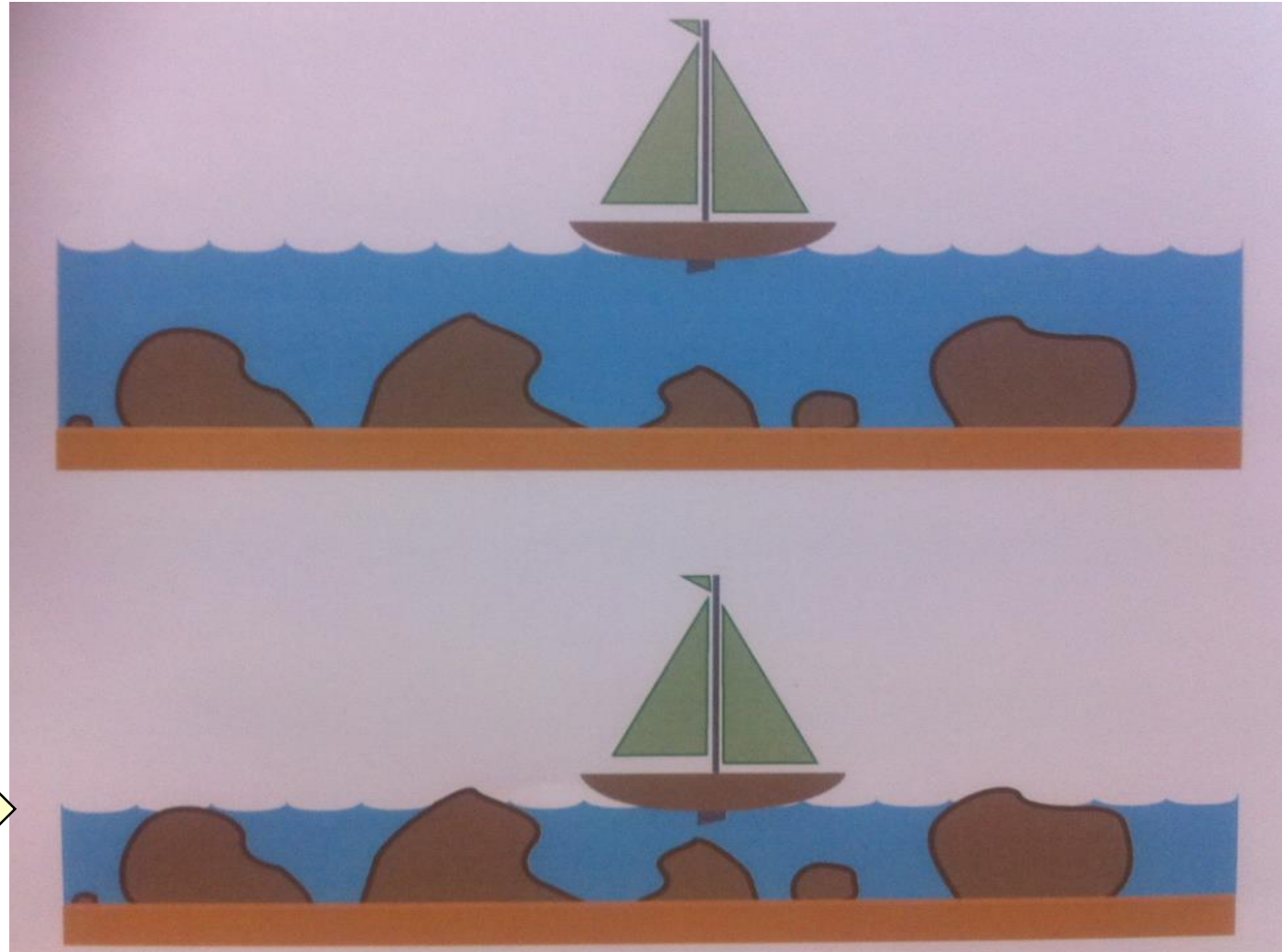
In 10, 15 or 30 years from now will you look back and say *“I’m really glad I locked into that rate back then?”*

Will inflation average less than this?

Will you be able to sell for same or more if don’t hold to maturity?

Is it safe to buy something, others are buying with printed money?

Be careful investing in “high yield bonds” in case tide goes out



credit risk
exposed in
times of
stress

Age based, highly diversified portfolios next safest?

Security in diversification owning ...

- Shares (local and overseas, big and small, multi-sector, A\$ and non A\$, ...)
- Bonds and cash (local and offshore, A\$ and non A\$, investment grade only, ...)
- Property and infrastructure (CPI-linked income, direct or via fund, low leverage, ...)

Age based allocation reduces equity risk as you get older

- Not to zero in retirement but perhaps 40-60% in shares

Warnings

- Australian equity index funds tracking ASX200, ASX300, ASX50 unsafe
 - Too much financials, concentrated by size
 - $\frac{3}{4}$ of average Australian asset base/wealth in property and own/lent to 4 banks
- Funds holding anything but market traded securities vulnerable to illiquidity freeze

How safe is a highly diversified, index construction?

Fact sheet | 31 May 2016

Vanguard Balanced Index Fund

Asset allocation¹ (%)

	Fund
Growth assets	
Vanguard Australian Shares Index Fund (Wholesale)	22.2
Vanguard International Shares Index Fund (Wholesale)	17.0
Vanguard Australian Property Securities Index Fund (Wholesale)	3.0
Vanguard International Property Securities Index Fund (Hedged) (Wholesale)	3.0
Vanguard International Small Companies Index Fund (Wholesale)	2.5
Vanguard Emerging Markets Shares Index Fund (Wholesale)	2.3
Total growth	50.0
Income assets	
Vanguard Australian Fixed Interest Index Fund (Wholesale)	20.1
Vanguard International Fixed Interest Index Fund (Hedged) (Wholesale)	19.1
Vanguard International Credit Securities Index Fund (Hedged) (Wholesale)	10.8
Total income	50.0
Total	100.0

Investing in 10,000 companies but ...

46% financials, 50% top 10

60% of world GDP, 2% holding

Lending in proportion to indebtedness

2.3% YTM, 6 yr, 90% Gov't bonds

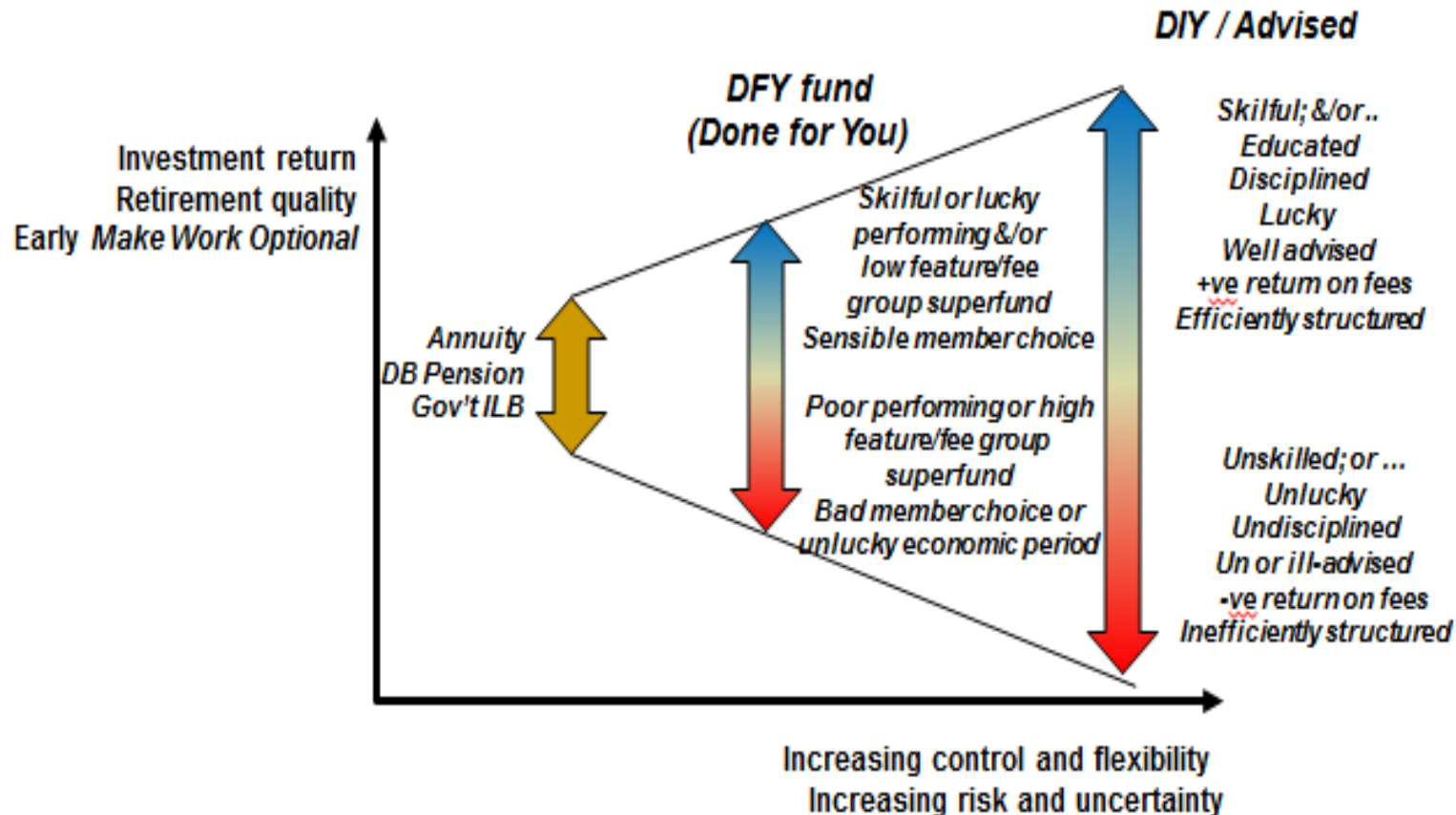
0.8% YTM, 10 yr maturity

2.1% YTM, 9 yr maturity

no cash

Professional Wealth

More choice doesn't guarantee more reward, just chance of



Gold?

Reasons for gold

Insurance policy for system failure

Price rise in times of stress (sometimes)

Inflation protection

Makes nice jewellery!

Against

Ongoing cost to hold

- 3-5% opportunity cost + 1% holding
- US\$ hedged gold ETF yields 1.5%

Fraud, security and confiscation risks

Mistime buy and sell?

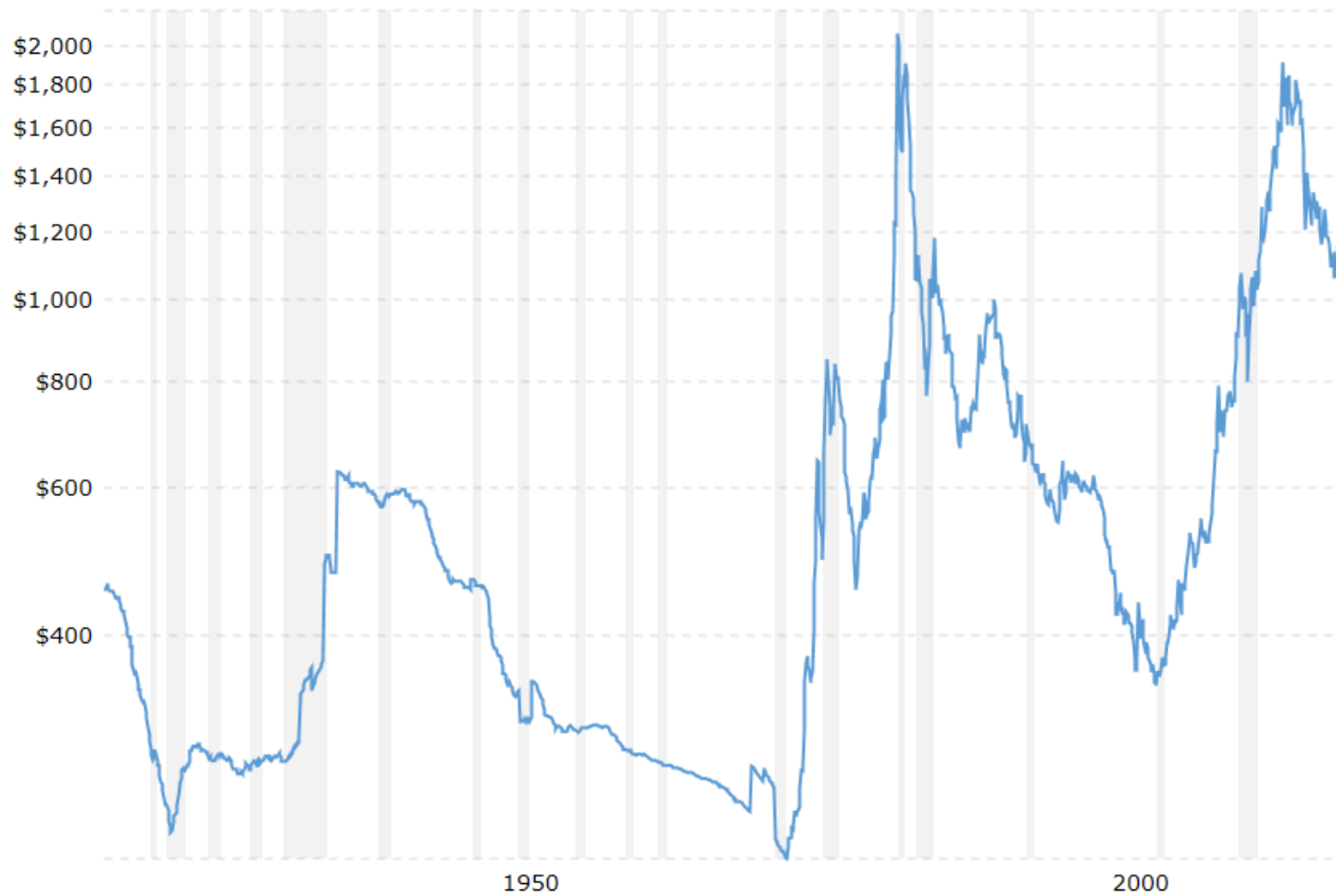
Never have enough for portfolio effect?

Australian \$, BHP/ASX#00 and economy already an exposure?



Gold an insurance policy, not an investment?

100 years of gold price



FINITE...



"WE'RE READY FOR GOVERNMENT TYRANNY, THE ZOMBIE APOCALYPSE
OR 3-5 INCHES OF SNOW—WHICHEVER COMES FIRST..."

tba

tba

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