# Money Options Newsletter – June 2015 edition

## Office Update – a new in-house Home Loan Consultant

*De Woolman*

For those of you who have been in to our office since Christmas you would have seen our newly renovated offices, which we are quite proud and excited about. We have two new meeting rooms and an open plan office workplace which we are all thoroughly enjoying working in. We have not 100% completed the office, but most has been finished. Feel free to pop in and have a look anytime you are in the area.
Remember we are always here to assist with any of your Financial Planning, Home Loan or Accounting & Taxation needs. Both Nick Habgood and David Harrison are able to help you with any of your financial planning needs, Tom Surman can help with any of your Accounting and Tax needs. We now also have an in-house Home Loan consultant, **De Woolman**, who can help you with any mortgage loan needs, whether it be for renovations, new home purchase or investment house purchase. Our wonderful administration staff - Desiree Ruby, Wendy Mitchell and Prisca Harrison are always here to help you with any queries you may have. We are also in the process of updating our website to ensure a more user friendly site is up and running as soon as possible.


*Newly renovated reception area*

## Turn down the news and adopt a long term strategy *– Nick Habgood*

The proliferation of news and market information in the always connected digital age is doing little to improve performance for most investors, according to AMP's Head of Investment Strategy and Chief Economist Shane Oliver. Oliver explained that in a single minute on the internet, 1.3 million videos are viewed, 204 million emails are sent and there are more than 2 million search queries. In addition in 2015 the number of networked devices will grow by twice the number of people living on the planet and it would take five years to view all the video content crossing internet provider network each second. But while the use of mobile devices to access market news is expanding massively, Oliver is far from convinced that the extra available data is improving investor outcomes. News is being quickly absorbed by markets and there is no longer any lag, the trouble is that it is not being rationally reacted to. There is more information out there but the volatility of markets has not changed.

With central banks having become more predictable and information becoming more readily available, volatility should go down. According to Oliver, the fact that it hasn't suggests there is more trading and more churning going on. Even in his role as a market strategist and chief economist, Oliver is skeptical that the insights he gives are helping investors achieve better results. "I tweet and appear on Sky and Bloomberg but is it helping investors? I suspect not. How can you make any sense out of all the conflicting messages out there? Investors would be better off watching the Brady Bunch. The best approach is to turn down the news and adopt a long term strategy. Chopping and changing is likely to hurt investors" says Shane Oliver.

*"I will tell you how to become rich….*
*Be fearful when others are greedy.*
*Be greedy when others*
*are fearful." Warren Buffet*

## Tax Time…– *Tom Surman*

Yes, it's that time again….time to gather your receipts, statements, payroll summaries and book in to have your tax return done. At Money Options we are offering to do basic (salary/wage) Tax Returns for only $99 (inc GST). If you have sold shares/investments or have a rental property this would cost more. We have partnered with XERO accounting software and if you are a sole trader or have a small to medium sized business we offer some great packages for all of your accounting and taxation needs. For more information or to receive a quote please email tom@moneyoptions.com.au .

## Money Options Portfolio Returns *– David Harrison*

With our low risk allocation – it has performed OK considering the cash rate has dropped to 2%. We have managed to generate a bit over 3% over the last year and closer to 4% per annum over the last 2-3 years. We are currently making some changes to the low risk allocation which we hope will add a bit to the returns, but we still aren't expecting anything much higher than the average over the last couple of years. The priority with our low risk allocation is to protect capital and then add returns above cash and term deposits. We have managed this over periods greater than 12 months and anticipate this continuing. We have had some real success with our growth allocation without taking on any significant risk. Returns over the 12 months to end of May were about 22% over a year and around 19% per annum over 3 years. Our Geared Growth Allocation is above 20% over 3 years. This is an excellent result not only in an absolute number but also relative to all of the large superannuation funds we compare ourselves against. We are very happy with this result and although we don't
expect to keep delivering similar returns we are making some minor changes which we believe will ensure we stay above averages market.

*"Price is what you pay….*
*Value is what you get"*
*Warren Buffet*

## Market Update – *David Harrison*

**Cash and Low Risk Investments:** We live in interesting times when people are satisfied with a return above 3% per annum. Latest inflation figures are roughly at the same rate which means most investors in cash are getting an after tax return that is effectively going backwards with the purchasing power of the money being invested. Interest rates in Australia are at "historic" lows. I say historic as there seems to be some inconsistencies with interest rates over the very long term (100 years or so). Regardless, history doesn't really matter, what does matter is here and now and generating reasonable returns looking ahead. Forecasting interest rates over the next 3-5 years is impossible. Most thoughts are rates are going to stay roughly where they are for the next few years, but nobody knows that. Interest rates could easily go lower as they have in other major economies such as Europe, the US and Japan. They could also be considerably higher in 5 years' time, if we get signs of inflation or other indicators that leave the reserve bank no option but to increase.

**Property:** Property markets are flying ahead in Sydney and to a lesser extent in Melbourne. If rises continue on the same growth path it is expected that the median house price in Sydney will reach $1million within the next 12-24 months. Low interest rates have fuelled the latest boom in prices which creates some enormous risks to the Australian economy if rates move higher and faster than expected. There is no reason to suspect this will cause too much harm in the short term but it certainly creates risks looking ahead 5 years or more. What borrowers need to consider is the critical part of a loan contract is that the money needs to be paid back at some point and generally with after tax money. In other parts of the country it is a very different story. The resources slowdown is causing significant drops in demand and prices within regional towns that were booming 5 years ago. One of the most extreme examples is the Pilbara where prices were absolutely silly in places like Port Hedland and Newman and now sellers are struggling to find buyers at any price. Other regional towns, such as North Queensland, are also experiencing slowing demand. If you are a property investor areas like this that have more stable population numbers probably represent the best opportunities. Listed property markets have risen strongly the past couple of years mainly due to falling interest rates. The yields in these markets are still around 4-5% which to many seems worth the capital risk against cash rates at 2% or thereabouts.

**Other Markets:** The Australian Dollar has finally fallen against the USD and most other major currencies. The lower Aussie dollar will help the local economy, particularly our exporters who had been having a tough time when the dollar was above parity with the US. The other most notable fall was the price of oil. This has caused some sizable falls in the share prices of companies such as Woodside and Santos and also impacted other energy businesses such as origin. Whilst some of these businesses don't do well with energy prices falling, there are many beneficiaries such as transport businesses who spend a lot of money on fuel. The falling dollar has lessened the impact for the consumer at the petrol pump but it is still a better outcome all round that it otherwise would be if oil prices were above $100 a barrel. The fall in the prices of general commodities such as iron ore has also taken a big hit. We have read much about this in the last few months as it has a massive impact on revenue to the federal government. Iron Ore is Australia's largest export and when prices more than halve it has to have an impact across the board. If prices stay below $50 a tonne for iron ore there will likely be several smaller miners and maybe even a couple of big ones that end up closing down. This would be a big negative for regional areas and the economy as a whole in Australia. The big news over the next few months will be Greece which has some serious repayment obligations to its lenders which include the European Union and the International Money Fund. If, as seems likely, Greece is unable to make these commitments it may spell the end of their membership of the Euro Union and use off the Euro Currency. This would be a short term disaster for Greece but may be best over the long term as it has pretty much no hope of being able to repay its debts under the current structure. This may create some share market volatility between now and the end of year.

**Australian Share Market:** The Australian market hasn't been a great place to have money for a while now. There have been a few companies that have done exceptionally well and some that have been pretty ordinary. The All Ordinaries is dominated by the big banks, supermarkets and big mining businesses such as Rio & BHP and none of these have provided good results so far this year. The Australian economy is struggling and there are mixed views as to where the best opportunities lie. We got lucky for a while with the resources boom but that seems to have run its course for the time being. The banks are also failing to increase their profits by record numbers. The growth at the moment is coming from the building sector in both Sydney and Melbourne. On a long term earnings basis the Australian share market looks expensive and probably is. This will limit its growth for a while but the dividend yield is around 4-5% which is very attractive against current bank deposits thus we believe there is justification for holding an allocation within the Aussie market albeit a small allocation and one with a 3-5 year view.

### Summary

We continue to email newsletters and information we think you might find useful, so if you are not receiving anything from us we may have an incorrect email address for you – please contact our office to check your details. Please let us know if you would prefer not to receive these periodic newsletters. Please also let us know if you have any ideas/comments/suggestions/ feedback – either call us on (08) 8277-2233 or admin@moneyoptions.com.au . Feel free to search and like us on Facebook "Money Options" to receive other updates.