NEWSLETTER

Autumn Edition

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What's happening in the markets

Global markets continue to experience record levels of volatility since the outbreak of Coronavirus (COVID-19). This volatility in markets is an indicator of the level of investor uncertainty, which has increased as COVID-19 has spread and governments around the world attempt to swiftly contain it.

Whilst most asset classes suffered significant declines throughout the latter part of February and into March, investors with a diversified portfolio have seen a degree of insulation from some of that volatility, particularly in equity markets.

Diversification is based on the old adage “Don’t put all your eggs in one basket” which is about spreading money across different types of investments. This can help reduce exposure to any one asset class or risk by choosing how many eggs and in which basket.

Article Source: BT Financial Group - COVID-19: Our updates

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Market Update

The economic impact of Coronavirus so far

18 Mar 2020

An update on current market developments

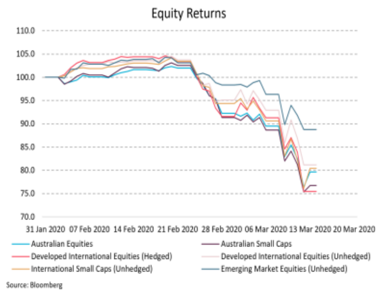
Over the last few days, we have seen significant volatility across global financial markets reflecting heightened levels of investor uncertainty given the rapid spread of the coronavirus (COVID-19) and governments' attempts to swiftly contain it.

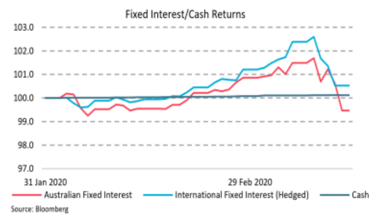
The breakdown in relations between two major OPEC producers (Russia and Saudi Arabia), resulted in supply increases and a subsequent US$7–US$8 fall in the price of oil as the week began (a circa 20%–30% decline).

There were few safe assets for investors, with virtually all asset classes suffering a setback last week, including defensive assets such as US Treasuries and gold. Most major equity markets have now fallen between 15.0%–25.0% month to date.

Evidence of indiscriminate selling is being met with Central Banks cutting rates and increasing asset purchases through the re-enactment of quantitative easing (which helps stimulate spending when interest rates fail to work).

Figure 1: Asset market performances from 31 January to 13 March 2020





The most recent policy announcements have been decisive and significantly more coordinated:

- The Reserve Bank of New Zealand reduced interest rates by 0.75% to 0.25%.
- Bank of Canada cut interest rates for the second time in two weeks to 0.75%.
- US Federal Reserve slashed rates by 1.0% to a target range of 0.0%–0.25%, while also instigating fresh rounds of QE up to US$700bn of purchases across the Treasury and Mortgage Backed Security markets.
- The German government has announced a EUR460bn (up to 10% of GDP) fiscal stimulus plan.
- The RBA has announced it will release further policy measures this coming week.

Aside from some early indications of deteriorating economic conditions, investors, governments and policy makers have had little bearing in assessing the potential economic implications from this pandemic. The current questions most concerning to investors include: 'How steep will the fall in economic activity be?' and 'How long will it last?' These unknowns have seen a significant rise in volatility and a deterioration in financial conditions, which largely pre-empted the policy responses outlined above.

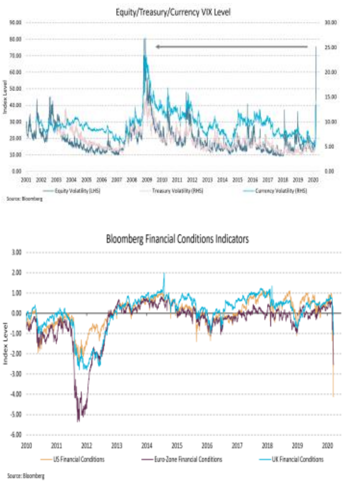


Figure 2. Market volatility and financial conditions deteriorated back to 2008 levels

Portfolio diversification has helped limit the declines

Whilst most asset classes have suffered significant declines throughout March, portfolio diversification has helped insulate some of the volatility that investors have experienced in equity markets to date.

Despite most regional equity markets having declined more than -15.0% month to date, Emerging Market equities (AUD unhedged), which typically have a higher risk exposure, have only fallen -10%. Other low beta growth assets (REITs) have also provided some protection, while despite the sharp sell-off in oil prices, a more diverse basket of commodity exposures has fallen just -7.9%[1]. Traditional defensive assets have fared much better with Australian Fixed Interest falling -1.4% while International Fixed Interest has declined -0.7%.

For domestic investors, having unhedged exposure to foreign assets has provided some much needed diversification as the Australian Dollar has declined near -5.0%. This has helped offset some of the declines particularly for investors with global equity exposures.

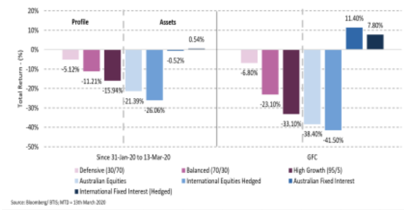
Figure 3. Asset class and currency returns

A typical Balanced Fund with a mix of 70/30 growth and defensive asset exposure[2], will have declined approximately -7.3% month to date. This has been significantly less than those declines experienced in Australian and International equity markets.

Considering the market highs reached in January and February, an indicative balanced fund has declined approximately -11.2% so far, which is half of what was witnessed during the 2008 GFC period where investor declines were closer to -23.1%.

By maintaining a diversified approach investors are able to buffer against the current bouts of volatility being experienced.

Figure 4. Multi-period returns for an indicative diversified portfolio vs key asset markets (growth/defensive allocation)



Valuations are mixed and fundamentals are yet to react

The current pricing moves across equities and bonds have seen a sharp divergence in valuations, particularly in the long-term.

In price terms, the US equity market has now repriced back to slightly above the long-term average equity risk premium (ERP of 4.0%) to 4.3%, whilst US 10 Year Treasury Bonds have fallen to a record low of 0.7% (and now a negative real yield of -0.84%[3]).

These relative value levels between Equities and Bonds have not been seen since post the 2008 GFC. Current market pricing has already begun factoring in a decline in company earnings and economic growth, however the range of potential outcomes remains very wide over the short term.

While we expect that this will not be a long-term sustained decline in earnings and that the equity markets will recover, it is likely that the spread of the virus and the actions taken by governments will have longer lasting implications for financial markets.

Figure 5. US – Equity Risk Premia now above long term average

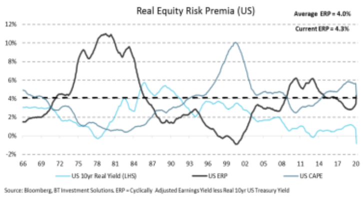


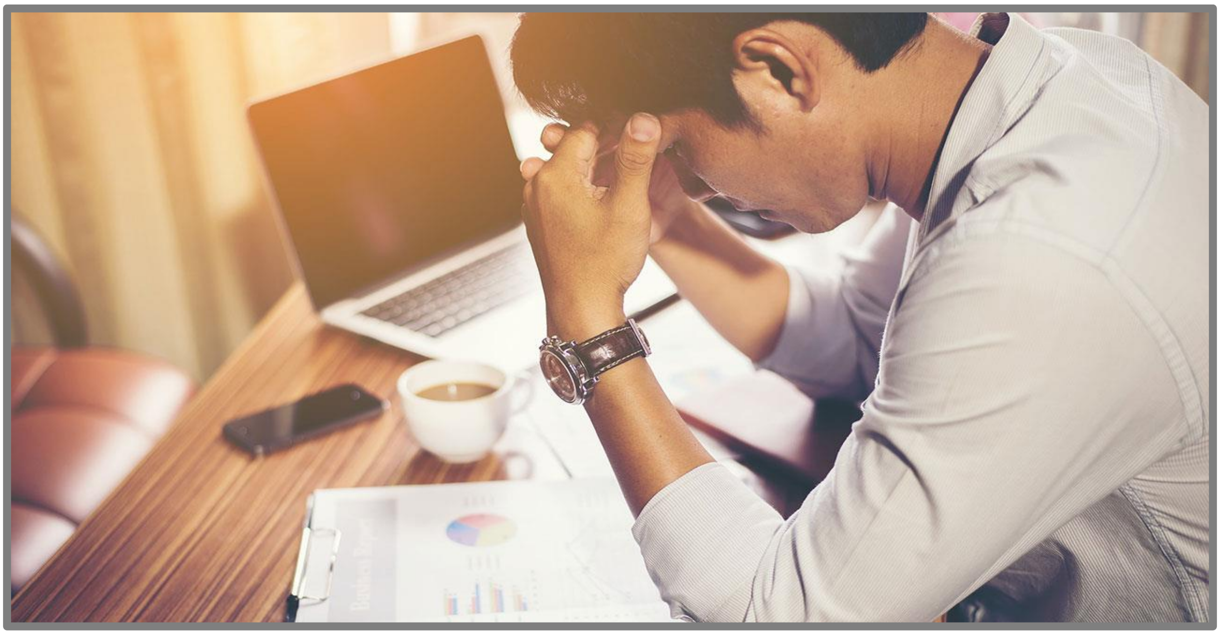
Figure 6. Economic data yet is to reflect current shift in pricing

1. As measured by the internal benchmark sector weights included: Energy 21%, Base Metals 20%, Grains 22%, Livestock 5%, Precious Metals 22% Softs 7%, figures may not equal 100% due to rounding.
2. Benchmark asset exposures S&P/ASX 300 Accumulation Index, MSCI World ex Australia Hedged AUD Net TR Index, MSCI World ex Australia Net TR Index in AUD, MSCI Emerging Markets Net TR Index AUD, S&P/ASX 300 A-REIT Accumulation Index, FTSE EPRA/NAREIT Developed Hedged (AUD) Net TRI, Advance Commodities Fund Benchmark (Internal Composite), Bloomberg AusBond Composite 0+ Yr Index, Bloomberg Barclays Global-Aggregate Total Return Index Hedged AUD, Bloomberg AusBond Bank Bill Index.
3. Based on longer-term average US inflation trend level of 1.5%

Article source: BT Financial Group - Insights

Strange times, good investing habits

Written by Steve Wendel - 03 Apr 2020



These are unusual times. During times of disruption, our minds' habits can help or hurt us – both in our investing and in our daily lives. Let's take a look at what habits really are and how you can break free of the negative ones.

Habit: the mental status quo

The term "habit" is used in many ways, but it has a specific and important meaning for researchers Wood, Orbell and Verplanken. They define habits as automatic behaviours, triggered by our environments.

Our minds are constantly looking for ways to automate common tasks – to free up our scarce mental resources to focus on other things. Any action we repeat again and again in a stable context may start being automated, and thereby turn into a habit, according to the European Journal of Social Psychology.

Habits rely on a trigger: something that tells the body to act. The trigger can be a specific situation, such as when you get to your office, you check to see what the stock market is doing. Or it can be a state of mind: When you wait in a line, you take out your phone.

Habits are like little mental programs that run automatically, freeing up our conscious mind to deal with more complex or novel problems. They are, by definition, non-conscious. Once they are automated, we don't think about them. When we see the trigger, we simply respond.

Investing during strange times

What happens to our habits in times of turmoil?

1) Expect to be tired When our environments change – like when we work from home – our habit triggers are disrupted, too. Previously, we could rely on habits that controlled our eating, our daily schedule, and so on. But for many of us, the coronavirus has taken a chainsaw to our daily lives and our habit triggers; now, our minds need to think through many more decisions. Above and beyond these unsettling times, the lack of our normal habits can make us feel even more unsettled and tire us out mentally. And unsettled and tired are not good states to be in when reviewing our investments.

2) Watch out for bad behaviour You may think some new habits you're already forming are "just for now,". But our habit system is constantly looking for patterns to automate. It's looking at how we spend our time and how we respond to events, and it's digging channels in our brains that make those behaviours easier and more likely to reoccur in the future.

That's great when we're learning how to navigate having kids at home and how to video-conference effectively. It's not so great when we're obsessing over recent events – like the bear market.

What happens if, like us, you've started forming bad habits of constantly checking the news and market movements? Researchers have found that the more often people get information about the market, the more that information warps their behaviour. In the current context, this makes them more risk-averse. If you are a long-term investor, watch out for a short-term habit of obsessive market-watching.

3) Turn the change in habits into an opportunity Most of our spending behaviour, for example, is habitual. We generally don't think about the things we buy regularly. And that can be a problem if we want to put aside more money for the future but find that we're always short on cash. Our financial habits can defeat our financial goals.

Because those habits are likely disrupted right now, you have an opportunity to revisit what you spend your money on, how much you save, and what you want to accomplish in the long run.

Ironically, it is exactly during the times in which life is most disrupted that we have one of the best opportunities to plan for future normalcy. Researchers Verplanken, Wood and Walker estimate that there is a window of time after periods of major disruption in which our new patterns start to jell.

This is an active area of research, but the estimate is that we're especially prone to forming new habits within the first 90 days – shorter for often-repeated behaviours, longer for less frequently repeated ones.

We're in that window now. What do you want your new normal to be? What new routines do you want to adapt in your investing and your spending?

By the way, while this article is focused on financial behaviours like investing, the same applies for other habits in our lives, too. Exercise. Healthy eating. How we spend our time with our families. We're creating the new normal right now. We're creating our new habits. Choose wisely.

This article was originally published on www.morningstar.com

FPA urges Australians to seek advice before withdrawing super

Wed 1st April 2020

The Financial Planning Association of Australia (FPA) has urged all Australians to seek financial advice before withdrawing up to $20,000 from their retirement savings following the announcement of an unprecedented move by the Federal Government.

On 22 March, Prime Minister Scott Morrison announced that Australians who lose their job or a significant portion of their income as a result of the COVID-19 (coronavirus) pandemic will be eligible to withdraw up to $20,000 from their superannuation. The measure will see withdrawals capped at $10,000 before 30 June and a further $10,000 from July.

While the FPA supports this measure as an option for Australians who need it, CEO Dante De Gori CFP® stressed that early access to retirement savings comes with strict conditions.

“Superannuation access should be used as a last resort. It is to be used to fund retirement and its primary purpose must be respected, even in these increasingly uncertain times,” he said.

“The access is only available for people who are unemployed, have had their working hours/business income reduced by 20 per cent or are on Centrelink payments,” Mr De Gori said.

The FPA recommends any individual who meets the requirements consider whether using retirement savings is the best option for them and to consider all alternate options before they do use their super.

“If you have a financial planner you should speak to them first about how to manage your financial situation at this time. If you do not have a financial planner then you should consider contacting an FPA member to assist you,” Mr De Gori said.

The FPA’s Match My Planner service has recently seen a spike in activity by Australians using the free matching service to find a CFP® professional to help them through this uncertain time.

The online service is designed to create matches based on an Australian consumer’s personal profile of money and life goals, not just location. It instantly notifies eligible CFP professionals that consumers are interested in financial planning services and it facilitates open conversation in order to build trusted relationships between consumers and their potential planner via the messaging feature.

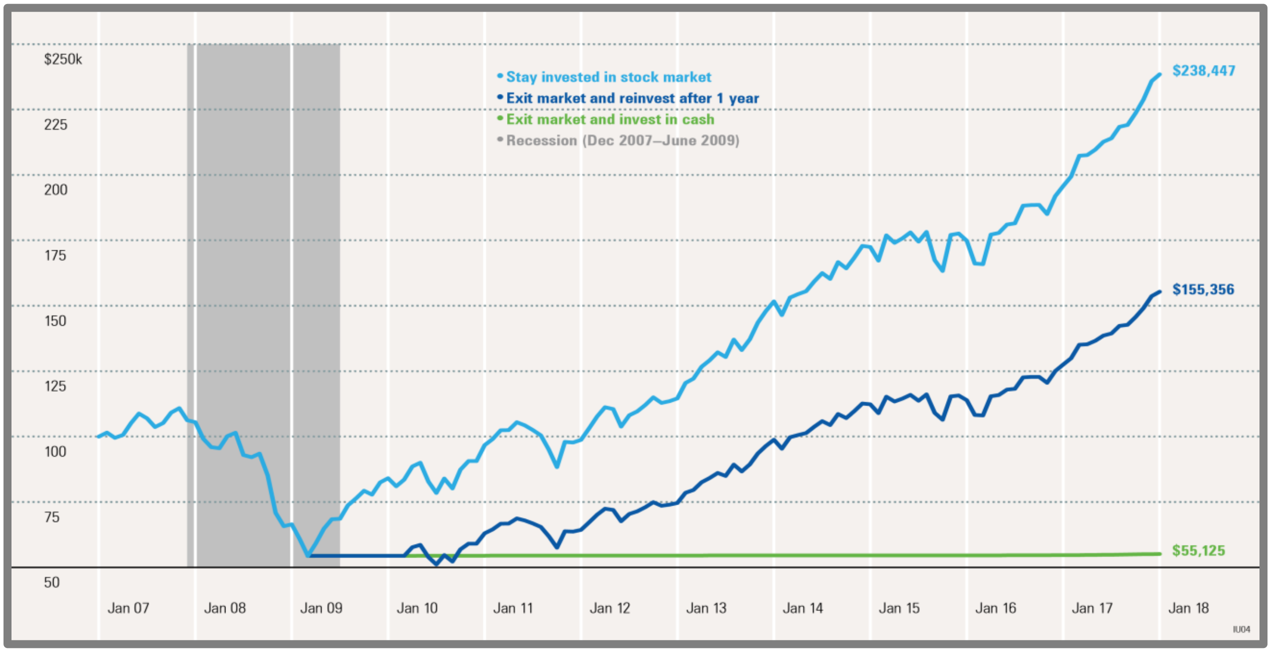
FPA CEO Dante De Gori said everyone has their own unique financial circumstances and may require a different solution.

“For those who do not have access to a qualified financial planner, they should consider all their options such as speaking with their bank, utility providers, landlord and other service providers to see what relief and other options are available to you before you decide to access your super,” he said.

“But obviously if you need to access your super you should and if possible, make a promise to yourself to replace what you access when your situation turns around in the future.”

This article was originally published on https://fpa.com.au/news/

Benefits of staying invested....



Data as of 31/12/2017. Past performance is no guarantee of future results. Hypothetical value of $1 invested at the beginning of 2007. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. About the data: Recession data is from the National Bureau of Economic Research (NBER). The market is represented by the Ibbotson® Large Company Stock Index. Cash is represented by the 30-day U.S. Treasury bill. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs.

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Address:

17 Murray Street
Nuriootpa SA 5355

Phone:

08) 8561 2400

Email:

admin@keyfinancial.net.au

Website:

www.keyfinancial.net.au

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