



KeyPlay Financial Services Christmas Newsletter 2015

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Hello and welcome to the 2015 Christmas edition of the KeyPlay Financial Services Newsletter. From all of us, we wish you and your families a happy and safe Christmas and a prosperous New Year 2016.

2015 seems to have come and gone in the blink of an eye, although it will remain foremost in our minds, mainly due to the escalation of terrorist incidents across the world.

Although Australia has seen its share of incidents to date as well, we still feel that we are the 'lucky country' and I am happy to be living here, rather than elsewhere.

Again, from all of us at KeyPlay, we wish you a safe and festive Christmas and look forward to seeing you again in 2016.

Tony

Christmas / New Year hours

Our office will be closed from Wednesday 23rd December 2015 and will re-open on Wednesday 6th January 2016 with a "skeleton crew".

Full staff numbers to be back from 24th January 2016.

Stagnant Australian Sharemarket

In the 2015 calendar year, the Australian sharemarket (to early December) has returned an overall performance – as measured by the All Ordinaries Index – of approximately -3.5%. This comes on the back of the 2014 calendar year performance of 0.66%. Further, since 2010, the calendar year performances have seen a gross total return of just on 9.48%.

This equates to an average of 1.896% per annum, over that time. This is NOT why we invest in the Australian sharemarket – to receive poultry performance returns like this over such a long period of time.

Fidelity International, (a leading Australian Fund Manager), have produced a graph, which I have attached to this Newsletter, showing the 30 year performance to June 2015 of Australian and global shares. As you will see, for Australian shares, the average annual return is 10.8% per annum; however, over the last six years, we have seen only 1.58% per annum.

So, what is going wrong?

My thoughts are that the view on Australian companies is the 'half-empty' view, rather than the 'half-full' view. For instance, throughout the year, our Australian banks were belted in value and the Commonwealth Bank (CBA), for example, fell from around \$96 to just under \$70 at one stage before recovering to back around the \$80 mark.

The reason behind the fall in bank shares is that analysts believe the banks' earnings and profits cannot continue to be as good as they have been over the last few years. Therefore, if the expectation is that the banks' earnings are going to be lower and, as a result, that their profits are going to be lower, then the share prices reacted accordingly. However, I believe that there is a major error in this process, and that is that the ability of the banks to make money has been underestimated.

We have seen analysts question the banks' over the years, but the banks' have always found a way to evolve and change and continue to increase their revenues. I do not think that we are going to see any different over the next few years and believe we will see the market valuations of these stocks recover strongly and should see lost ground recovered.



In addition, the analysts have talked down stocks like David Jones and Myer because they believe that the 'traditional' shopping experience is over and has been forever changed by online shopping.

To some degree, that may be right, but I am sure that every one of you has experienced actual feet-on-ground Christmas shopping this year and would agree that this type of shopping will never fully die.

I actually expect that Myer and David Jones will show increased sales figures over the 2015 – 2016 Christmas periods due to the fact that interest rates are low and are likely to remain low for some time.

I think that homebuyers and consumers alike will therefore take advantage of this low-interest environment and believe that consumers will help reignite growth for these companies, which should give a boost to our stock market in 2016.

Overall, with the last six years of dismal performance, statistically we are a year closer to a strong performance. Let us hope that 2016 is that year.

What to do in times of low investment returns:

Although homebuyers are happy with the lowest interest rates in a lifetime, investors and retirees are the one who are missing out on gaining from the low rates. Combined with the below average performance from the stock market, the low interest rates have been a double whammy to retirees and investors over recent years.

A good course of action to consider is as follows:

For retirees: (especially those with Account Based Pensions) – particularly at these times, keeping your living costs to a minimum is most important. Now is not the time to be making unnecessary, unplanned purchases. Instead, preserving the funds you have invested is the strategy to follow.

The key to the success of a retirement investment (such as an Account Based Pension) boils down to two (2) major factors – the investment performance, and the level of drawings from that investment. Poor investment performance and/or additional redemptions from the fund will see the balance slip away more quickly over time. And that is what we do not want to see!

For investors: (especially for those who are still working) – increasing contributions to your superannuation funds, whilst markets are low is a simple and sound investment decision to make. Extra contributions can be made via your salary (concessional contributions) or from your bank account (non-concessional contributions). Importantly, limits apply to how much can be contributed, so check with us first if you are not sure already.

The Holy Grail of Shipwrecks

The holy grail of shipwrecks has been found! Despite efforts from government and independent treasure hunters for over three (3) centuries, the valuable loot of gold, silver and precious stones aboard an 18th century Spanish ship, sunk by the British in 1708, remained elusive – until now. The Colombian authorities confirmed on December 6 2015, that they had retrieved the sought-after bounty aboard the sunken *San Jose* galleon.

The magnitude of the discovery was not lost on the country's president, Juan Manuel Santos, who did not hold back his excitement. "This is the most valuable treasure that has been found in the history of humanity", he proudly exclaimed, "and we will build a great museum here in Cartagena". Estimates of the total value of the recovered loot vary, but most put the treasure's value at approximately \$3 billion.

The *San Jose* has long been the source of fascination and popular legends. Some reports claim she was carrying 116 chests of emeralds, two tons of platinum and the personal wealth of the Viceroy (King) of Peru. The galleon, a wooden ship used at the time for warfare and later for trade, was sunk off Colombia's Caribbean coast in June 1708 during a failed attempt by the British to capture the lucrative cargo.



The ship had set sail from South America and was carrying riches destined for King Philip V's war chest as he fought Britain in The War of Succession. However, it never made it back to the Spanish King, and was sunk after a 90-minute battle with HMAS *Expedition*. Only a handful of the ship's crew of 600 survived the ordeal.

The US-based salvage company, Sea Search Armada, claimed in the early 1980s that it had found the final resting place of the *San Jose*. The company was previously engaged in a long-running battle with the government of Colombia claiming billions of dollars for breach of contract until a US court ruled in favour of Colombia in 2011.

After the court ruling, a team of Colombian and foreign researchers, including a veteran of the group that discovered the wreck of the *Titanic* in 1985, studied winds and currents of the Caribbean 307 years ago and delved into colonial archives in Spain and Colombia searching for clues.

According to Anthropologist, Fabian Sanabria, there could be up to 1,000 shipwrecks off the Caribbean coast of Colombia, but of those, only between 6 to 10 had a cargo of treasures. The biggest find, and the most sought-after, was that of the *San Jose*.

Joke Corner

Just before Christmas, an honest politician, a generous lawyer and Santa Claus were riding in the elevator of a very posh hotel. As the doors opened, they all noticed a \$20 bill lying on the floor.

Which one picked it up?

Santa, of course – the other two don't exist!

Aged Care means testing change:

A 2015 Federal Budget proposal to change the aged care means test assessment of rental income received from the former home has now been legislated. Under the new legislation, income received from renting out the former home will be included in the aged care means test where a resident permanently enters aged care on or after 1 January 2016.

Residents who enter aged care before 1 January 2016 will continue to be assessed under the pre-1 January 2016 rules, under which rental income from the former home is not included in the aged care means test where residents pay some or all of their accommodation payments as periodic payments.

It is important to note that this legislation only applies to the means test amount calculation when determining aged care fees. Rental income remains exempt for social security income test purposes where the resident is paying a portion of their accommodation payments periodically.

So, as with everything financial, make sure that you seek the appropriate advice from us before making final decisions.

Two Interesting Reports

The Australian Government Productivity Commission has released two interesting financial Reports this year, (the latest one in December), into housing choices made by older Australians, and (the other in July), into when and how people access their superannuation.

The latest report examines the policies affecting the supply and cost of residential aged care and other age-specific housing, the influence of tax and transfer system on housing decisions, and the issues in using home equity release to support living standards in retirement. The earlier Report examines what might happen if the age that individuals can access their superannuation – the preservation age – were raised.

The latest Report into the housing choices of older Australians has already triggered much media coverage and commentary; however, the important point to be noted here is that nothing will change overnight, and indeed, any changes around the housing option would likely not affect the majority of retirees anyway.

As we all know, there are more and more retirees (who are living longer and longer), and less and less people of younger age who are working (to pay tax and to help support our retirees).



The Government has a responsibility to address the issue (and many others as well), as it has to look at ways to be able to balance the country's Budget.

Currently, the Government needs in excess of \$400 billion per year to meet its expenses, yet only raises about \$300 billion from income tax, business tax and GST. So they need to borrow funds to meet their commitments, and we all know that this approach is a pathway to disaster, (Greece is a classic example of that approach).

As mentioned though, any changes the Government decides to make will likely not occur overnight and will be well publicised – so don't be concerned by the level of media noise at this time.

Turn down the noise!

In a world of greater market information, there is an increasing tendency to watch the share market on a daily or hourly basis. However, AMP's Chief Economist, Dr Shane Oliver, has found that, while mobile apps and 24/7 financial channels make investors more informed than ever, it has created a short-term mentality and unfortunately a permanent 'worry list' of issues, which can create more anxiety for investors.

Human nature is naturally cautious and, as a result, bad news always attracts more interest. This can feed into a common behavioural trait called 'myopic loss aversion', which is the notion that a loss of say \$100 is felt more so by the person than a gain of the same amount.

Dr Oliver suggests that, although it is hard to do, investors should turn down the volume on financial news, in which case you should be less likely to make decisions that are contrary to your long-term investment goals.

The traditional approach of adopting a long-term investment strategy of quality investments and sticking to it, is arguably now more important than ever as the level of 'financial noise' is at an all time high.

Dr Oliver's 2016 Watch List

Dr Oliver of AMP has provided his outlook for 2016.

He sees a combination of reasonable global growth, continuing low inflation and supportive fiscal measures, which should be positive for growth assets – like shares. However, ongoing emerging market uncertainties, combined with possible US Fed interest rate rises, plus the ongoing geopolitical tensions are likely to cause volatility.

He further says that Australian shares are likely to improve as the drag from slumping resource profits abates, interest rates remain low, and growth rebalances away from resources. Dr Oliver expects the ASX200 Index to rise to around 5,700 points by the end of 2016 (it is currently around 5,100 points).

He will also be watching the following:

1. How aggressively the US Fed raises interest rates – continued low inflation is likely to keep any rises gradual (as we expect), but a surprise acceleration in inflation would speed it up.
2. Whether China will continue to avoid a hard landing.
3. Whether non-mining investment picks up in Australia – a failure to do so could see more aggressive RBA rate cuts.
4. Ongoing geopolitical flare-ups, including the South China Sea.
5. Whether the global economy can finally throw off the 'worry list' and constraints, and see growth perk up.

Until Next time...Keep safe, and Merry Christmas

Tony

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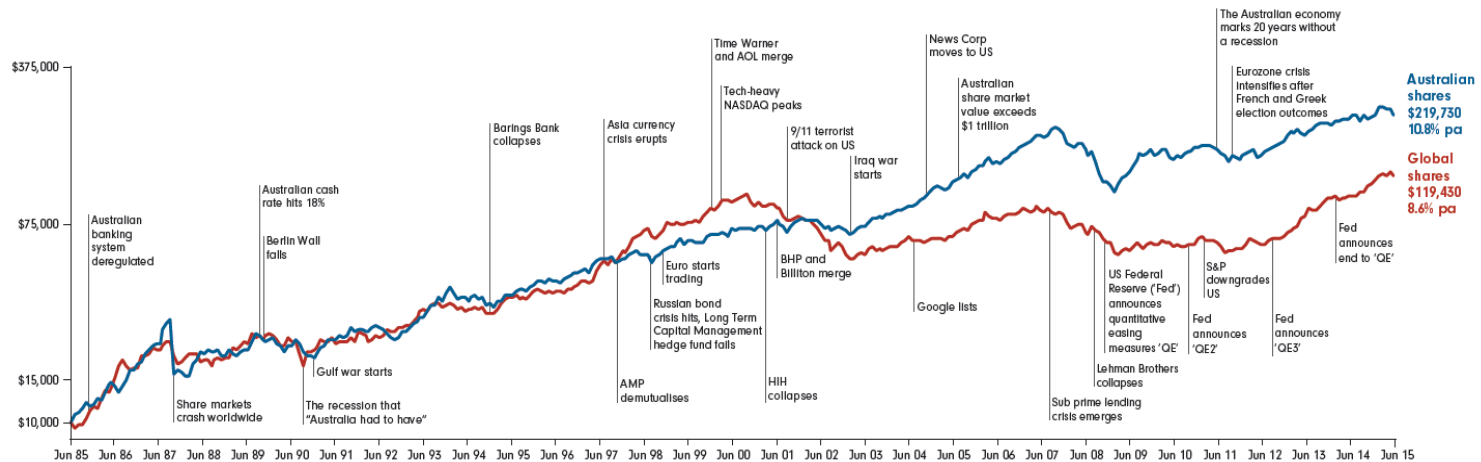
30 years
in Australian
and global
shares

June 2015

Australian and global shares

\$10,000 growth over the past 30 years to 30 June 2015

Logarithmic scale



Source: Morningstar. All returns shown are in AUD terms (assuming currency exposure is unhedged) and assumes dividends are reinvested. Returns are average annual returns over the periods shown. Indices used are: Australian shares: S&P/ASX 200 All Ordinaries TR, Global shares: MSCI World Index NR. In the Australian and global shares chart a semi logarithmic scale has been used to show the proportionate importance of fluctuations over the period. The base of the semi logarithmic scale is 8. Index performance does not reflect the performance of any individual portfolio of stocks. Please remember past performance is not a guide to the future. Investments in overseas markets can be affected by currency exchange and this may affect the value of your investment.

