

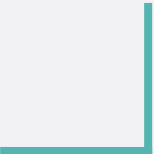
「risk and return.」

Felicity Cooper
Cooper Wealth Management





In a **volatile market
it is important to **understand** what contributes to
the **risk** in your portfolio, and what creates the most potential
rewards for taking that risk.**

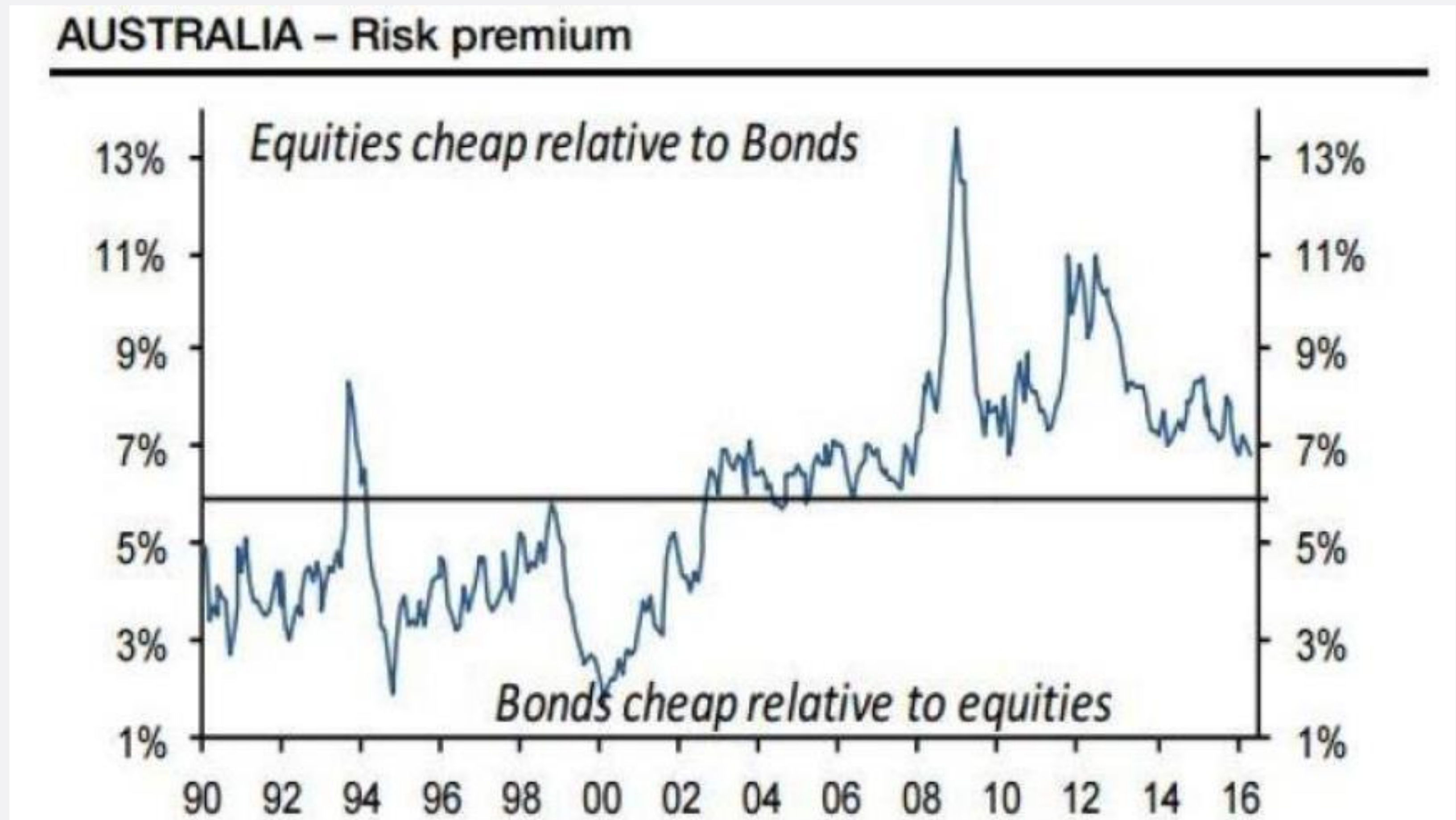


Understand the psychology

risk &
reward.

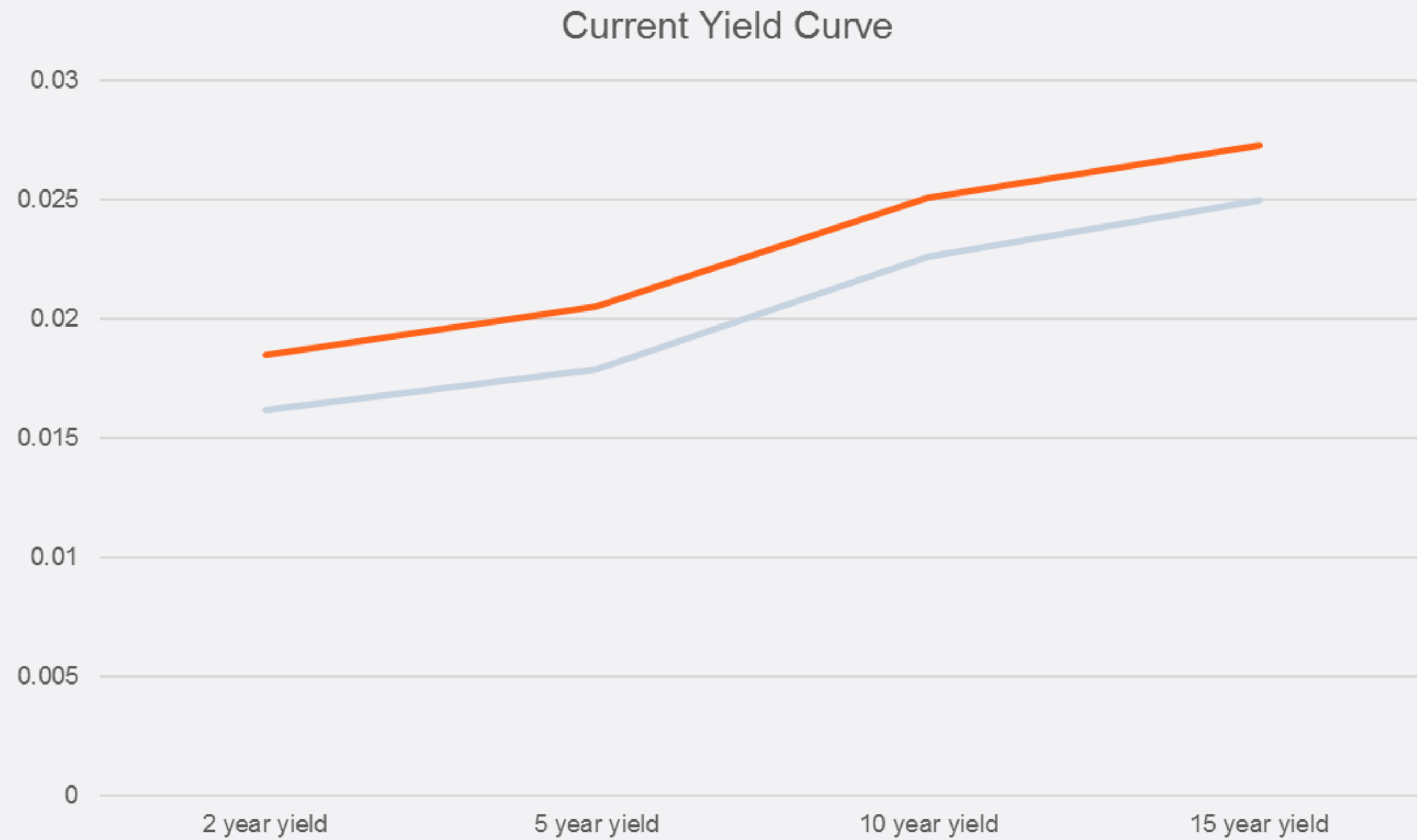
Why are you in the market?

Equities look close to fair value

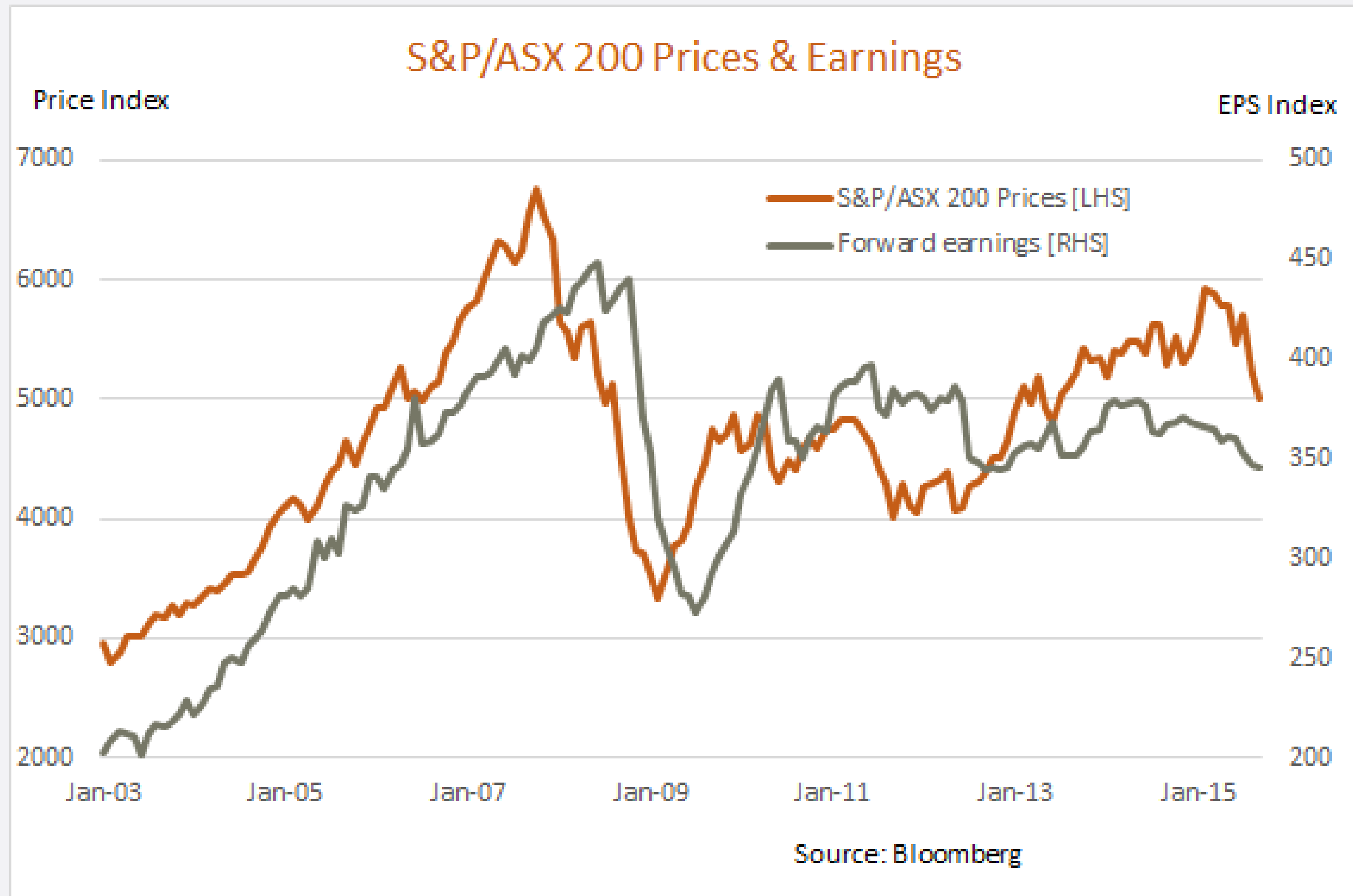


Societe Generale, The Herald, May 2016

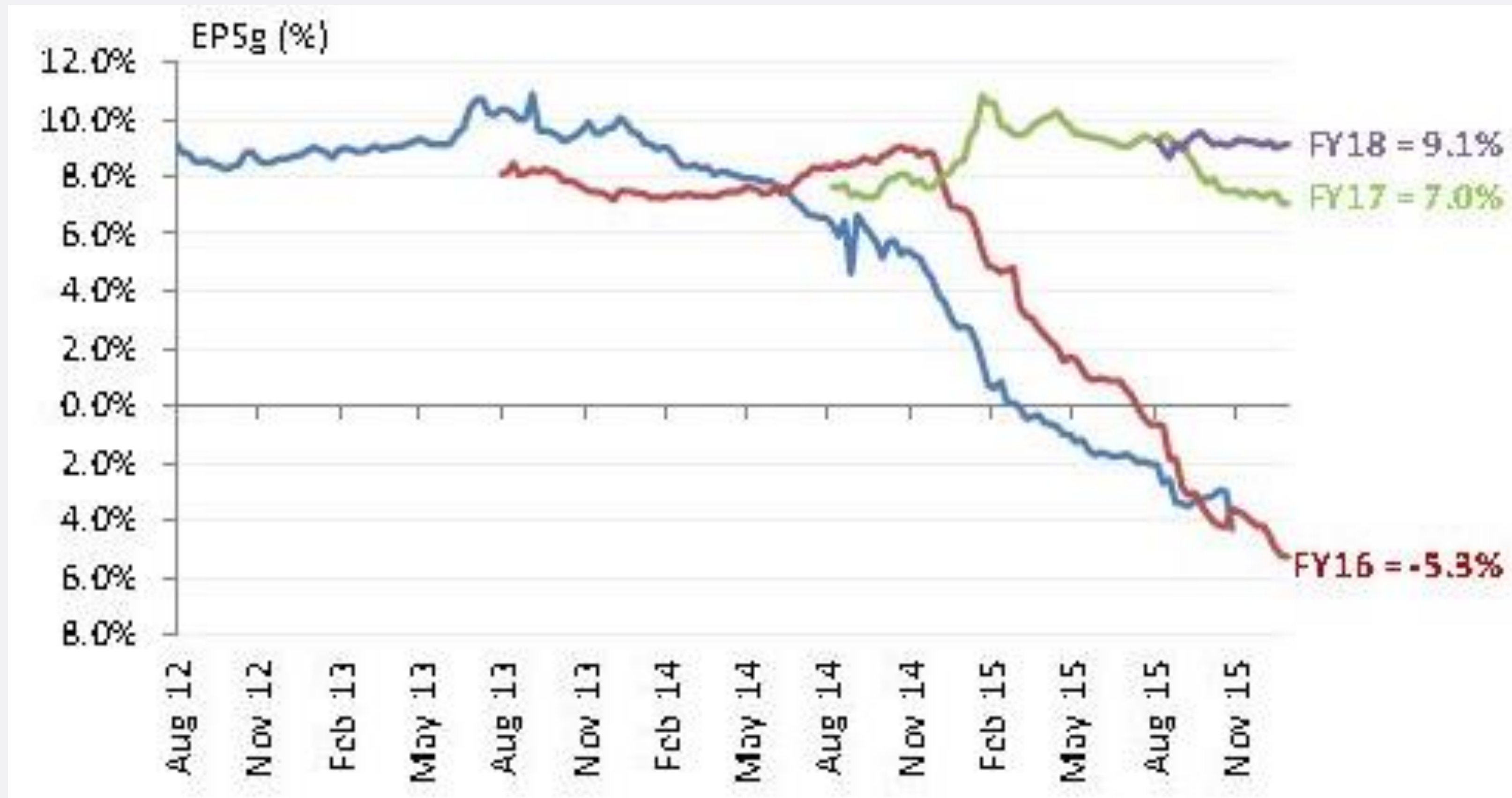
Yield Curve Risk



Price and Earnings



EPSg forecasts



Source: Morgan Stanley Research, Business Insider Australia

The risks of the unknown – the AUD



Dr Shane Oliver

Head of Investment Strategy and Economics
Chief Economic at AMP Capital

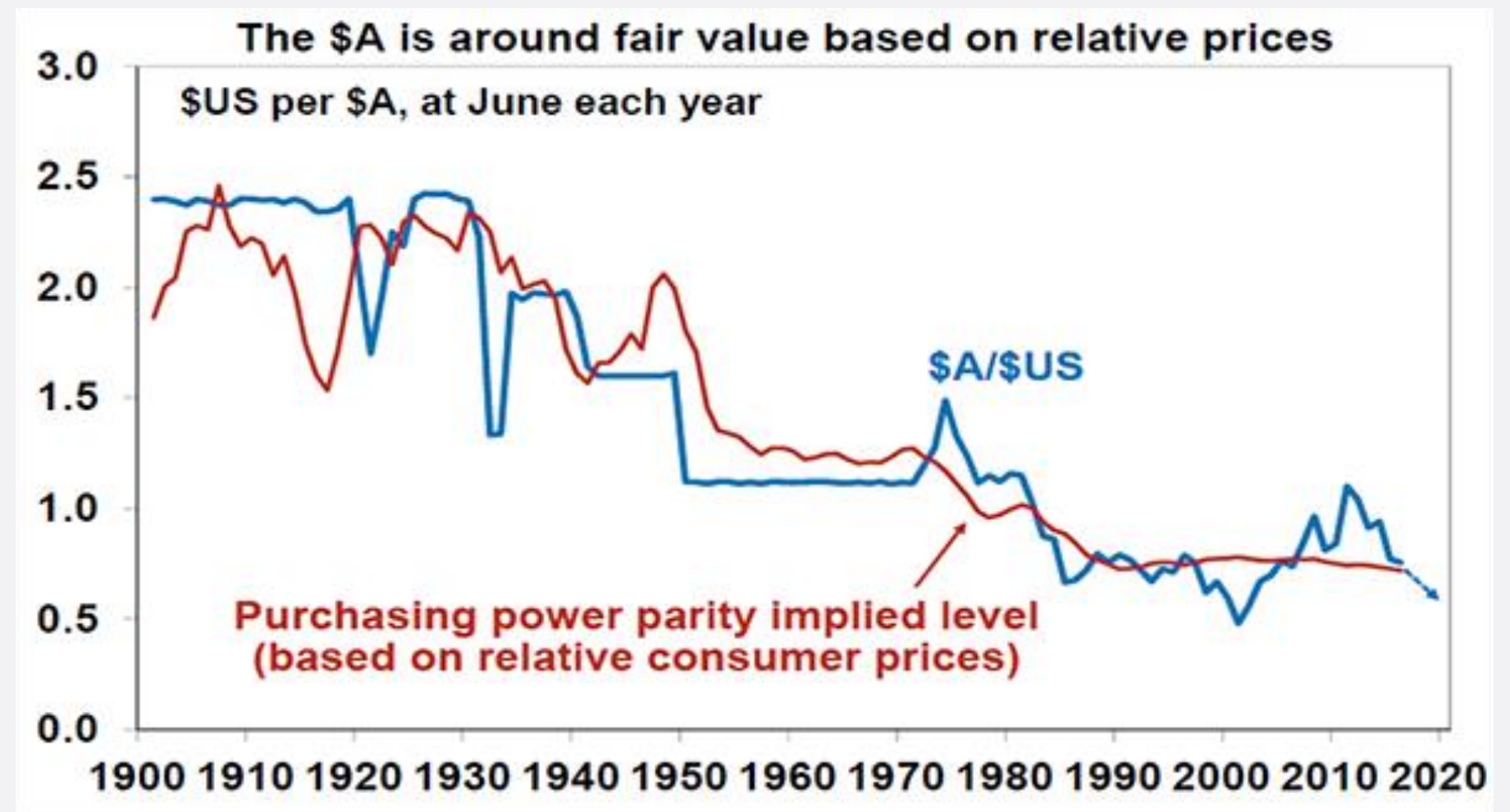
The risks of the unknown – the AUD



Dr Shane Oliver

Head of Investment Strategy and Economics
Chief Economic at AMP Capital

“This is likely to take the \$A towards \$US0.60 on a 12 month horizon.”



The risks of the unknown – the AUD



Richard Grace

Chief Currency & Rates Strategist
Head of International Economics – Commonwealth Bank

The risks of the unknown – the AUD



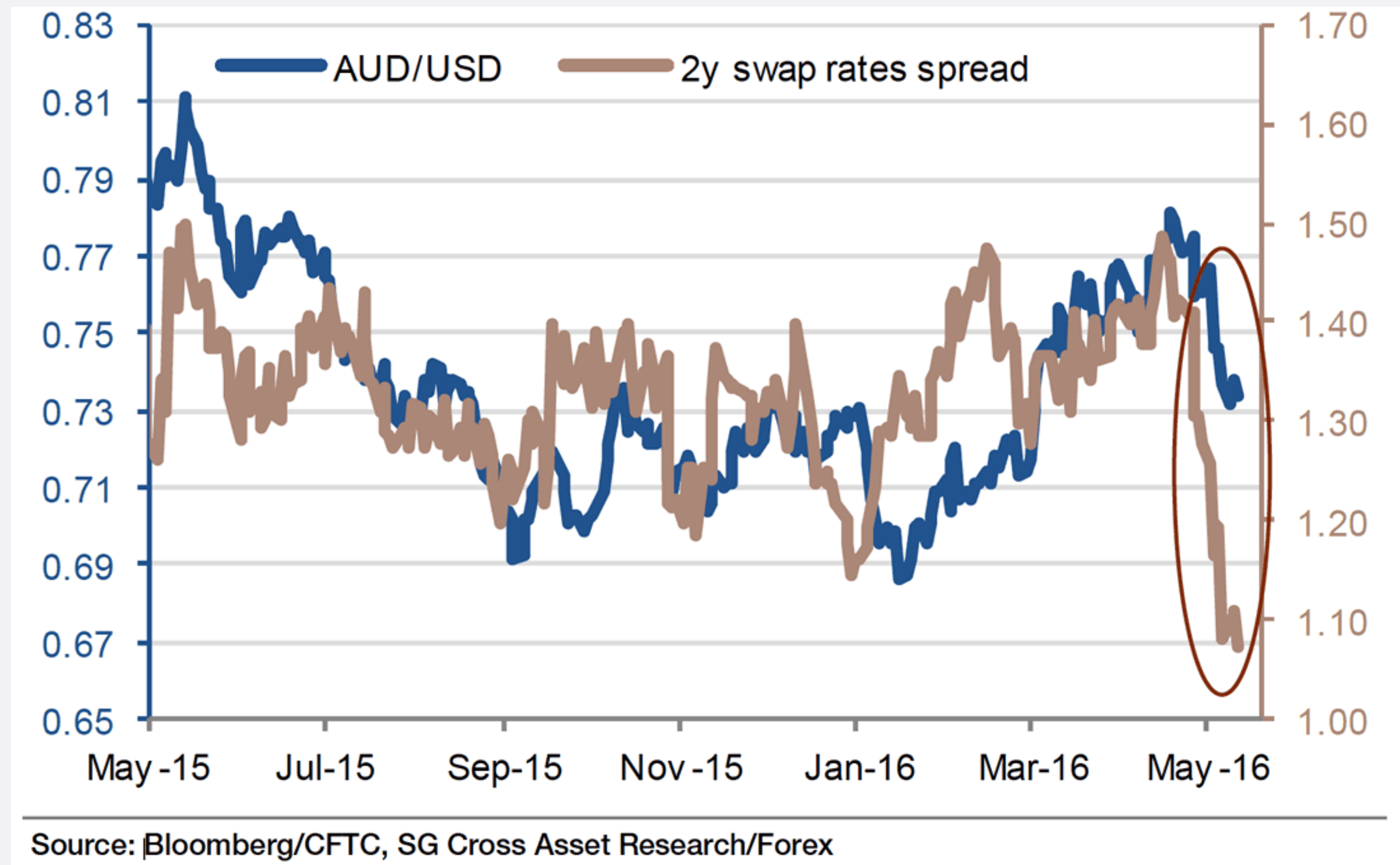
Richard Grace

Chief Currency & Rates Strategist
Head of International Economics – Commonwealth Bank


Year-end Australian dollar forecasts against the US dollar are up from US70 cents to US78 cents, after Commonwealth Bank (CBA) currency analysts brought forward the long-held view of a cyclical recovery in the AUD/USD exchange rate.

| Current | End Period | | | | |
|-----------|------------|--------|--------|--------|--------|
| 30-Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 |
| 0.7631 | 0.7500 | 0.7700 | 0.7800 | 0.7900 | 0.8000 |
| Old | 0.6700 | 0.6900 | 0.7000 | 0.7100 | 0.7250 |

Who is correct?




Words on risk over the past 12 months




“Capital loss is so easy to achieve in this environment. Investors should have more modest growth expectations, and more modest expectations of investing returns”.

Bruce Campbell
BMO Investment Chairman




“The biggest problem in the next few years is the huge amount of liquidity flowing around the world. Investors' hunt for yield means that risk is not being properly priced. This is a worry.”

Mike Smith
ANZ CEO



“This environment has skewed the risks investors are willing to take in order to achieve mediocre returns. The capital we don't lose today will be the capital we can invest tomorrow, that is where you will make your returns. It's very much about not making mistakes in this cycle, not being too aggressive and certainly not being greedy.”

John Abernethy
Clime Asset Management CIO

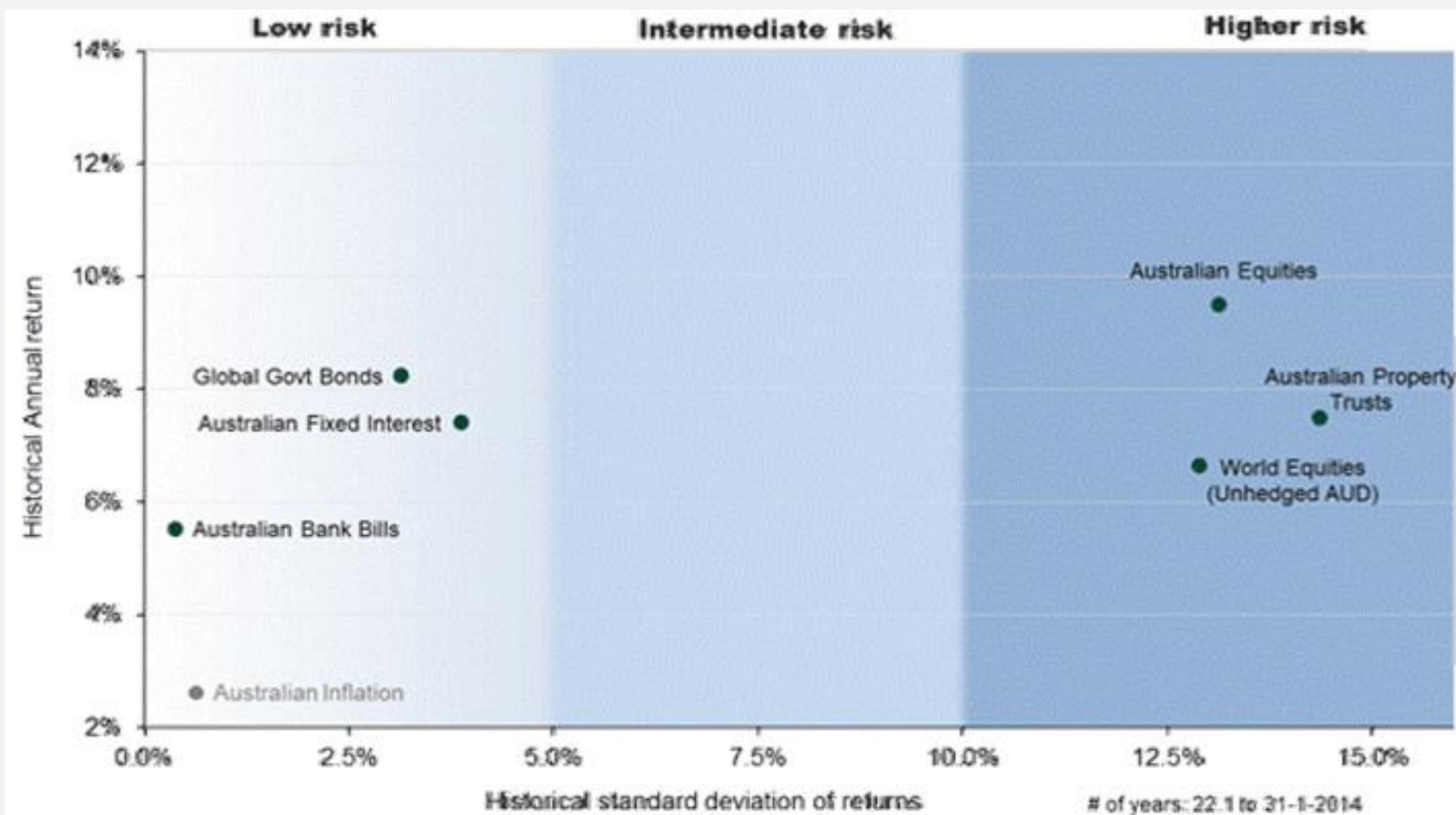


“At the moment there are few choices. People are going to stay in equities. They may seem quite expensive but they'll remain the most prospective of all investments.”

Kerr Neilson
Platinum Asset Management

Strategies for the Risk / Reward payoff





Risk & Reward.

The balance between the return of an asset and the uncertainty of those returns.

Building a Portfolio to create balance



Understand the Economic Environment

Medium – Long term outlooks for major Economies and Asset types



Create an Asset Allocation which suits YOU

Asset Allocation is probably the cheapest way to manage volatility and to protect against the unknown.

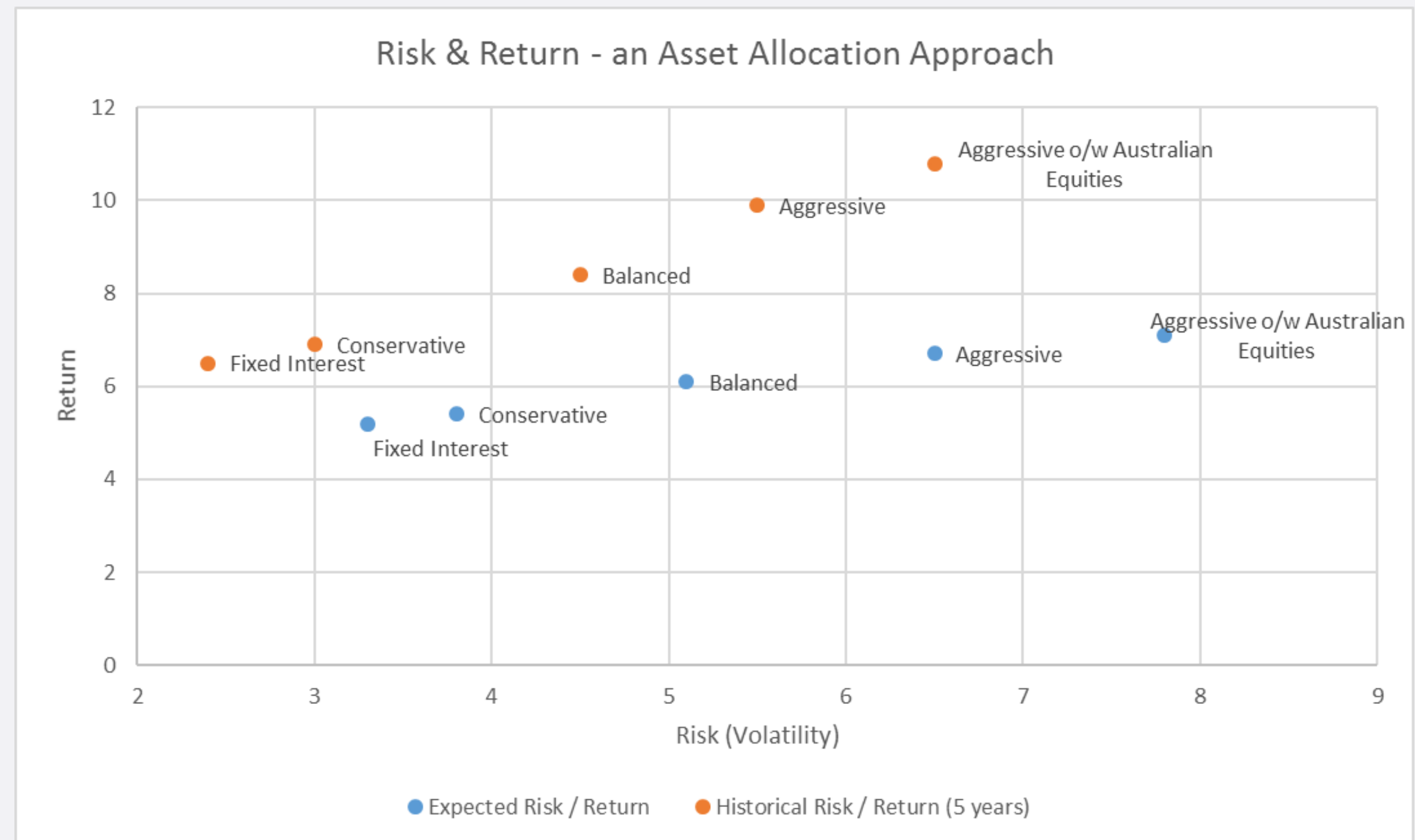


Have a Portfolio Management strategy

Have a strategy for portfolio construction within each asset class that seeks to maximise returns for lowest possible risk, and that fits within your overall Investment strategy.

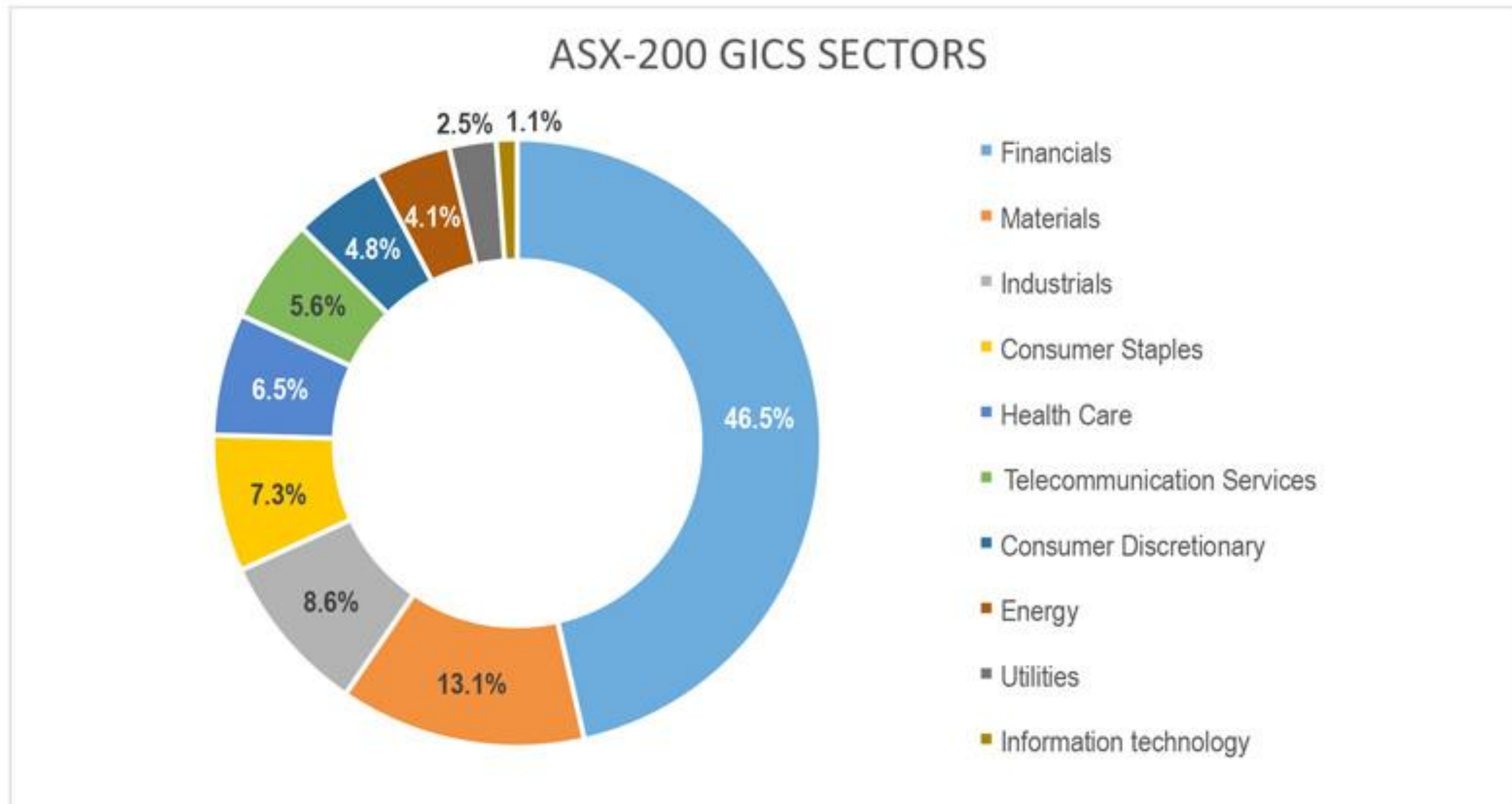
Balance.

By creating a mix of asset classes that react to economic news differently creates a better risk / reward balance than any one individual asset class.



From Asset Allocation to Portfolio Construction

Figure 1: GICS sectors at 31 March 2016

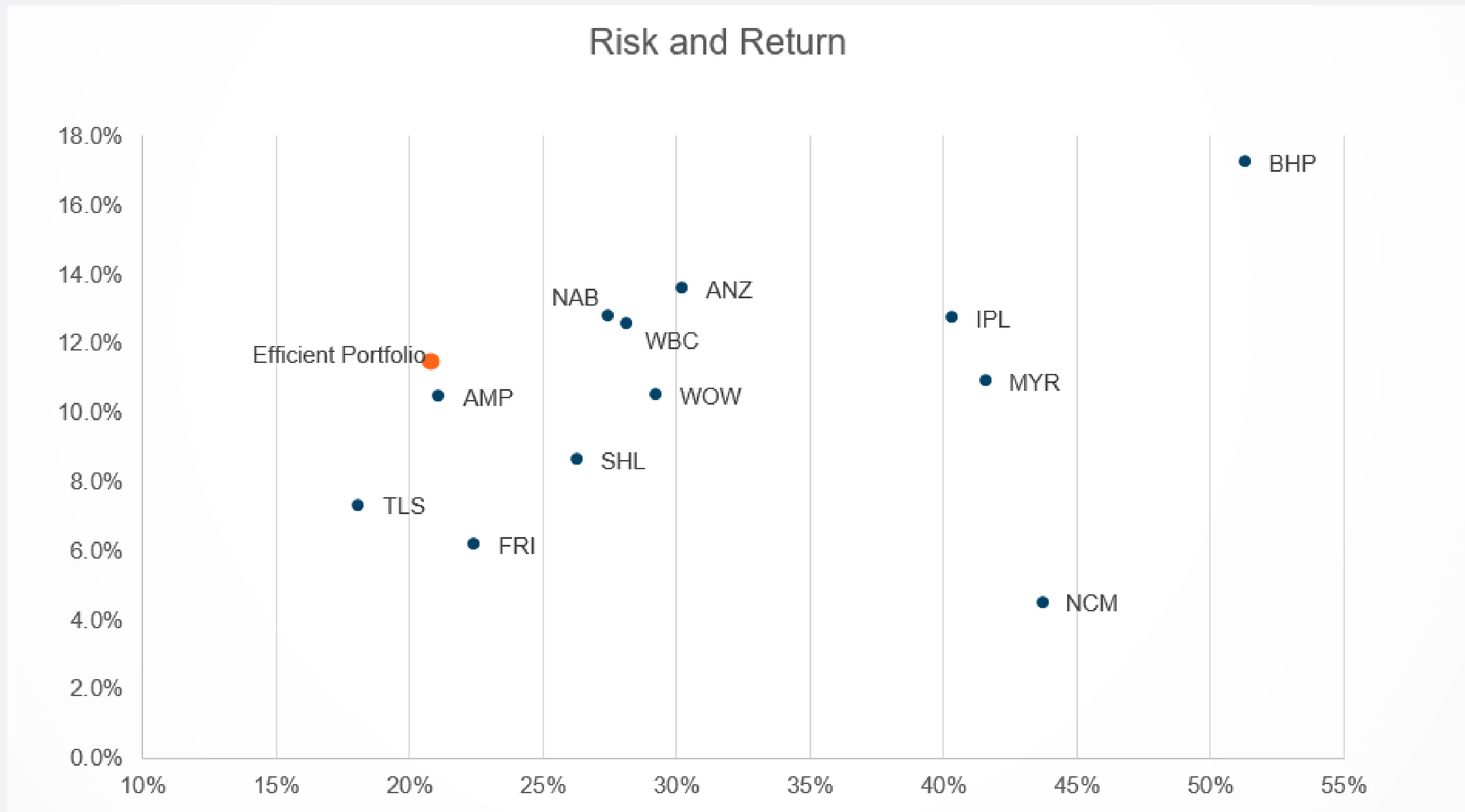


Source: Australian Securities Exchange

Understand the numbers

| | | | |
|-------------------------------|--|--|---------|
| <u>Client Super Fund</u> | | | |
| | | | |
| | | | |
| Historical Portfolio Beta: | | | 1.03 |
| | | | |
| Portfolio Value | | | 614,383 |
| VaR (5%) | | | 8,807 |
| VaR (10%) | | | 6,862 |
| | | | |
| Tracking error (active risk): | | | 4.4 |
| Market Risk | | | 13.10% |

Understand the risk / reward payoff of each position



Examine the “risk on” positions

Market Data

Last Price

Change +/-

Change %

Volume

\$24.61

▼ -1.0800

▼ - 4.20%

3,282,605

8 Aug 2016

Open

High

Low

\$24.81

\$24.82

\$24.42

Consensus Target Price

\$19.70

-

19.9% downside

Sentiment Indicator

1 = Highest Rating

-1 = Lowest Rating

- 0.6

Franking for last dividend paid out: 0%

Market Consensus Forecasts

Forecasts

| | FY14 Actual | FY15 Actual | FY16 Forecast | FY17 Forecast |
|------------------|-------------|-------------|---------------|---------------|
| EPS (cps) | - 289.8 | 71.2 | 47.8 | 94.8 |
| DPS (cps): | 0.0 | 0.0 | 6.7 | 17.0 |
| EPS Growth | N/A | N/A | - 32.9% | 98.3% |
| DPS Growth | N/A | N/A | N/A | 100.0% |
| PE Ratio | N/A | N/A | 51.5 | 26.0 |
| Dividend Yield | N/A | N/A | 0.3% | 0.7% |
| Div Pay Ratio(%) | N/A | 0.0% | 14.0% | 17.9% |

Dividend yield today if purchased 3 years ago: 0.00%

Dividend Calculator

(On the basis of the last actual payout)

Expert Views

Quote & Chart

Latest News

| Broker | Date | Rating | Recommendation | Target Price | % to Reach Target |
|----------------|------------|--------|--------------------------------|--------------|-------------------|
| UBS | 27/07/2016 | 5 | Sell | \$12.03 | - 51.1% |
| Credit Suisse | 26/07/2016 | 5 | Underperform | \$19.20 | - 22.0% |
| Deutsche Bank | 26/07/2016 | 5 | Sell | \$13.00 | - 47.2% |
| Morgan Stanley | 26/07/2016 | 5 | Underweight | \$22.00 | - 10.6% |
| Ord Minnett | 26/07/2016 | 4 | Downgrade to Lighten from Hold | \$21.00 | - 14.7% |
| Macquarie | 26/07/2016 | 3 | Neutral | \$24.00 | - 2.5% |
| Citi | 26/07/2016 | 1 | Buy | \$26.70 | 8.5% |

... And how each position reacts to the other



... And how each position reacts to the other



**What other strategies can be used
to manage risk?**



01

Stragey #1 : Insurance

- | Buy a Put that allows you to make someone buy your stock
- | at a given price
- | between now and a set future date.

Buying Protection – an Example

BHP is trading at \$18.80

Buy a put that finishes 2 months away with a strike of \$18.71

Cost \$0.98

Buying Protection – an Example

What is the **Problem** with this strategy?

Buying Protection – an Example

BHP is trading at \$18.80

Buy a put that finishes 2 months away with a strike of \$18.71

Cost \$0.98

$\$0.98 / \$18.80 =$

5.2% for 2 months protection!

Buying Protection The Problem

If you took out home insurance for a year on a \$800,000 house and the cost of that was \$52,000 every year, and then it had a \$80,000 excess would you take it out???

Every year????

02

Strategy #2 : The Buy-Write

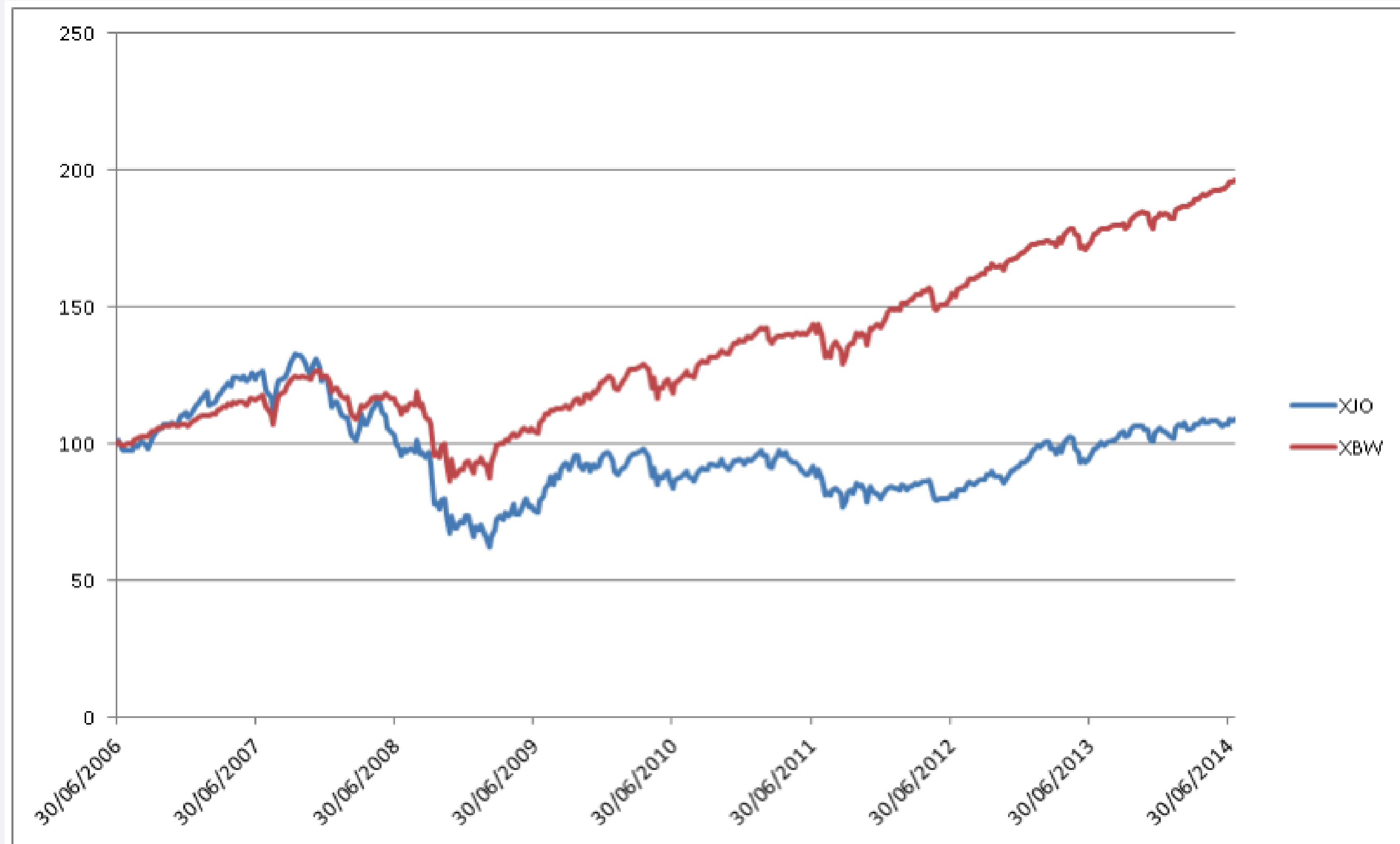
- | Sell away the upside on a portion of your portfolio
- | by selling call options over stock you think is getting
- | fully valued.

Buy-Write Strategy

Use the shares you own (or buy shares) and sell a call over those shares for a premium.

- Generate Additional income from the Call premium you receive
- Continue to receive dividends (subject to early exercise)
- Limited protection against a falling price
- You chose the strike price (and therefore the price at which you're happy to sell at)

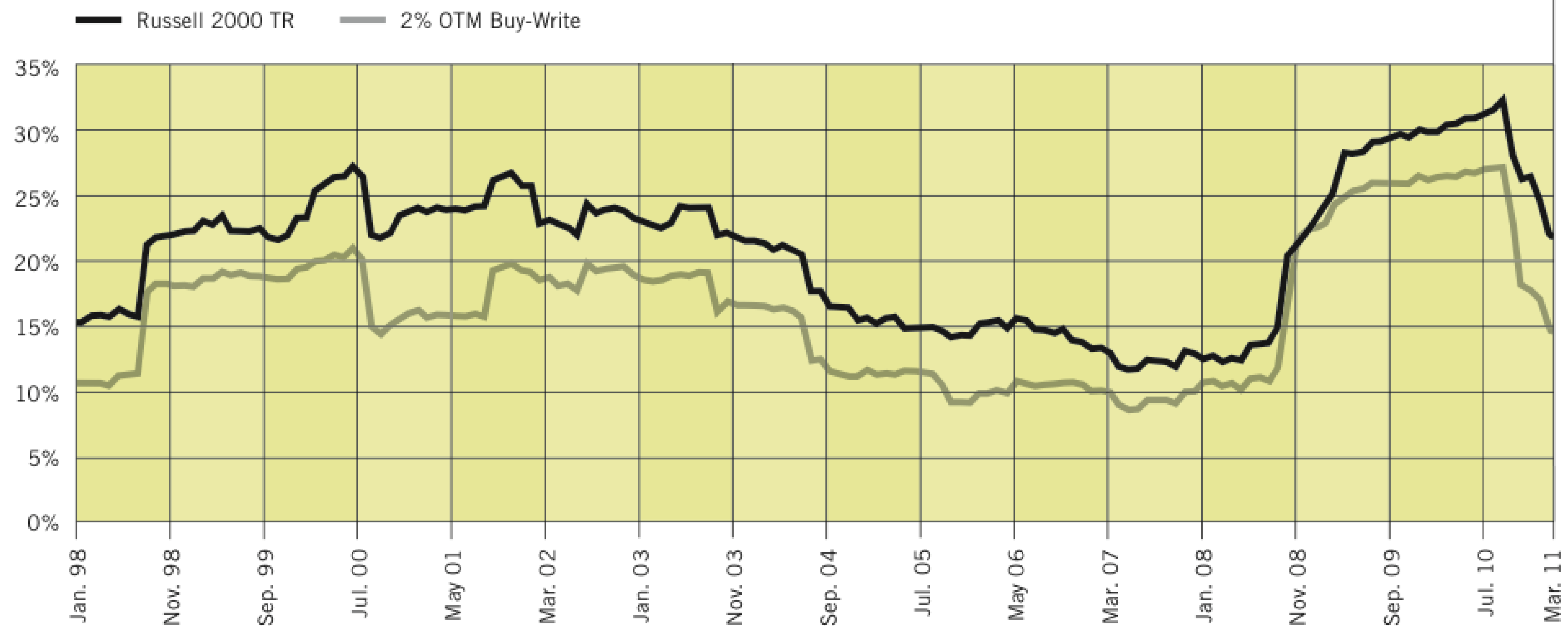
Buy Write Strategy



Is it possible to increase returns?

Buy Write Strategy

24-Month Rolling Annualized Standard Deviation



And reduce risk at the same time?



The legal stuff

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「thank you.」