Informed

Q1 2021

Welcome to Informed, a quarterly magazine for our clients. We hope you enjoy the articles in this edition.

If you are new to reading Informed, welcome.

If you are an avid reader of this publication you would be familiar with this forum, delivering relevant and interesting content from the financial planning industry, to help you better manage your financial life.

A core value of our business is that every Australian should have access to, and benefit from, good financial advice. In reading this publication, we hope that you find the articles interesting, and perhaps they will provide some talking points for your next review meeting with your financial adviser.

Enjoy reading this edition of Informed.

Hitting the reset on 2021

As always there will be many different opinions on what might happen to markets in the coming year, but by and large most will agree it is unlikely to top the volatility and uncertainty of 2020.

Amid the stimulus packages, lockdowns, PPE and politics, COVID-19 also brought to an end one long running market cycle and ushered in a new one, offering investors new opportunities with the potential for new risks and returns.

We believe understanding and navigating both will be more important than ever.

One of the main risks that still carries over from the last few years is the concentration of the index in just a few mega-capitalization companies. In fact, when considering the S&P 500, the top 10 companies still account for around 28% of the index, and as of late December 2020 the top 6 were worth more than the bottom 372 companies (see chart next page).

Why is this a problem?

Well if you're buying the index you're buying very expensive companies that have already grown substantially during 2020 such as Apple 86% and Amazon 76%. What's riskier is Tesla (TLA) is nearly 2% of the index but only joined in late 2020, so index investors didn't receive most of the benefit of its 700%+ growth, but bear all the downside if the stock were to fall.

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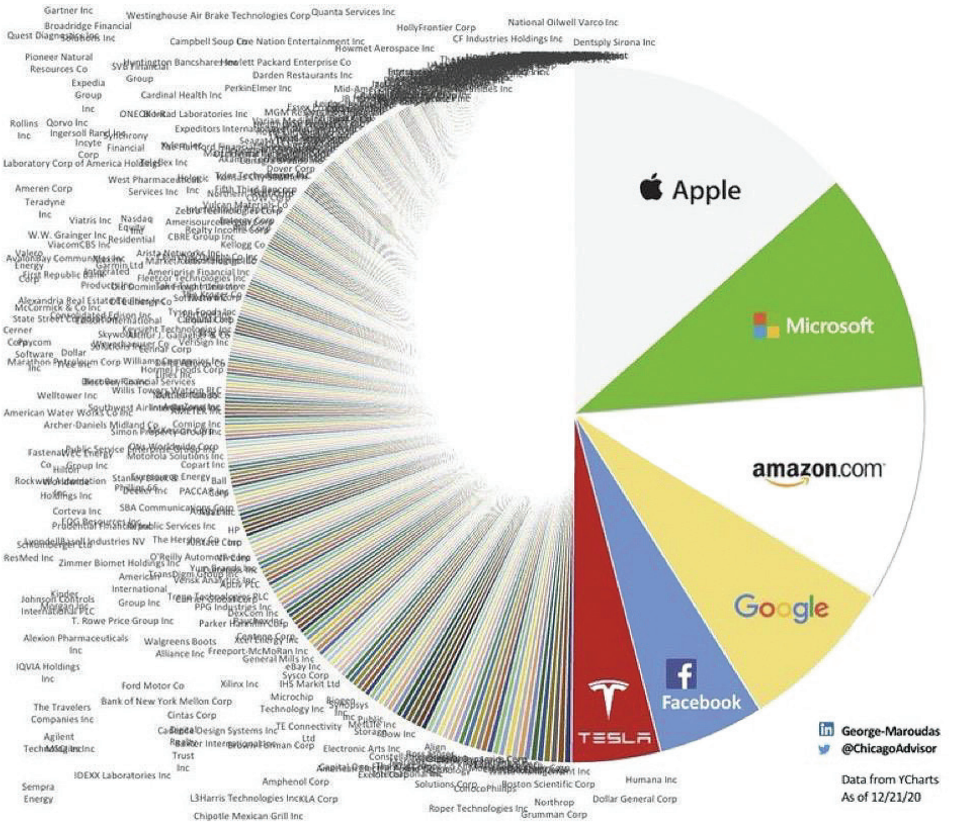


Investors usually choose indices for their diversity – perhaps now they need to look again.

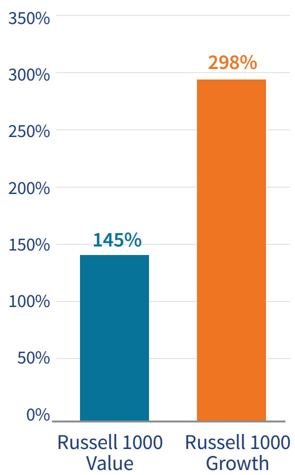
In addition, while global stimulus and support packages have helped economies from falling off a cliff, they have also pumped a lot more liquidity (cash) into the system.

This, along with low interest rates may well support inflation for the first time in decades which even in small amounts can have a profound effect on stocks.

Stocks with high valuations that are dominating the index (technology) are more susceptible to the increase in interest rates that usually accompanies inflation, meaning to get your money back you need to wait years if not decades. This is less the case with other sectors.

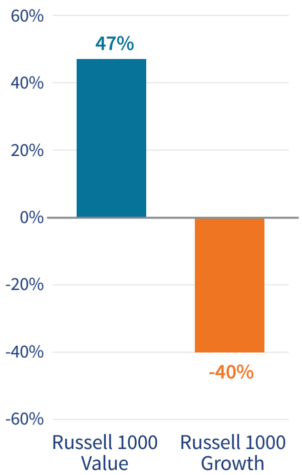
Value's Dark Years

Feb 1995 – Feb 2000



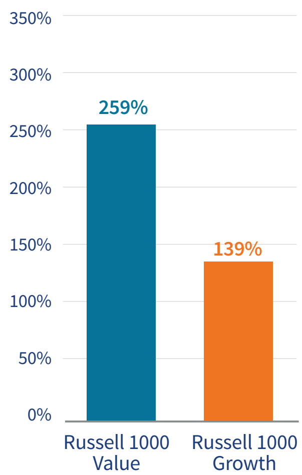
Value's Fightback

Feb 2000 – Feb 2005



Value's Outperformance

Feb 1995 – Feb 2005



Is this likely?

While the potential for inflation is there, so too are signs of a rotation away from the tech stocks to those less highly valued sectors of the economy.

From September to mid-December 2020, the S&P500 Value index outperformed Growth by around 8%, driven by more certainty about the real economy restarting on the back of a COVID-19 vaccine.

While we can't predict the future there is precedent here going back to the dotcom bust of 2000, where in the following 5 years Value had a resurgence to the point where it outperformed over the 10 years pre and post the bust.

To add to this are current data showing a significant increase in activity in the bellwether ISM New Orders Index which measures manufacturing activity, up 40% since the lows of 2020 and its highest level in over 3 years.

The opportunity here lies in those sectors and regions that benefit from this new cycle economy, sectors that have been neglected, and so are cheap, but stand to benefit from the surge of global economic activity as populations slowly become vaccinated. The rewards here could be substantial.

The income factor

Finally, it's always important to consider income when balancing risk and return. Over the last 13 years all growth from the ASX200 has come from dividends or reinvested dividends!

Plus income is flexible, allowing for retirees to live more comfortably while protecting their capital base, or creating a smoother journey for accumulators to reach their retirement goals or help with ongoing expenses.

In a potentially lower investment return environment for the next little while, income can be the difference between a good night's sleep or not.

We can only hope 2021 is a better year for everyone, and for international equity investors we believe there are some great opportunities ahead.

Article courtesy of Talaria Capital:
https://www.talariacapital.com.au/

Managing an irregular income

If you have an irregular income stream, one that is not a fixed amount on a certain day, or days, of the month, you may find it difficult to stick to a budget and possibly be caught out with unexpected expenses. If an irregular income is the norm for you, how can you plan for your regular and irregular expenditure?

There are many forms of irregular income which may apply to retirees, self-employed people, shift workers, freelancers, contractor, part time workers or holiday workers. The fluctuations can make it difficult to manage your finances month-to-month and you may find yourself a bit short throughout the year. If an unexpected expense arises, you might be scrambling around to get the money you need to pay the bills.

This can be stressful to say the least, but we have some tips that you can follow that may help with your money management.

Create a budget – it's easy and effective

Having a budget is crucial to ensuring you have enough money to cover your essential expenses and build up your savings. A budget tracks your spending and factors in your income (including income fluctuations), expenses and financial responsibilities.

It may help you set limits for discretionary spending such as entertainment, eating out and unnecessary shopping – to help you stretch your income. Perhaps most importantly, it may stop you over-spending in the months you have a higher income!

There are tools online for helping you develop a budget, take a look at the Government's MoneySmart website.

Expect the unexpected – a contingency fund

Everyone needs contingency funds to cover unexpected events such as unforeseen medical costs. But having money tucked away for emergencies is even more important if your income is unpredictable. A contingency fund is designed to help you stay afloat during periods of little or no income.

Investment income

You don't have to fully rely on your job or trade for income. If you have enough savings on top of your contingency fund, you may want to consider investing a portion of your money.

Your professional financial adviser could recommend strategies to help you generate an income from your investments which can provide you with a safety net and a little bit more money to play with.

Retirement savings

You may not be considering retirement savings when you have a variable income, but it's vital for your financial security.

If you're looking to bolster your superannuation account, the 'catch-up' scheme helps eligible individuals increase their super savings by allowing them to make catch-up concessional contributions. You can 'carry forward' any unused concessional contribution cap amounts starting from the 2018-19 financial year for five financial year on a rolling basis.

You may use carried forward unused concessional contributions caps if you had a total super balance of less than $500,000 at the end of last financial year. These amounts can change year-to-year so it's a good idea to check the rules with your Financial Adviser who can help you fully understand your contribution options.

Appropriate insurance coverage

Consider taking out income protection insurance to protect you and your loved ones should a sudden illness or injury prevent you from earning an income.

Income protection insurance may provide a monthly income while you're unable to work. But depending on your job, different types of income protection insurance have different benefits and employment requirements.

Speak to your Financial Adviser to see if such a policy might work for you or how you may tailor a plan to meet your income protection needs.

Did you know that Cybercrime is one of the most prevalent threats in Australia, and the most significant threat in terms of overall volume and impact to individuals and businesses? According to the Australian Cyber Security Centre, Australians lost over $634 million to scams in 2019. Make sure you stay cyber-safe this year.

What financial mistakes have you made? Could they have been avoided?

Have you made a big financial mistake in the past? One that cost you a lot of time and money to fix? One that caused you a big headache?

Financial stress can be a major trigger for a lot of people, it is a big burden to carry around, but not one you need to carry alone. Speaking to a professional Financial Adviser can set your mind at ease once you have a plan in place and a financial goal to build towards.

Financial stress

In a report conducted by ME Bank in 2018, they found that many Australian households struggled to afford the basics:

- 17 per cent of households could not pay utilities on time
- 19 per cent surveyed had turned to family or friends for help
- 15 per cent surveyed had resorted to selling items to buy necessities
- 45 per cent of households were digging into more than 30 per cent of their disposable income to pay off the mortgage.

This can take a toll on physical and mental wellbeing.

The value of advice

The value of financial advice can take many forms. It could be the knowledge a professional is looking at your situation objectively, the peace of mind you get when you have a plan in place, or it could be the financial benefits you gain.

A study by CoreData for Fidelity in 2019 revealed that 88.5% of Australians receiving advice believe it gave them greater peace of mind, financially, and 86.2% of Australians receiving advice believe it gave them greater control over their financial situation.

Research by the Financial Services Council showed that people who received financial advice were almost $100,000 better off at retirement. That's a big financial gain achieved by working with someone who provided advice and guidance around a retirement goal.

Financial advisers are required to complete 40 hours of Continuing Professional Development each year to remain qualified and compliant – ongoing learning and development is a huge part of a Financial Advisers' value to clients!

Many Financial Advisers will often tell you that it is not their clients with the highest income that are the wealthiest. The clients who get advice early in their life, work at it, and take a sensible approach are usually the wealthy – and happy – ones.

Don't let a past mistake deter you from a future goal

You don't need to be wealthy or privileged to receive financial advice. It is accessible to every day Australians who are motivated to get ahead.

You can book an introductory meeting with an adviser to better understand what they do and how they can help you – and this first meeting is at no cost.

You also don't need to feel that any financial mistakes you have made in the past mean that you won't ever get ahead. Leave your mistake in the past, and talk to an adviser about your future.

Talk to us

We have capacity to take on new clients and welcome the opportunity to meet with you.

Sources:

The 'Better off with savings advice', 16 February 2011, research shows that a 30 year old would save an additional $91,000, a 45 year old would save an additional $80,000 and a 60 year old would save $29,000 more than those without a financial adviser.

https://www.fidelity.com.au/insights/investment-articles/the-value-of-advice/

https://www.fasea.gov.au/continuing-professional-development

https://www.abc.net.au/news/2018-08-06/tipping-point-as-more-households-dip-into-savings/10078724

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