

NAVIGATING MARKET RISK

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UNDERSTANDING THE MARKET RISKS

REPORTING SEASON



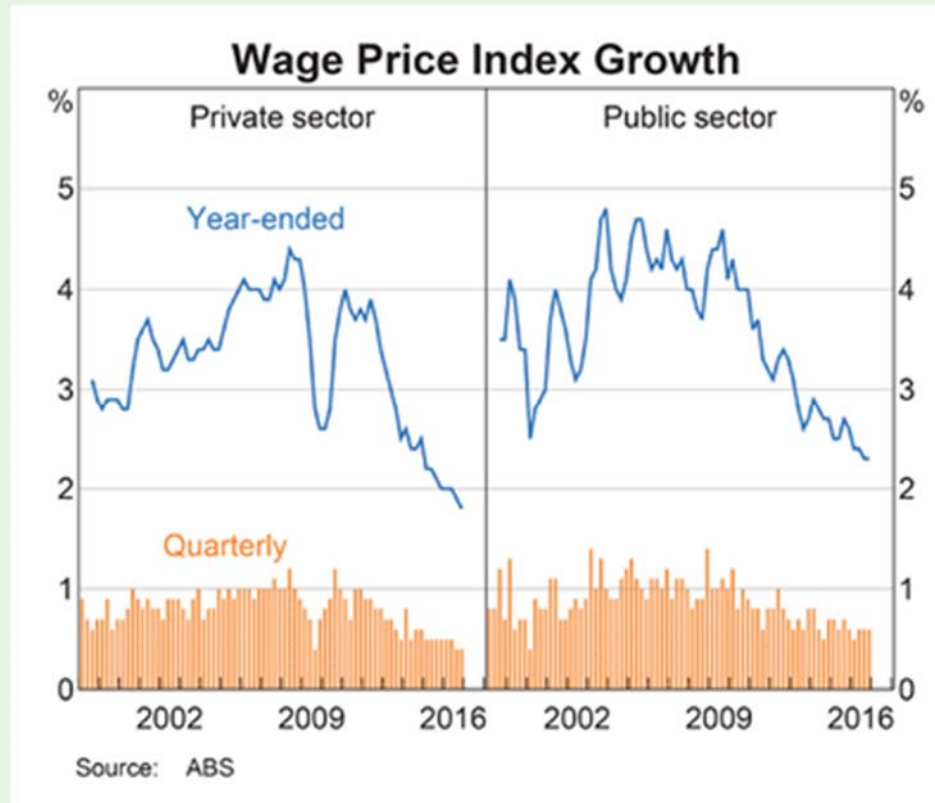
35% of companies



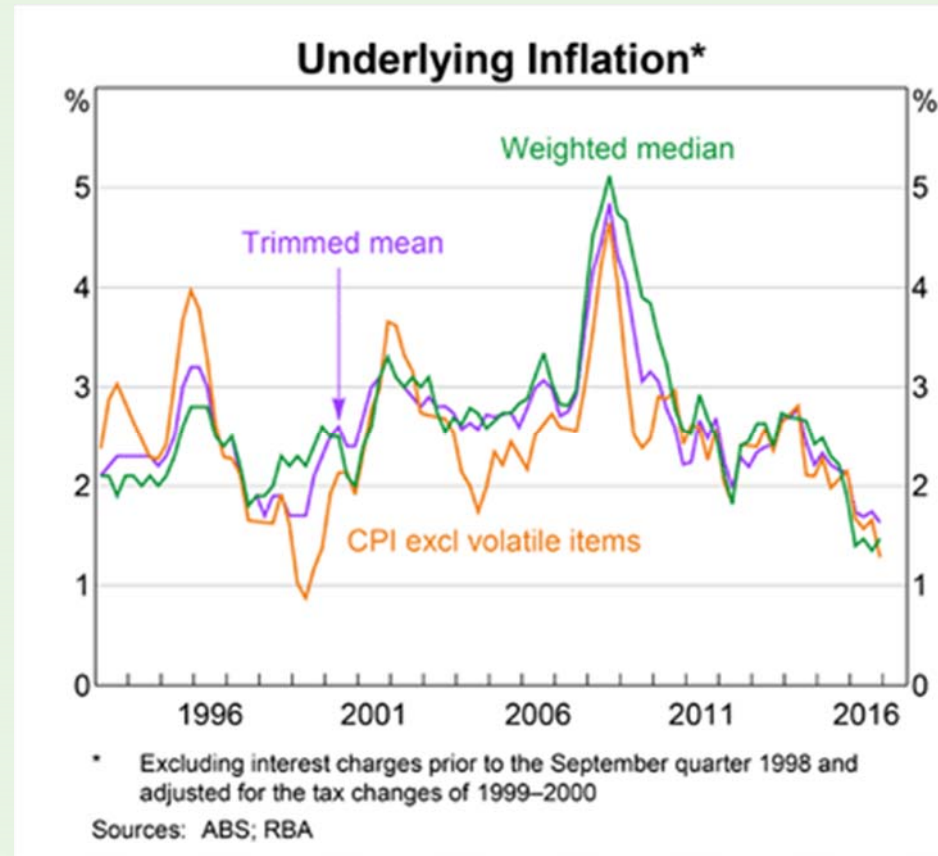
27% of companies

- Corporate Profits improved (slowly)
- Downside to FY17 numbers in industrials (BXB, TLS)
- Sound numbers from banking
- Industrials Dividend Payout ratio rose to 79.2%

Wage growth has been slowing

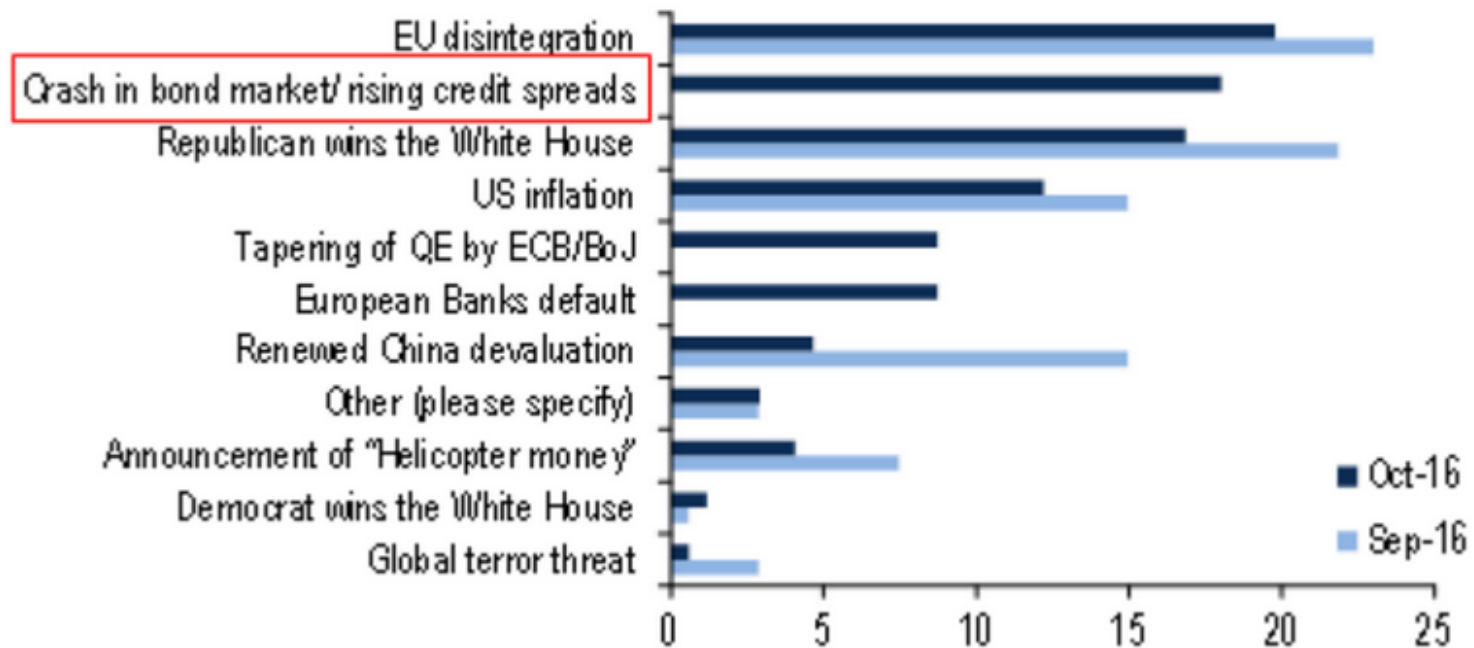


Which means inflation is not picking up



Risks to the market late last year

Exhibit 14: What do you consider the biggest 'tail risk' ?

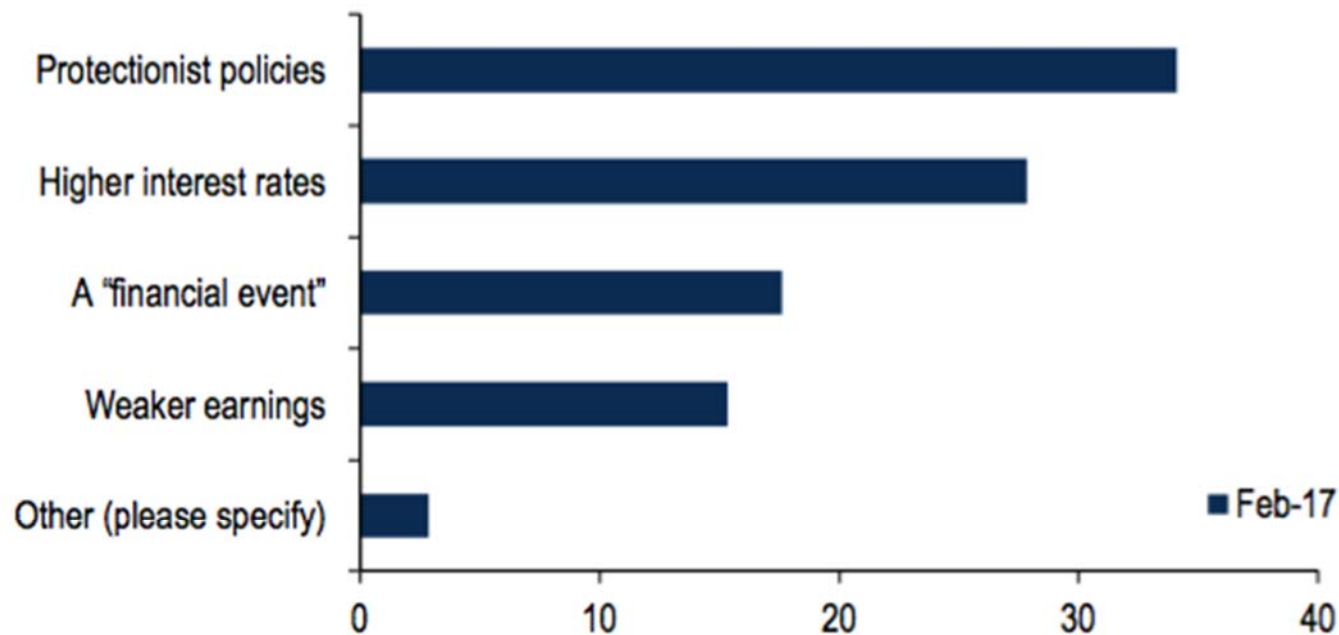


Source: BofA Merrill Lynch Global Fund Manager Survey

Bank of America Merrill Lynch

Risks to the market – Along the way

Exhibit 17: What will be the most likely catalyst to cause an end to the 8-year equity bull market?



Source: BofA Merrill Lynch Global Fund Manager Survey

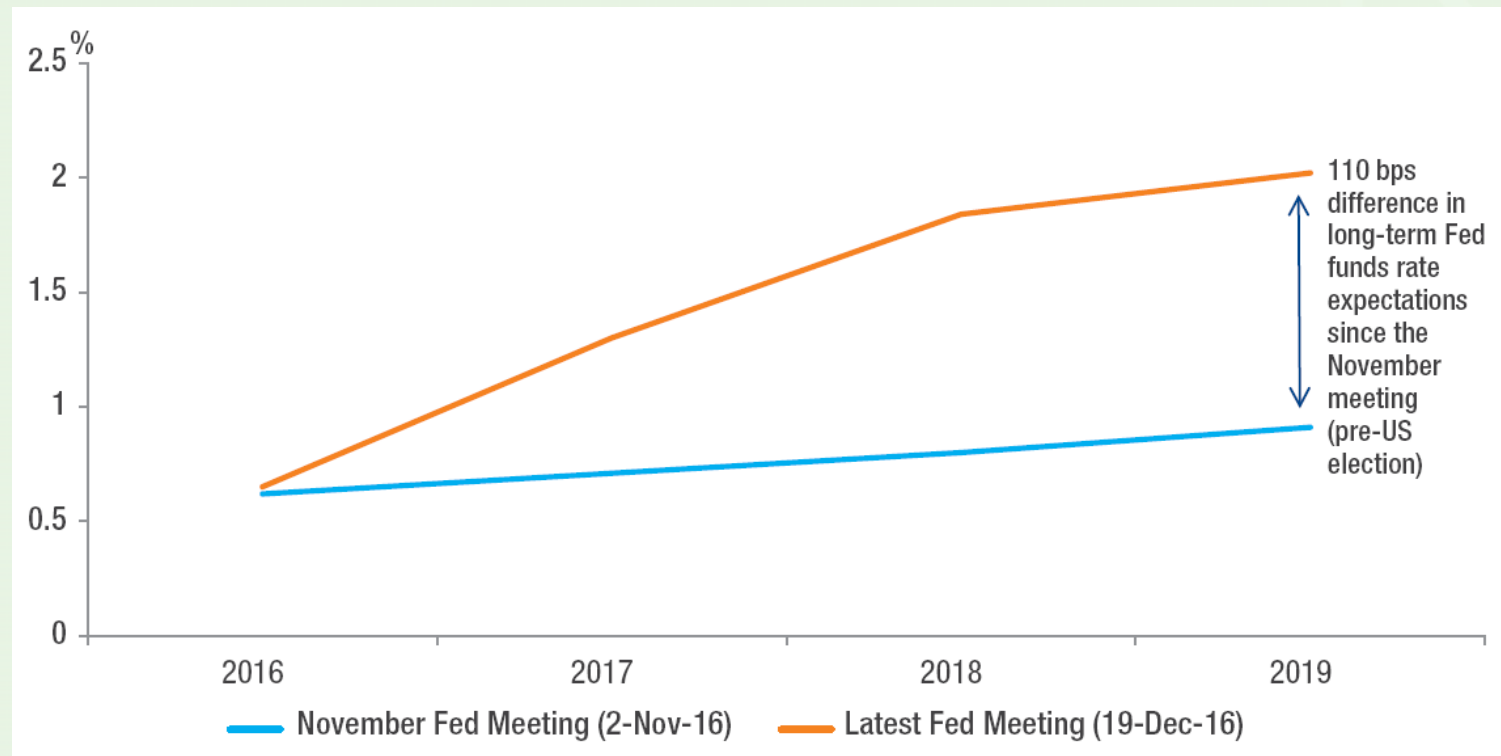
Risks to the market - Now

Exhibit 14: What do you consider the biggest “tail risk”?



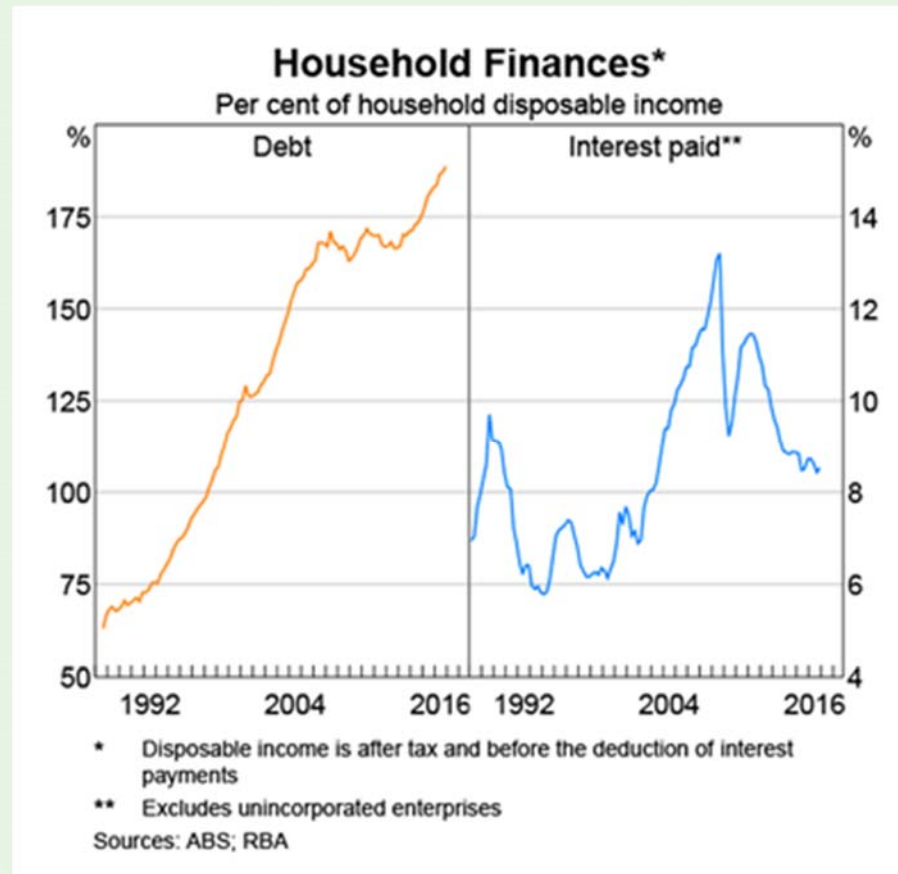
Source: BofA Merrill Lynch Global Fund Manager Survey

Interest Rate Outlook



Source: Bloomberg

Debt Levels





"These tax cuts expand the US budget deficit and provides additional stimulus at that time. With the economy at full employment in 2018, the Fed will need to further increase rates to soak up some of that stimulus. Rates may begin to normalise very rapidly. We could begin to move to higher rates much more quickly than the market currently thinks."

MICHAEL KNOX

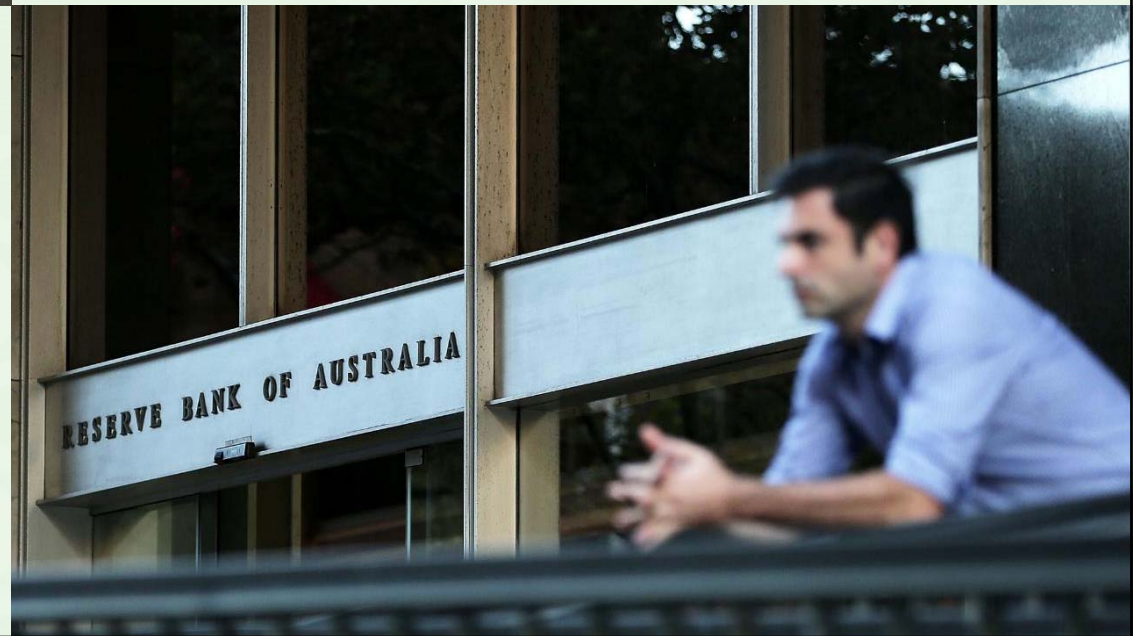
CHIEF ECONOMIC, MORGANS

"We do not expect that the Australian economy will be sufficiently robust in 2018 to justify a return to a tightening cycle and continue to forecast rates on hold in 2017 and 2018."

BILL EVANS

WESTPAC

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#1

THE CHEAPEST WAY TO REDUCE AND MANAGE RISK

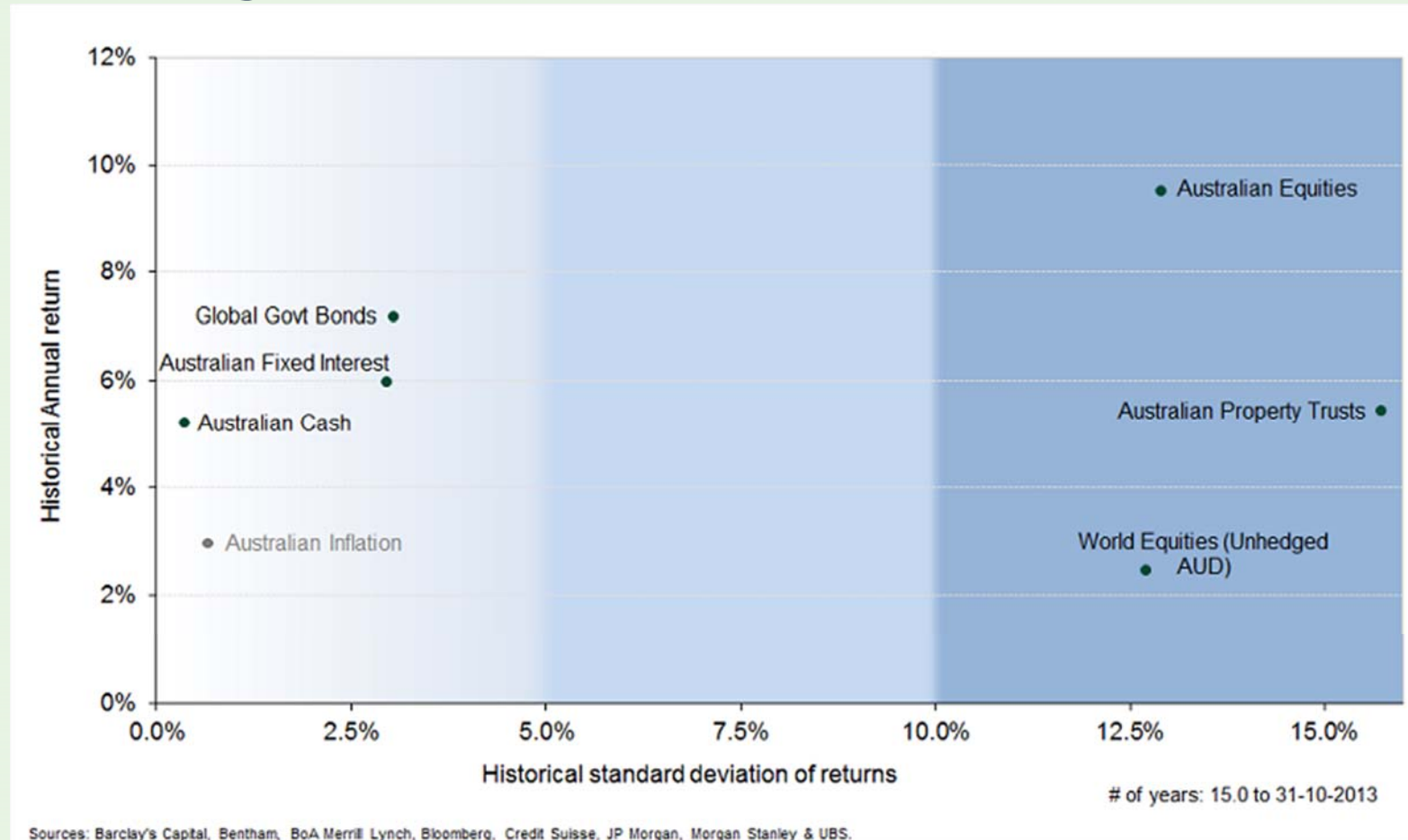
#1

**THE CHEAPEST WAY TO REDUCE AND MANAGE RISK
IS ASSET ALLOCATION**

The Payoff between risk and return



The Payoff between risk and return



The importance of Asset Allocation

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ASSET CLASSES

- Australian Shares
- International Shares
- International Shares (Hedged)¹
- US Shares
- Australian Bonds
- International Bonds (Hedged)²
- Australian Listed Property
- International Listed Property³
- Cash

Asset Allocation

- Is NOT Diversification

Asset Allocation

- Is NOT Diversification
- Can be changed / tactical

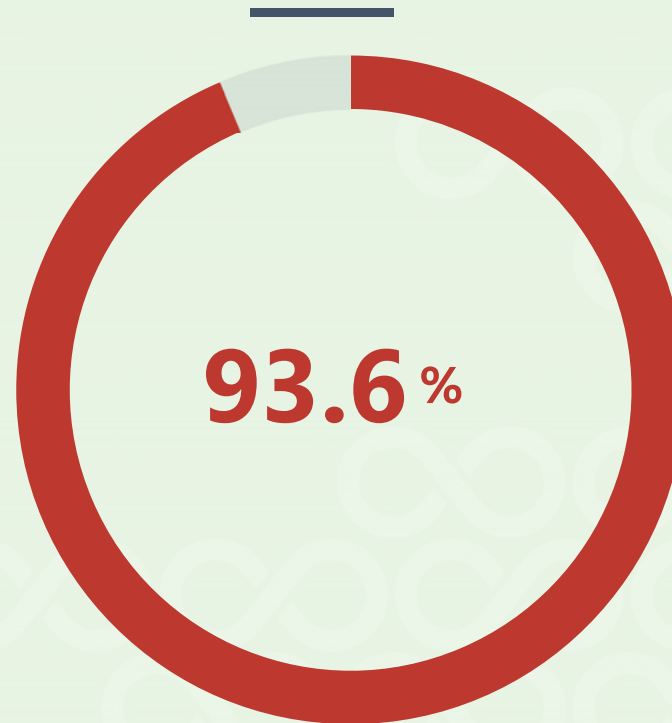
Asset Allocation

- Is NOT Diversification
- Can be changed / tactical
- Is not the same for everyone

Asset Allocation

- Is NOT Diversification
- Can be changed / tactical
- Is not the same for everyone
- Should be rebalanced

Asset Allocation



Asset Allocation explains 93.6% of the variation in a portfolios quarterly returns

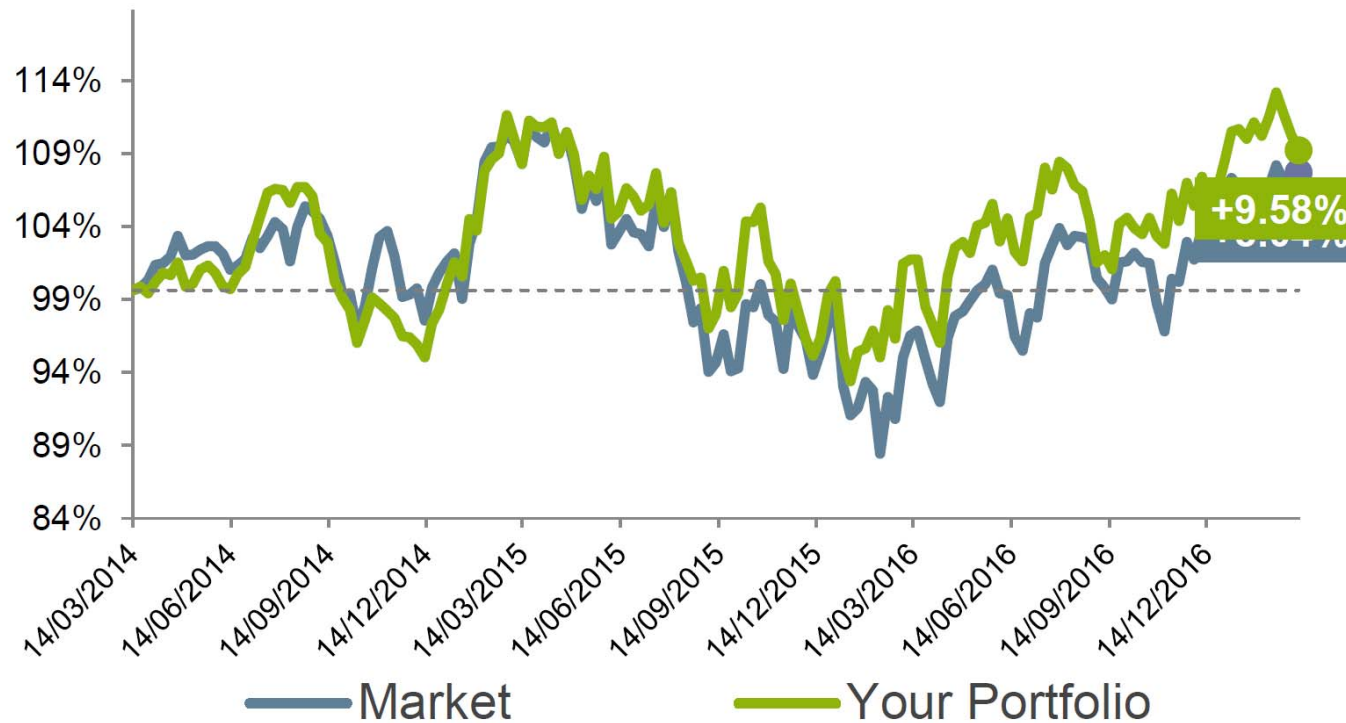
#2

PORTFOLIO STRATEGY AND DIVERSIFICATION

Don't stop at performance

Historic Price Performance

Period 10/03/14 - 10/03/17



Does your portfolio match your objectives?

Your Portfolio Fundamental Scores Snapshot



Dividend Yield



Dividend Payout



P/E Ratio

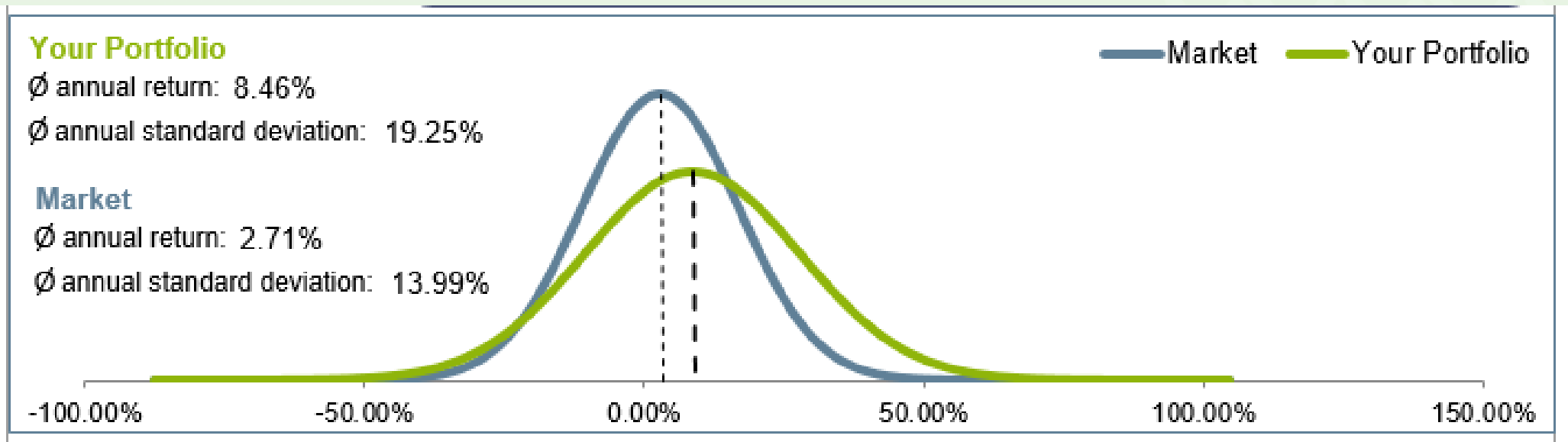


EPS Growth

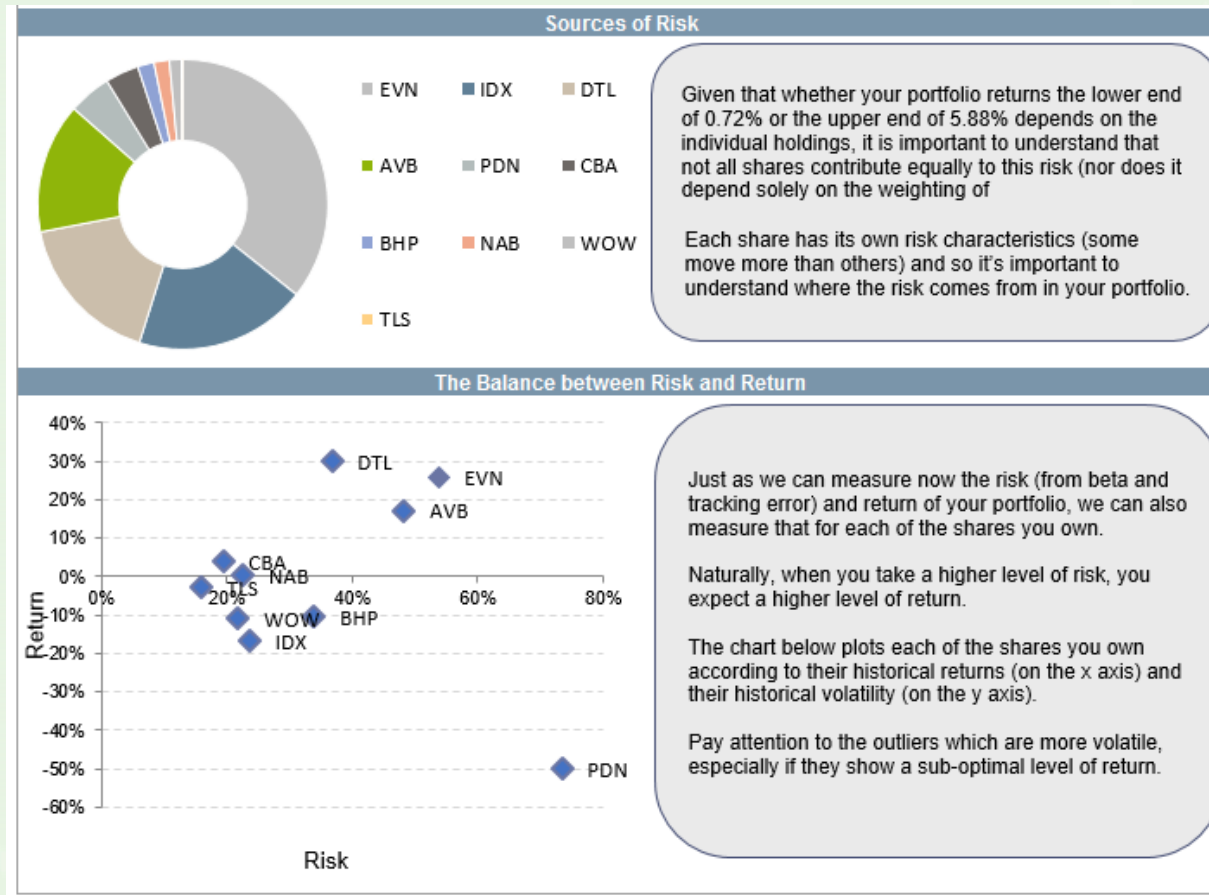


Fair Value

Understand the relationship to the market



Where does your risk come from?



#2

**USE STRATEGIES TO REDUCE VOLATILITY
(AND INCREASE CASH FLOW)**

What is an Option?

An Options allows the Buyer (“Taker”) of an Options the Right, but not the Obligation, to buy or sell a security at a predetermined price (“The Strike”) before a predetermined date (“Expiry”).

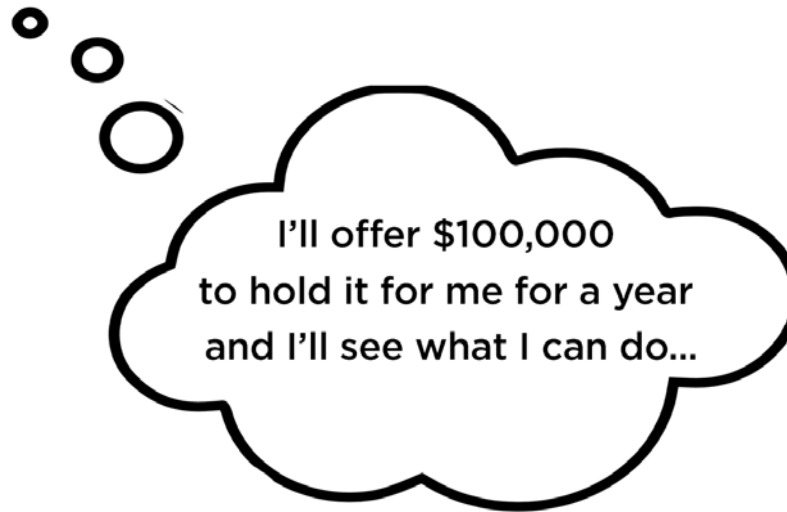
To acquire this Option, the Taker pays a premium to the Seller (“Writer”) of the Contract



**FOR SALE
PRIME POSITION
POSSIBLE DEVELOPMENT
\$1,000,000**



If we
could redevelop it would
be worth \$1.5m!
But it's a big risk if I can't...



At the end of the year there are 2 possibilities

I can't get approval

✓ They keep \$100,000

✓ I walk away

At the end of the year there are 2 possibilities

I can't get approval

✓ They keep \$100,000

✓ I walk away

I can get approval

✓ They keep the \$100,000

✓ I pay the \$1m agreed price

✓ I start the project (carry the Risk and the upside)

How does the seller feel?

If they don't sell it?

If they do sell it?

What is an Option?

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

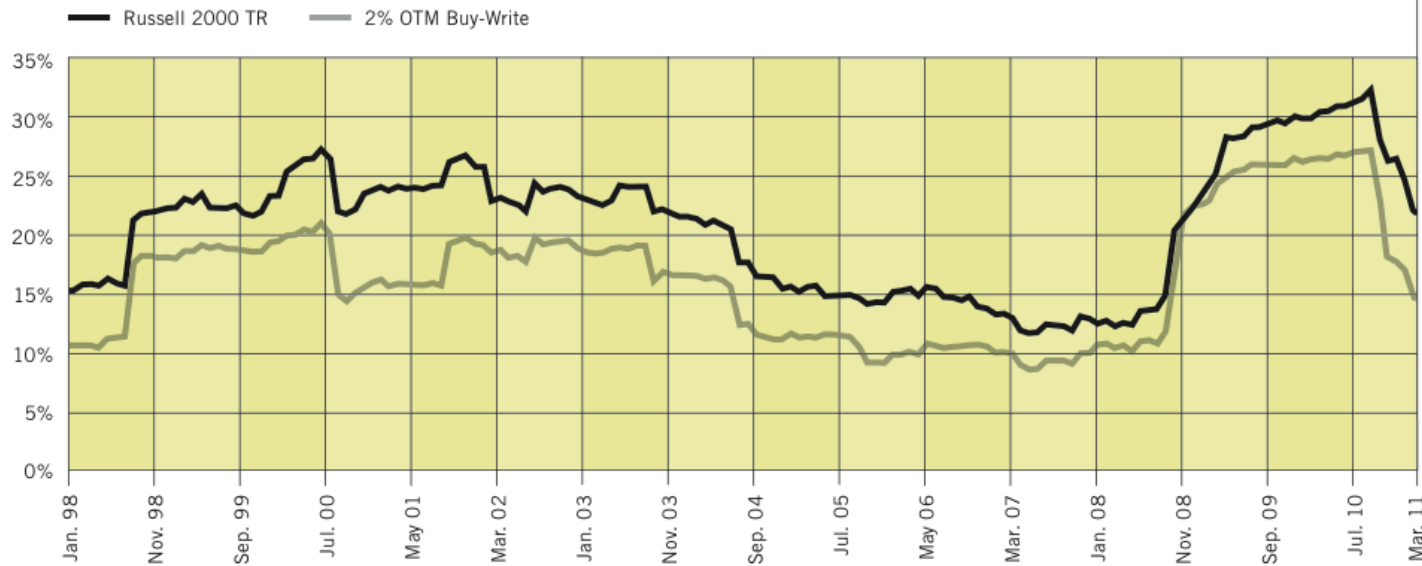
- Generate Additional income from the Call premium you receive
- Continue to receive dividends (subject to early exercise)
- Limited protection against a falling price
- You chose the strike price (and therefore the price at which you're happy to sell at)

Can you increase returns?



And reduce risk?

24-Month Rolling Annualized Standard Deviation



Managing Risk

In uncertain times

01 ASSET ALLOCATION

02 DIVERSIFICATION AND
STRATEGY

03 STRATEGIES TO
DECREASE VOLATILITY



The legal stuff

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