AIA: The silver lining to losing franking credits
(How to get better diversification, capital returns and sleep)

April 2019
This evening

- The rise and rise of indexing
  
  *(for better diversification and returns)*

- An ‘all weather’ approach to investing
  
  *(for better sleep)*

- Trends to watch out for in 2019/2020
  
  *(the silver lining to losing franking credits)*
The rise and rise of indexing
(for better diversification and returns)
You don’t need to look for the needle in the haystack

Just 4% of companies generated all share market wealth between 1926-2015

Source: Hendrik Bessembinder, ASU Factset, JPMorgan Asset Management
Boring is brilliant

‘Lazy investors’ who buy the index and do nothing have earned 7% p.a. more

Source: DALBAR’s Quantitative Analysis of Investor Behavior Study
The more you pay, the less you get

Saving 2.5% p.a. in costs will make you 300% better off over a lifetime

Source: Stockspot
What would happen if everyone indexed?

Indexing will exceed active assets in the U.S. by 2021 according to Moody’s.

Source: Investment Company Institute; Simfund; Credit Suisse
An ‘all weather’ approach to investing

(for better sleep)
Bonds belong in every portfolio

Your mix of different assets drives 90% of returns. Over the last 30 years bonds have risen whenever shares have fallen.

Diversification is particularly critical during periods of market stress

Median Asset Returns during the Worst Decline of Australian Equity Months February 1992 to December 2016

- Australian Equities: -5.8%
- Global Equities: -2.7%
- Australian Property: -4.0%
- Global Property: -2.0%
- Global High Yield Debt: -1.6%
- Australian Fixed Income: 0.6%
- Global Fixed Income: 0.5%
- Australian Cash: 0.4%

Source: Vanguard
The benefit of investing globally

Over the last 10 years U.S. shares have delivered a total return of 311% compared to 96% for Australian shares
What’s the right amount of ‘home country bias’?

The ‘risk minimising’ allocation to Australian shares over time is around 55%.
Building an ‘all weather’ portfolio, the theory

Diversifying into different assets, countries and sectors significantly reduces your portfolio risk and improves your quality of returns.

Source: Stockspot
Periodic rebalancing helps to reduce risk

Stockspot rebalances when asset weights drift 15%-30% from their targets

Source: Stockspot
Building an ‘all weather’ portfolio in practice

Broad diversification has helped to reduce risk by 46% over 5 years

Source: Stockspot
Trends to watch out for in 2019/2020

(the silver lining to losing franking credits)
Proposed franking credit changes to benefit bonds

Expect high growth in fixed interest and global share ETFs from SMSFs and self funded retirees. Longer lower dividend payout ratios & more innovation!
Proposed negative gearing changes to close the yield gap

Property yields have been falling since September 1985 when the Hawke government allowed property losses to offset income from wages.

Source: Bloomberg, REIA, AMP Capital
Royal Commission impact

The Royal Commission into Banking Misconduct highlighted many of the issues that led me to start Stockspot 5 years ago. This is great news!

- An end to ‘grandfathered commissions’
- A clearer separation between financial advice and product sales
- Expect to see ‘robo advice’ for insurance and mortgages
Market leadership to change

U.S. shares and Australian property are unlikely to maintain their performance leadership over the next 5 years

Source: Stockspot
Temptations to act will remain

Market headlines will always present reasons to abandon a ‘do nothing’ investment strategy. As a long term investor you should resist the temptation.

Source: International Herald Tribune, October 27 1989
SMSFs admin to be simplified

Expect to see technology significantly reduce the cost of running a SMSF
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