ABN 89 064 640 142

GOLDSBOROUGH news

GOLDSBOROUGH FINANCIAL SERVICES

AUSTRALIAN FINANCIAL SERVICES LICENCE NO. 225330

120 Greenhill Road Unley South Australia 5061 Phone (08) 8378 4000 Facsimile (08) 8373 4544
Email: mail@goldsborough.com.au Website: www.goldsborough.com.au

MARCH 2015

MARKET UPDATE

Taking investment risk was rewarded throughout 2014 and so far has continued in 2015. The fundamental question now in investment markets is one of value.

We have a share market that has rallied 15% since 16 December. The ASX Accumulation Index, which includes dividends as well as share prices is now at an all time high.

A roundup of key returns to the end of Jan 2015 shows just how favourable the past 3 years have been.

	1 year (%pa)	3 years (%pa)	10 years (%pa)
Cash	2.68%	3.01%	4.71%
Australian Bonds	10.38%	6.97%	6.68%
International Bonds	11.35%	11.05%	3.64%
Australian Property (A-REIT)	36.19%	22.73%	2.68%
Australian Shares	12.48%	14.48%	7.76%
International Shares	20.11%	25.60%	5.98%
AUD/USD $0.78	$0.88	$1.06	$0.77

Source Morningstar: RBA Bank accepted Bills 90 days, Bloomberg AusBond Composite 0+Y TR AUD, Barclays Global Aggregate TR AUD, S&P/ASX 200 TR AUD, MSCI World Ex Aust NR AUD.

The RBA cash rate was reduced in February to 2.25% and remained on hold in March, which is about on par with inflation, meaning at current bank deposit rates your real rate of return is roughly zilch! There's also no extra interest available for those looking to lock their money away for longer periods either. This has created an environment where investors can justify paying what might be considered expensive prices for shares such as Telstra and the Commonwealth Bank based on the fact that they are paying dividends of 4.6% and 4.7% respectively. Once you add on the franking credits you get a "grossed up" dividend of 6.6% and 6.7%.

Investors have been well rewarded for holding international assets over the past year as we've seen a perfect storm of falling Aussie dollar and rising confidence in the US share market. We expect demand for international share funds to be a theme of 2015 as investors adapt to the notion that the world's leading companies are statistically unlikely to be Australian and that the Australian dollar may have further to fall yet.

Bond market index returns have been mind-boggling. With yields from US 10 year bonds less than 2% and less than 1% for German and Japanese 10 year bonds, it's hard to understand how the index could post an 11% return for the past 12 months.

What we are seeing here is based on "mark to market" pricing which means that when people want the safety of bonds the price rises and accordingly the yield falls. Bond yields are at near all time lows and therefore prices are at near all time highs. As interest rates rise, which will happen eventually, it is possible that we could see this capital growth in bond funds unwind. Unfortunately this means the possibility of negative returns from what people consider to be their defensive or "safe" assets.

It is challenging to find real value in the current market and risks abound as always. Planning, diversification and moderation are again the order of the day.

LACHLAN HARVEY CFP®
Authorised Representative (227293)

The Share Market's going great, *but…?*

The past 5 years have seen share markets globally and locally achieve excellent returns. However some funds have produced better returns than others — why?

For example, if you have some of your superannuation in an Australian Shares option you may well have found the growth you received was different to someone else who had their super with a different fund manager.

There are three main reasons why Australian Shares funds have had varying performances:

Style Australian Share Fund Managers generally fall into one of three main categories. Value Managers typically invest in shares that they feel are cheap. Growth Managers seek out stocks that they expect will grow their earnings. Style Neutral (sometime known as GARP — Growth at Reasonable Price) have a foot in both camps.

Over recent times Value Managers have out performed Growth Managers. However it wasn't that long ago that it was the other way around. It is preferable to have a selection of the types of fund managers you have so that you are gaining good diversification — which is what we look to have with our client portfolios

Stock Selections Not every analyst and manager can pick the best stocks all of the time. If one fund manager has a higher exposure to one particular company that has not performed as well (e.g. Telstra) than other managers then it is possible that this will result in under performance.

Size The amount of money being managed and the number of managers can also offset the performance. Boutique fund managers generally have smaller amounts to manage which can mean that they are able to trade faster. They also usually have less analysts and quite often rely on one key person. Large fund managers are not as reliant on key people but sometimes have difficultly moving money.

One of the key strategies when investing money is to diversify. Regardless of how much money you have invested in the share market make sure you diversify not only with different Fund Managers, but also different types of Fund Managers.

It is also important to remember that share markets will not always give positive performance. There will continue to be volatility in the share market that will impact on portfolios. The key to having a well diversified investment portfolio is to maintain that balance in the good times and bad.

BRENTON MIEGEL CFP®
Authorised Representative (227297)

Why rebalance?

It is commonly known that the biggest influence on your investment returns is your portfolio's asset allocation. That is to say the proportion of shares, property and cash that make up your portfolio will determine its performance more than anything else.

It is also well understood that each asset class will provide differing levels of return from year to year and that no one can say with any certainty which asset class will be best performing into the future (even if they say they can… they can't).

Our approach is that a portfolio's asset allocation should remain unchanged through the good times and the bad and that you will know the portfolio is appropriate as it will allow you to ride through periods of poor market returns without the want to make knee-jerk reactions resulting in panic selling of growth assets at precisely the wrong time.

For example; If Australian Shares have a strong year but Fixed Interest performs poorly, then Australian Shares would increase in size and become a larger proportion of your asset allocation than intended and Fixed Interest the opposite. If this were to repeat for a number of years without being monitored your portfolio may look completely different to when it commenced, becoming more of an aggressive portfolio than intended. When the inevitable share market correction takes place the overall effect on your account balance may be larger than you are comfortable with.

This is why rebalancing takes place, to maintain your original asset allocation with the aim of reducing risk and volatility.

The frequency will depend on the options provided by your product provider, the type of underlying investments you have and the ongoing review system agreed to with your adviser. For example you may have a quarterly auto-rebalance in place with the product provider or you may discuss it with your adviser and on agreement, they may perform the rebalance manually.

Recent studies have shown there is no major advantage in rebalancing more frequently than once per annum. So the decision to rebalance monthly, quarterly or annually is usually determined more by cost, taxation consequences and the time and effort involved in the administration process.

The bottom line is to take the emotion out of the asset allocation process with a long term approach, this is where a strong relationship with your adviser can add substantial value.

SAM MARTIN CFP®
Authorised Representative (252676)

Financial Health Check

Part 2 of 3

Last newsletter I addressed what we consider to be important things for people in the age bracket of 25–45. This category was called "Create and Build".
The key topics were:

○ Budgeting ○ Adding to Super ○ Managing Debt ○ Considering Risk Insurance ○ Maximising Savings

In this edition, we'll look at the 46–65 age group.

Manage and Maximise

This is normally when most people are earning their greatest income. Your career is likely to be reaching its peak and your salary hopefully reflects this. At the same time, you may find that some of your expenses are decreasing. The kids may be starting to leave home (hopefully) and you may be reaching the end of your mortgage.

Given that retirement is just around the corner, it's vital that you use this period of increased income and lower expenses to set yourself up for retirement. Now more than ever you need to be sure you have the right insurance cover in place. All your retirement plans will quickly unravel if you find yourself unable to work for an extended period and you don't have insurance to fill the gap.

Consider some of the following strategies:

Budget

- ○ Prepare a budget that you can follow.
- ○ Make plans once your mortgage is paid off.

Super

- ○ Consider salary sacrificing into your super.
- ○ Make the most of your concessional contribution cap.
- ○ Check to see if you're eligible for the annual Government super co-contribution.
- ○ Consider splitting contributions with your spouse.

Minimise Tax

- ○ Consider a transition to retirement strategy which can reduce tax and boost super.

Investment Strategy

- ○ Calculate how much you're likely to retire with and whether it will be enough.
- ○ Review your investment strategy against your current circumstances.
- ○ Ensure you have the right balance of risk and return.

Reduce your risk

- ○ Make sure you have sufficient death, total and permanent disablement (TPD) and income protection insurance.
- ○ Consider additional insurance options — trauma, critical illness, business expense.

Estate Planning

- ○ Ensure you have a valid Will in place.
- ○ Make a binding nomination within your superannuation or pension account.
- ○ Put appropriate powers of attorney in place.

GLENN TODMAN
CFP®
Director
Authorised Representative
(227295)

Sequencing Risk *what is it?*

Most people accept that volatility in financial markets can have an affect on the value of their investment portfolio — particularly those who are retired.

And it isn't just the annual returns that matter. The order of those returns over many years is also important. This is referred to as "sequencing risk".

If you are not drawing an income from your investments and have invested an amount of money for a fifteen year period in growth assets and have had both negative and positive returns over that period of time (hopefully more positive than negative years) it will not matter in what order they happen. For example if you had three negative years at the start of the term and then twelve positive years after that the end result would be the same should the sequence be reversed and the three negative years were at the end. A fairly simple concept.

However for retirees drawing an income from their funds it is a completely different situation and it could be disastrous if those negative years were to occur in the early years after you retired. This is because you are drawing income from the investments at the same time as your capital is falling from the poor returns and it will certainly run out much earlier than if you had the positive years at the start and the negative years much later. Anyone who retired just before the Global Financial Crisis will have experienced this and would remember it all too well.

So, what can you do to reduce the effect of this risk? Diversifying across different asset classes is important to help reduce the severity of the downward movements. That is, don't put all your eggs in one basket. Reducing your exposure to growth assets nearing and into retirement also needs to be considered. Many people do not need to take as much risk in retirement to achieve their long term goals. This is where your Goldsborough adviser can assist you greatly. And reviewing your spending each year and your retirement strategy in general is also highly recommended. Please speak with your adviser if you have any queries or concerns you may have about sequencing risk.

JOHN OLIVER CFP®
Director
Authorised Representative (No 227298)

Adviser Profile

Why financial advice?

It's a profession where we get to help people in a variety of situations, and whether that help is small or significant, it gives me great satisfaction.

How would you sum up Goldsborough in three words?

Professional, Holistic, Organised

What is the best advice you've ever been given?

Understand that asset markets will fluctuate, and volatility is reduced over longer time periods. Short term volatility should be seen as an opportunity as part of a long-term strategy.

What is the most important thing an advisor can do to help their clients?

Take the time to find out the client's financial goals, personal ambitions and concerns. This allows an advisor to implement a strategy which is properly tailored to the client's personal circumstances, and allow the client to make confident decisions about their financial future.

If you were Prime Minister for a day, what would you do?

Besides redecorating the Lodge, I would implement a policy making it compulsory for teenagers to spend time with disadvantaged groups in our community.

What is the biggest challenge facing investors today?

With so much news and commentary at our fingertips, the biggest challenge is ensuring that you have a well-defined financial strategy, in order to avoid an over-reaction to market 'noise'.

What has been the biggest highlight of your career?

Helping to establish a successful equity broking business in London.

AFL, NRL, soccer or other?

If I can stay up late enough, it's English soccer, but with a young child, it's AFL.

What is your favourite style of coffee?

Flat white, and preferably before 9am.

If you could invite three people to dinner (dead or alive), excluding friends and family, who would they be?

Warren Buffet and Kerry Packer for their investment tales, and Clive Palmer for entertainment, and to order the dinner.

Complete this sentence: If I wasn't in advice, I would be…

Convincing my wife that I'd make a great house husband.

What are your hopes/dreams for retirement?

Enough good health to allow travel with my family, and plenty of fishing trips.

CRAIG KIRKWOOD
ADFP
Authorised Representative (401525)

*inflation*explanation

Our role as Financial Planners includes that of interpreters and educators to help our clients understand the meanings behind financial jargon. The irony is that much of the jargon isn't hard to understand once explained; it's getting someone to explain it in a relevant way that's the key.

One concept people struggle with is Inflation and why it's important. The answer requires a slightly broader understanding of supply and demand:

Supply and Demand is one of the most fundamental aspects of economics and many economic indicators stem from this concept. We most commonly think of it as consumer demand (ie need for bread, milk etc) but it applies to every level of market and exchange.

It's a chicken and egg debate but generally demand drives supply. Of course, we don't know to demand it until we know it's available to be supplied, as evidenced by the Apple iPhone and other smartphones which have left old mobile phones redundant.

There is also a lag time between demand and supply where a supplier won't supply until the demand is strong enough for it and the supply becomes profitable. That lag time is determined by market efficiency; specifically, how well and quickly the suppliers can meet the wants and needs of us who are demanding it. Of course, if demand is going down it also applies to how quickly suppliers can slow production. All pretty straight forward…

Where there is the scenario that demand exceeds supply and there is no further capacity to meet the demand, competition increases and the prices go up, which is referred to as *Inflation*. For the reverse scenario of prices going down (oversupply), we have *Deflation*. The worse scenario is where prices are inflating whilst an economy is going backwards, known as Stagflation, which was more prevalent in the 1970s with oil prices.

One measure of inflation is the Consumer Price Index which takes into account the price of our consumables. It also takes into account the "quantity" of consumables in the form of a "weight" (a % of market share).

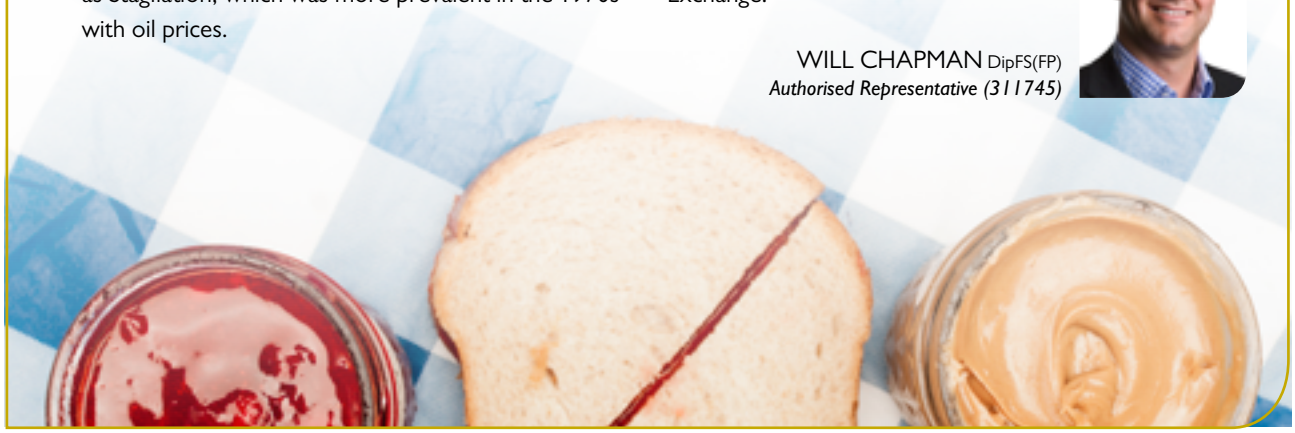
An example: Tough times mean we're buying more bread and fewer Ferrari's, therefore bread prices increase by 5% and Ferrari prices decrease by 5%. If only price was measured, a 15 cent price increase in bread would be overshadowed by the $15,000+ drop in price for a Ferrari. As there are millions of bread loaves being bought and very few Ferraris, the bread has a greater "weight".

All of this is important as the Reserve Bank of Australia has been using inflation as a benchmark to control our economy. Too much inflation and our economy overheats like in the early 1990s. Too little growth in prices and our economy stalls; so the RBA drops interest rates to stimulate spending and therefore inflation.

In some cases governments deliberately print extra money to increase inflation as the more cash we have, the more likely we are to spend it. Printing money can be dangerous though; in 2008, Zimbabwe just kept printing money until their currency became worthless. People would go to the shop with a wheelbarrow of Zimbabwe dollars and the wheelbarrow was worth more than the cash it could carry!

In my next newsletter, I'll expand on another morsel of jargon, Foreign Exchange.

WILL CHAPMAN DipFS(FP)
Authorised Representative (311745)



in House

Wi-fi access for Goldsborough clients

With many of our clients now exploring technology, and often bringing devices such as iPads and other tablets or smart phones with them to appointments, we can now offer clients Wi-Fi access throughout the Goldsborough offices. This new Wi-Fi network has been established specifically for clients, and is maintained separately to that on which our client data resides.

A sign can be found in Reception to indicate the new Wi-Fi name and access code.

Goldsborough and the Community

Twice a year our staff work together to identify a charity that we would like to support via our monthly "Casual & Cake Days". We are excited to be supporting the ***Little Heroes Foundation*** as our first charity of 2015, and look forward to sending them a healthy contribution for their fantastic work with sick children and their families.

Investor Update 2015

We are pleased to announce that our annual investor update which has previously been held at The Entertainment Centre and other venues will this year take place via an online Webinar.

This decision was not taken lightly, however with decreasing numbers and increasing costs of holding such an event off-site, it was determined to be in the best interests of our clients to change the way we deliver this information so that clients can choose to watch the webinar at a convenient time for them.

For those familiar with Webinars, it is a online video or series of videos that you will access via an email that we will send shortly after the 2015 Federal Budget is announced. For those unable to access a computer to take part in the webinar we will be able to post a DVD that you can play on your television on request.

We're really looking forward to being able to present this years update in this new format, and are working to secure speakers from some of the key fund managers our clients are invested with.

How you receive your newsletter

We are now offering the option for you to receive your newsletter via email. If you would like to change to this method of delivery please email to

mail@goldsborough.com.au

requesting this option and we will alter our records.

Goldsborough is a referral based business

The biggest compliment any client can give us at Goldsborough is the referral of a friend, relative or business associate who could benefit from our services.

As an indication of our appreciation for the referrals that we receive from our clients, we have instituted a quarterly draw where the names of the referring clients for that quarter are put in a box and one is drawn out.

The winner of the draw receives a

$100 shopping voucher!

We have pleasure in announcing the winners of our 'Referrers Award' for the March quarter are* Tom and Sue Faint *— congratulations Tom and Sue, your voucher is on its way.

UPCOMING seminars 2015

TUE 14 APR

TUE 12 MAY

2.30pm and 6.00pm

Retirement & Redundancy

A must for those approaching retirement, taking redundancies or experiencing income difficulties in retirement

Goldsborough can help relieve your financial worries.

TUE 16 JUN

Aged Care Information Night

Bookings essential

Telephone 8378 4000

or online at

www.goldsborough.com.au

Peacock DESIGN & PRINT

Disclaimer Statement
This newsletter contains general advice only and should not be relied upon as a substitute for financial product advice. None of the information takes into account the investment objectives, financial circumstances or investment needs of any particular investor. You must therefore assess whether it is appropriate, in the light of your own individual circumstances, to act upon the relevant information. It is advisable that you obtain professional independent financial advice before making any investment decision based on the information provided.

If you do not wish to receive future editions of this newsletter please phone Freecall 1800 633 630 or email mail@goldsborough.com.au and request that your name be deleted from the distribution list.