FINPAC Financial Group

Wealth creation & protection

Outlook

Financial Update & Outlook

Spring 2018

We have pleasure in bringing you our September Quarterly Market Report.

Our portfolios produced good results for the quarter, reflecting solid performance from Australian and international equities.

The Australian equity market had a fair quarter, with the S&P/ASX 300 Index (Total Returns) excluding property rising 1.5%. Local economic data was mixed, with second quarter Gross Domestic Product (GDP) well ahead of expectations and signs of improvement in the labour market contrasting weakness in house prices and softening consumer sentiment.

The yield on Australian Government 10 year bonds strengthened modestly, whilst the Australian Dollar (AUD) weakened against the US Dollar (USD). Commodity prices were mixed, but oil and iron ore were notably higher.

Looking at performance by sector, Telecommunication Services (+25%) was strongest, reflecting a rebound in Telstra Corporation (+26%). Information Technology (+10%) was also very strong, followed by Health Care (+5%), Industrials (+4%) and Energy (+4%).

International equities also had a strong quarter, with the MSCI World Index returning around 4.3% in USD terms. Due to the weakness in the AUD/USD exchange rate this index in local terms was up 6.5%. Of the major regions, the USA (+7.4%) was the standout performer, followed by Japan (+3.7%).

The US generated strong economic growth with GDP increasing by 1.0%. The economy was supported by strong industrial production and household consumption following the implementation of tax cuts. Buoyant conditions have led to the unemployment rate to approach 50 year lows and average hourly earnings have increased at the fastest pace since 2009.

In September, the Federal Reserve increased their target rate by 0.25% to 2.25% because of continued strength in the economy.

In China slowing growth was evident in retail sales, industrial output and infrastructure investment data. The Chinese government have announced a number of tax cuts as well as targeted fiscal stimulus in infrastructure in an attempt to boost the economy.

The above would paint a picture of joy in investment markets but this has perhaps changed in October. The question to be asked is “are we approaching the end of the bull market or just a temporary pull back?” A separate report on the October sell-off is provided over the page.

Remember if you have any questions please contact the relevant advisor listed below. Alternatively, if you have any feedback on our updates or articles you would like covered please give me a call or send an email to **gricks@finpac.com.au.**

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is it different this time?

The sell-off on financial markets in September/October has left some investors (particularly those new to the vagaries of markets) feeling somewhat nervous. The drop in most developed markets has been around 10% but emerging markets have fallen by double this figure. Falls of this magnitude are technically considered a correction.

Long-term investors know that we go through periods of volatility resulting in a pull-back of this size happens quite often. In fact, you only need to look back to the correction in January/March this year which was driven by fears of US inflation and rising interest rates.

While corrections are normal, whenever one occurs investors ask is this different and could it be the start of a bear market. To answer this, we need to look at where we are now and what could potentially case a future bear market.

The current market has delivered compound returns of around 11% pa since the lows of 2009. We are now in the longest running bull market (nearly 10 years) in history so after this long time have investors been lulled into a false sense of security.

There are many reasons for the prolonged bull market, but economic growth and the flow of easy money associated with the GFC have played a huge role. Interest rates have fallen to an unprecedented level which resulted in investors flooding most asset classes with abundant money.

Past experience could then suggest that this is a dangerous time in the cycle and we may be living on borrowed time. This brings us to the questions of just how late is it? To answer this question, we need to look back at the last two extremes – the Tech Bubble in 2000 and the bull market that ended in 2007.

Each market peak in the past has been driven by different excesses, but it always comes down to stretched valuation multiples and/or unrealistic high earnings. Major bear markets occur when there is a US recession so is the US about to go into recession?

Our view is that this is not likely to occur in the near term. Of course, this will happen at some time but not immediately.

This opinion is based on the belief that there is not yet over-investment in markets, wages growth is still acceptable, and the US Federal Reserve is still a way from tightening monetary policy. Interest rates have been rising because the US economy is in good shape which doesn't sound like the start of recession.

All investors should continue to take a long-term view and remember that corrections not a time of panic when you switch your diversified portfolio to cash.

and preservation

back to basics: investing 101

Markets have been somewhat volatile over recent months and it appears the basic fundamentals of investing have been forgotten. Here is a reminder of what we believe to be the top tips for successful investing.

Tip #1 Seek professional advice

This will not only save you time, but money and worry as well.

Tip #2 Diversify

In simple terms, do not put all of your eggs in one basket. Through diversification you can spread your investments across many asset classes, market sectors and fund managers for example, so that they do not always perform in the same ways at the same times. This means that while one investment might be declining in value, it could be counter-balanced by another that in increasing in value.

Tip #3 Know your risk profile

It is important that before you make any investment decisions, you understand all of the implications, risks and costs involved.

Tip #4 Invest for the long term

Markets move in cycles, they go up as well as down. However over the long term the general trend of sharemarkets has been upward. By taking a long term view of investing, investors can ride out any short term fluctuations in the market and take advantage of potential growth over the long term. As the saying goes, “It’s time in the market, not timing the market.”

Tip #5 Invest tax effectively

Take advantage of your superannuation and utilise gearing where appropriate. Be aware of investing in “schemes” purely for the tax deductions or borrowing the maximum amount available. This could have a negative impact of your overall situation if not implemented properly.

Tip #6 Do not panic

In the event of a market correction, remain calm and avoid making hasty investment decisions you may regret down the track. Keep your eyes on your long term goals.

business continuity cover

If a vital employee is unable to work, the financial drain of sourcing & hiring a replacement can be significant.

Business Continuity Cover may be the answer and is available via a simple Quote and Bind online system.

What is covered?

The business is covered for:

- Sickness and accident to an Insured Person
- Recruitment and advertising costs
- Relocation costs for the replacement
- Replacement wages

Cover is available for as much as $200,000 and prices start at less than $650 per person.

Who can be covered?

Our target market is white collar industries, in particular:

- Architects
- Accountants
- Corporate Authorised representatives
- Finance and Insurance
- Legal services
- Small retail
- Business administration services

If you would like more information on how this cover could be of benefit to your business please feel free to give your FINPAC Insurance Advisor a call.

QLD stronger homes household resilience cyclone mitigation program

The Queensland Government announced on 30 July it would launch a $20 million Queensland Stronger Homes Household Resilience Cyclone Mitigation Program ("the Program").

The Program aims to h**elp eligible homeowners in Far North Queensland improve the resilience of their homes against cyclones**. The Queensland Government has noted that these resilience measures may also reduce home insurance premiums for homeowners.

The Government has encouraged homeowners to speak to their insurer or broker to find out whether undertaking the improvements will result in a reduction in home insurance premiums relative to building work they are considering as part of the Program.

We are still receiving information from insurers regarding the impacts of the Program and the effect on premiums but **do expect insurers to take any improvements into account when calculating premiums.**

Question & Answer

What constitutes an eligible applicant?

The Program is for owner occupiers of stand-alone homes built before 1984 who meet the income eligibility requirements.

Eligible applicants must reside in a "recognised cyclone risk area", which is the area within 50km of the coast, from Bundaberg to the Queensland and Northern Territory border, with a focus on Mackay and Townsville areas.

Is the program open to owners of investment properties?

The Program is not available to owners of strata properties, holiday homes, blocks of flats or investment properties.

What percentage of the cost of improvements will be covered?

75% of the cost of the improvements (up to a maximum of $11,250 including GST) will be made available to successful homeowners as a grant by Government. Homeowners will also be required to make a minimum co-contribution of 25% towards the cost of the improvements.

What does mitigation works/improvements cover?

- Roof replacement
- Roof structure tie-down upgrades using an external over-batten system
- Replacement of garage doors and frames
- Window protection including cyclone shutters or screens
- Tie downs of external structures e.g. sheds
- Replacement of external hollow core doors with solid core external grade doors.

If a policyholder participates in the Program, will they get a discount on their insurance premium?

We expect that insurers will be updating their rates and to take into consideration home improvements for cyclone resilience undertaken as part of the Stronger Homes Program and we would expect to be able to provide these quotes in November 2018.

We expect premiums will take in to account improvements in cyclone resilience undertaken as part of the Program to varying degrees, depending on the type of work undertaken.

Report by Anthony W Muller, Director & Representative of FINPAC Insurance Advisors PTY LTD (Australian Financial Services Licence 252590). This bulletin contains general information only and has been prepared without taking into account your individual financial needs, circumstances and objectives. Reliance is not to be placed upon this material, and you should assess your own financial situation before making an investment decision based on it. You may wish to consult your advisor. Any representation or statement made or implied in this material whether by way of opinion or advice or otherwise, is made in good faith, but on the basis that FINPAC Insurance Advisors shall not be liable to any person in respect of such representation or statement whether by reason of negligence, lack of care, or otherwise save where liability cannot be excluded pursuant to law.

what's happening at finpac?

Andrew Gricks recently attended the Boutique Financial Planning Principals' Group Inc (BFP) Annual Conference in Melbourne. The BFP is a not for profit association which was established over 16 years ago and now has over 85 principal members nationwide. The BFP represents the interests and high ideals of advisors who have their own Australian Financial Service Licensees and do not operate through or are associated with one of the banks or large institutions, such as AMP. The original members of the BFP recognised the problems associated with conflicted advice within the financial services industry long before the findings of the Royal Commission.