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PERTH 23-25 NOV 2016



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ASSOCIATION *of* AUSTRALIA

INVESTING IN UNCERTAIN TIMES

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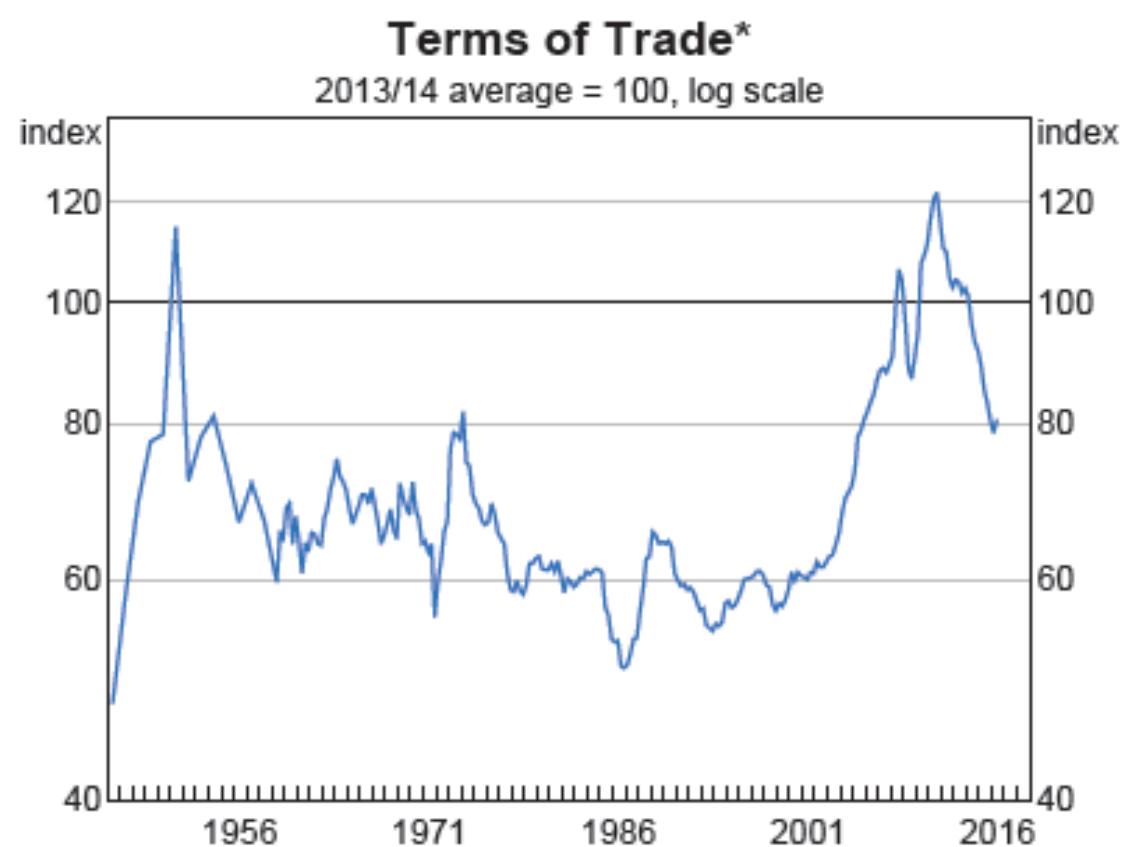
AGENDA

- Latest Investment Trends
- Exploring the key drivers that could impact this economy
- How to ensure clients can be compensated appropriately for their investment risk

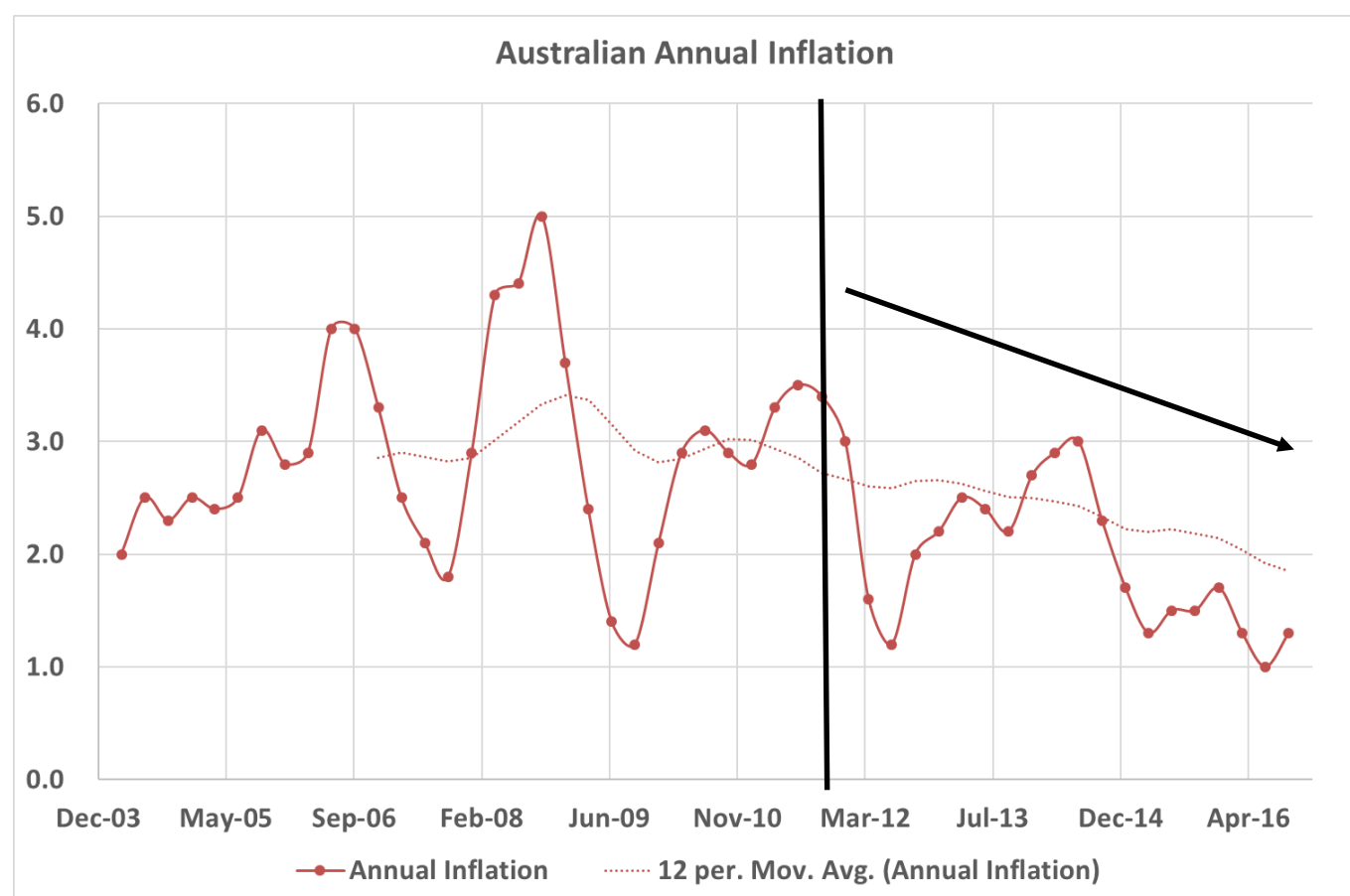


AUSTRALIAN ECONOMY

- Australian Terms of Trade took off from around 2000 and peaked, signalling the end of the resources investment boom, Sep 2011

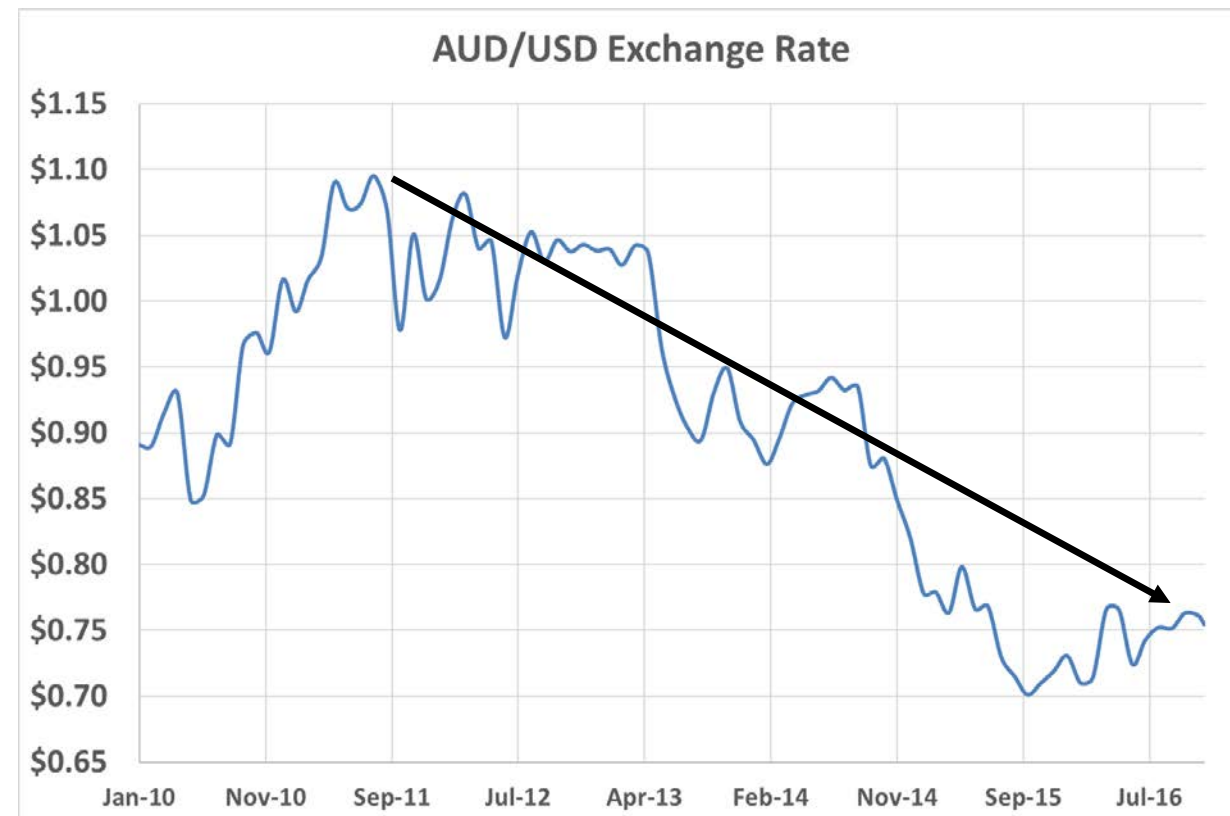
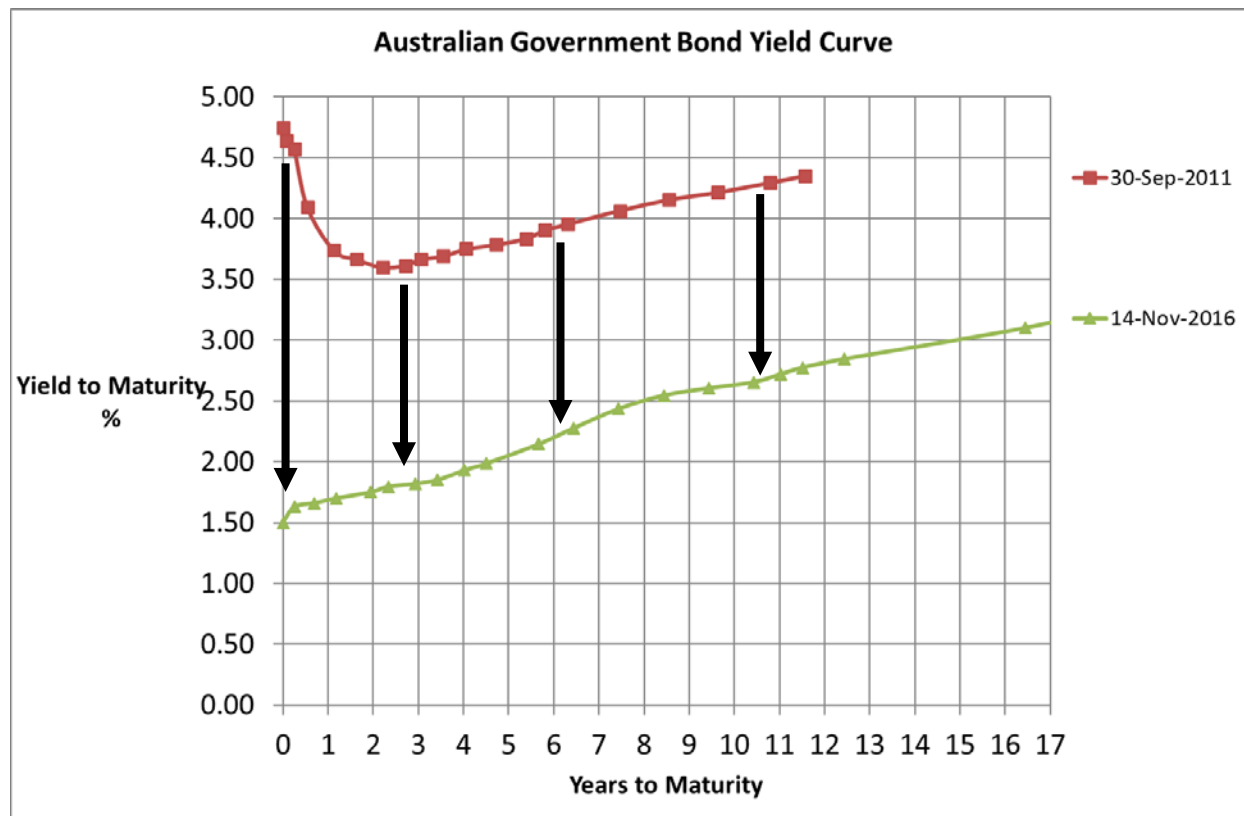


* Annual data are used prior to 1980
Sources: ABS; RBA



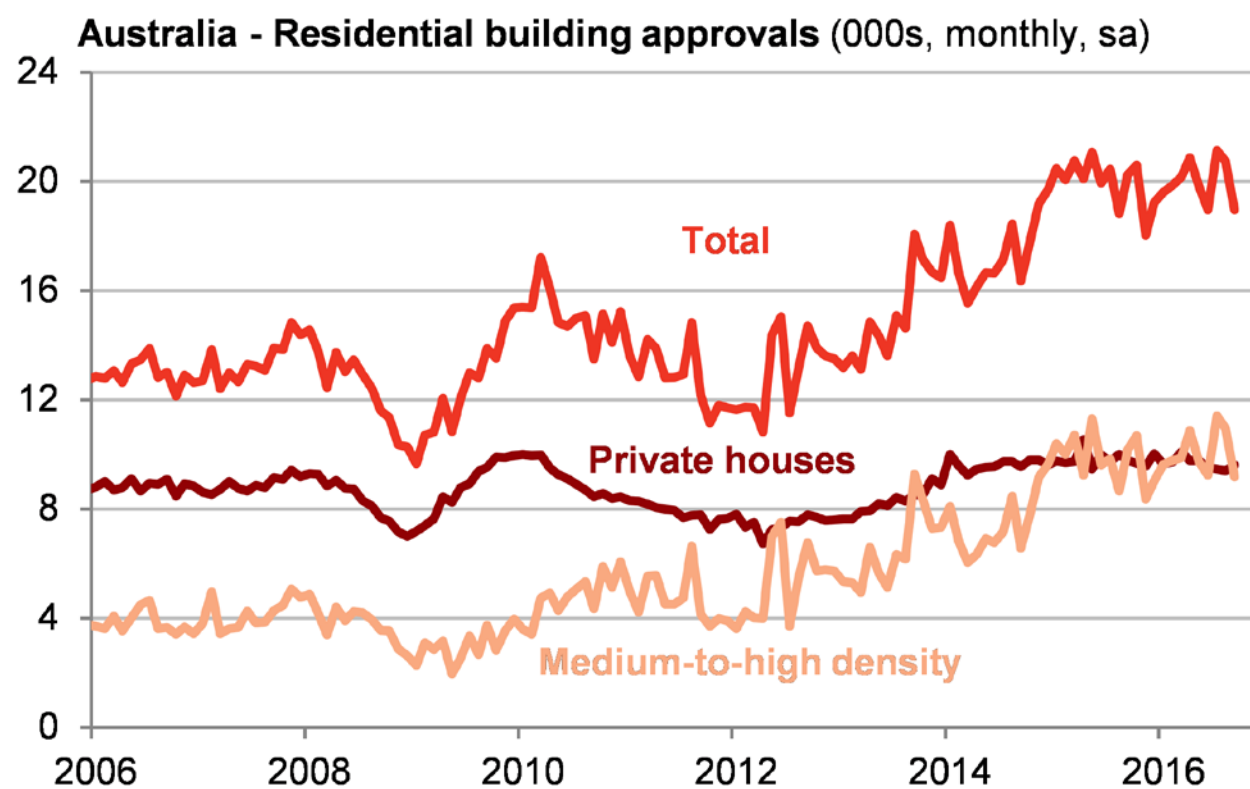
MARKETS

- To help Australian economy, post resources investment boom, the Reserve Bank has significantly dropped its cash rate
- The lower commodity prices and lower interest rates have resulted in a weaker AUD



ECONOMIC DRIVERS

- Recent Australian economic drivers
 - Housing —————→ Debt Growth —————→ Low Interest Rates
 - Public Spending ↗————→ Debt Growth



ECONOMIC DRIVERS

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- If Older Australian economic drivers return ...

- China → Commodities → Higher Interest Rates



ECONOMIC DRIVERS

- Recent Australian economic drivers
 - Housing → Debt Growth → Low Interest Rates
 - Public Spending → Debt Growth → Low Interest Rates
- If Older Australian economic drivers return ...
 - China → Commodities → Higher Interest Rates
- Future Economic Drivers
 - Agriculture?
 - Trump Infrastructure spend?
 - ??? → Lower Australian Dollar → Low Interest Rates



GLOBAL ECONOMY

- Sluggish GFC Recovery ...

GDP Growth – World
Year-ended

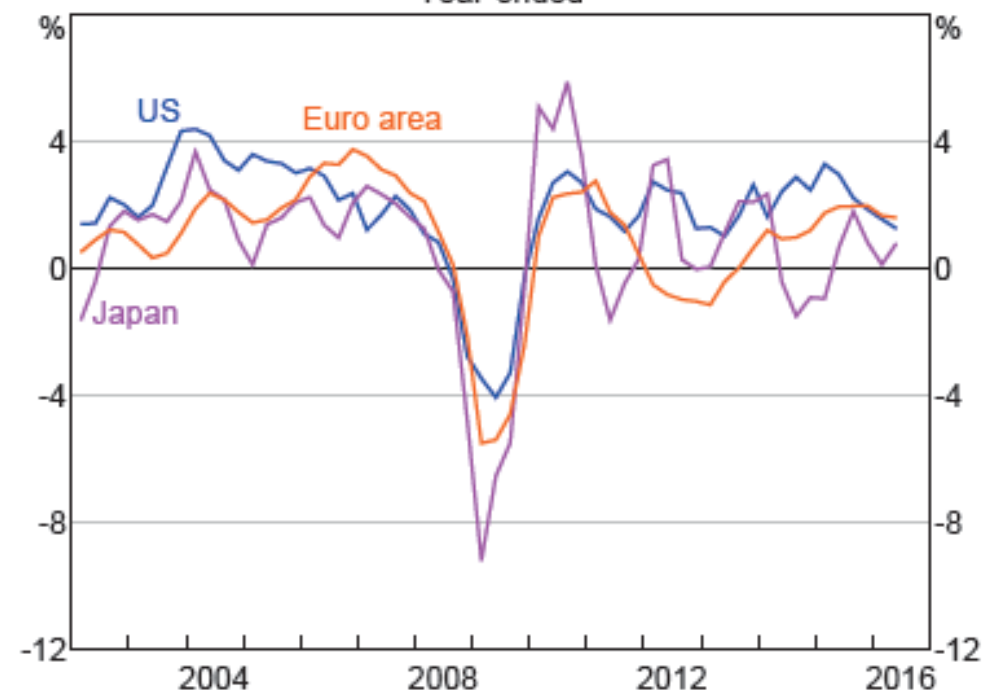


* Weighted using Australian export shares

** PPP-weighted; accounts for 85 per cent of world GDP

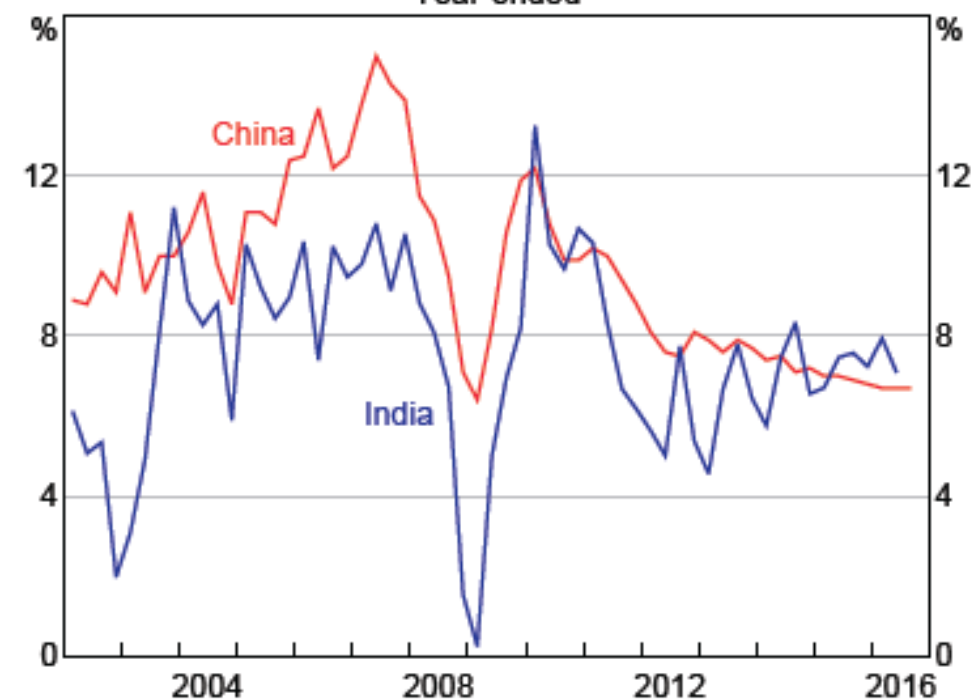
Sources: ABS; CEIC Data; IMF; RBA; Thomson Reuters

GDP Growth – Advanced Economies
Year-ended



Source: Thomson Reuters

GDP Growth – China and India
Year-ended



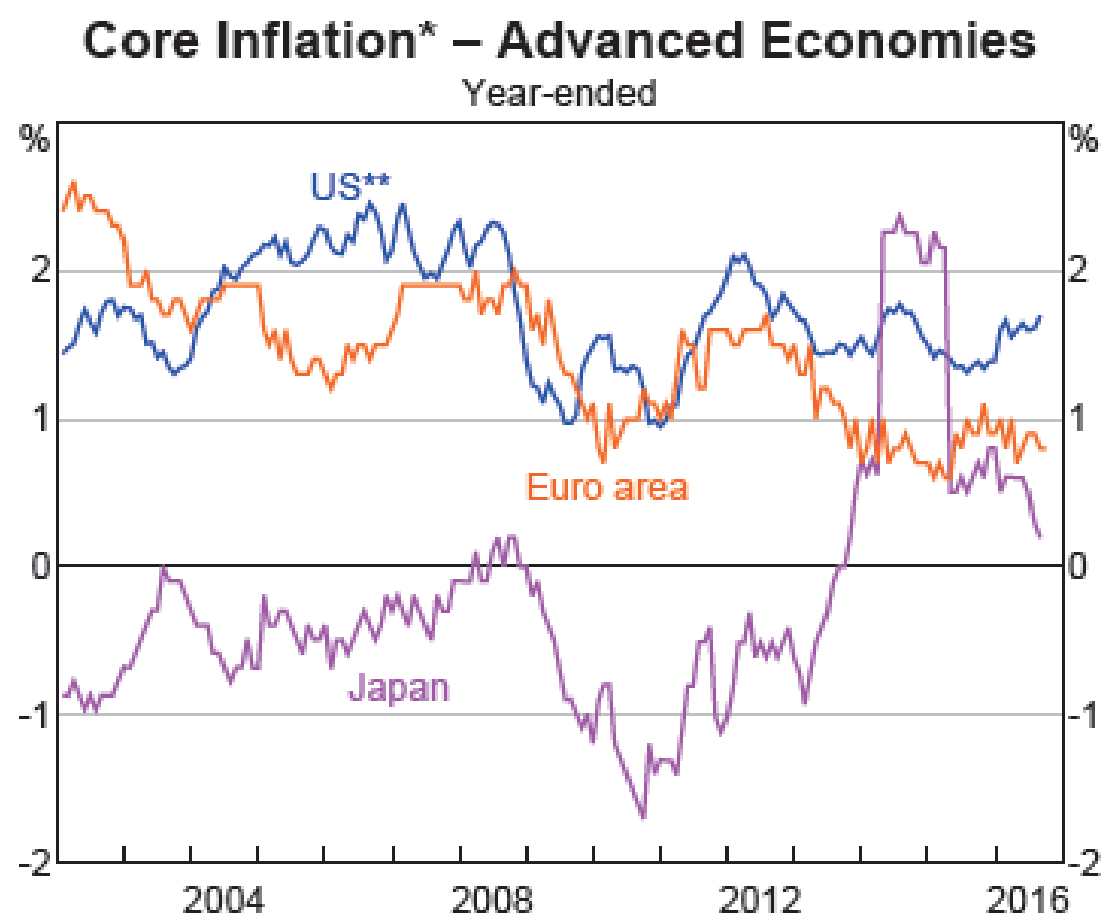
Sources: CEIC Data; RBA



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LOW INFLATION TOO...

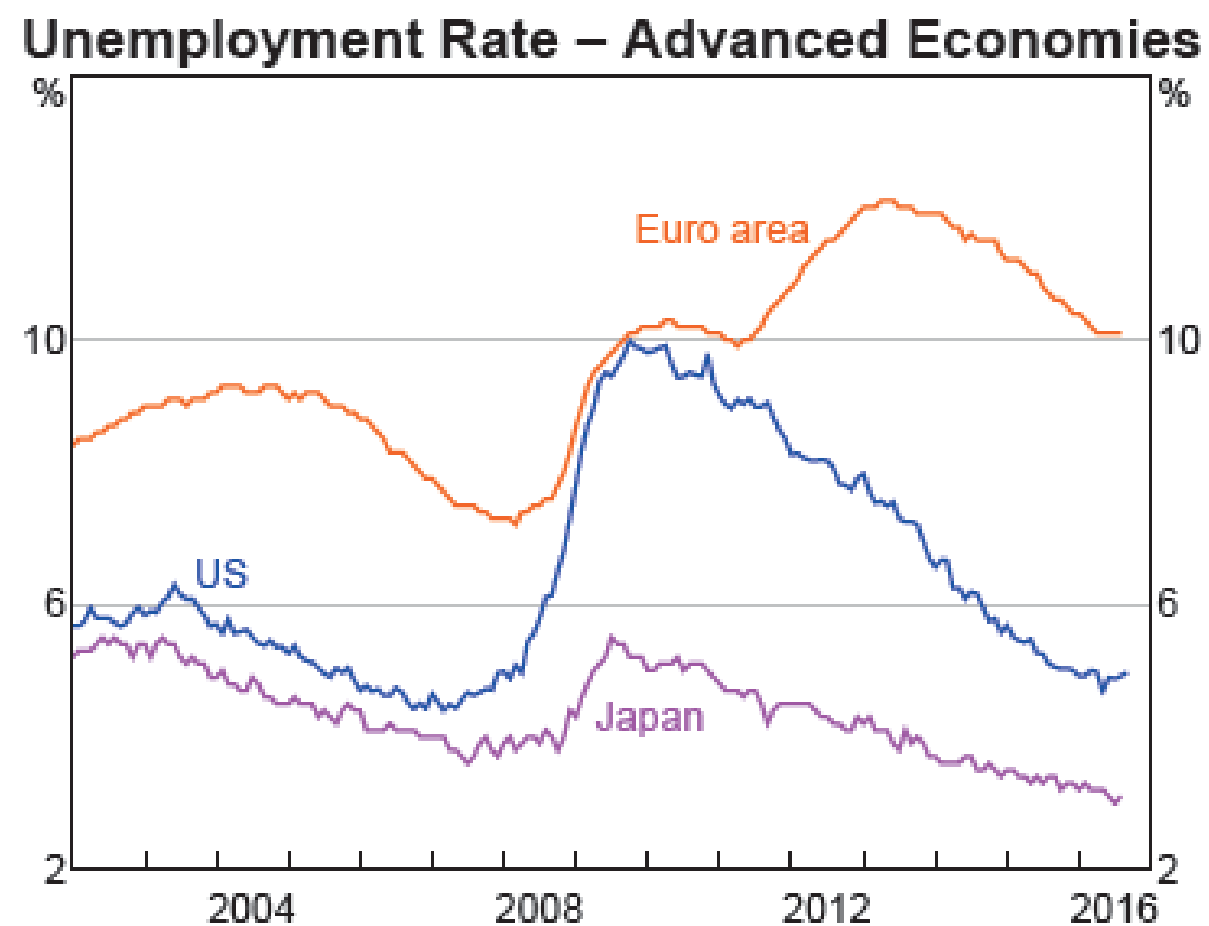
- ... despite improvement in unemployment



* Excluding food and energy, and for the euro area also excluding alcohol and tobacco

** Core price index for personal consumption expenditures

Source: Thomson Reuters



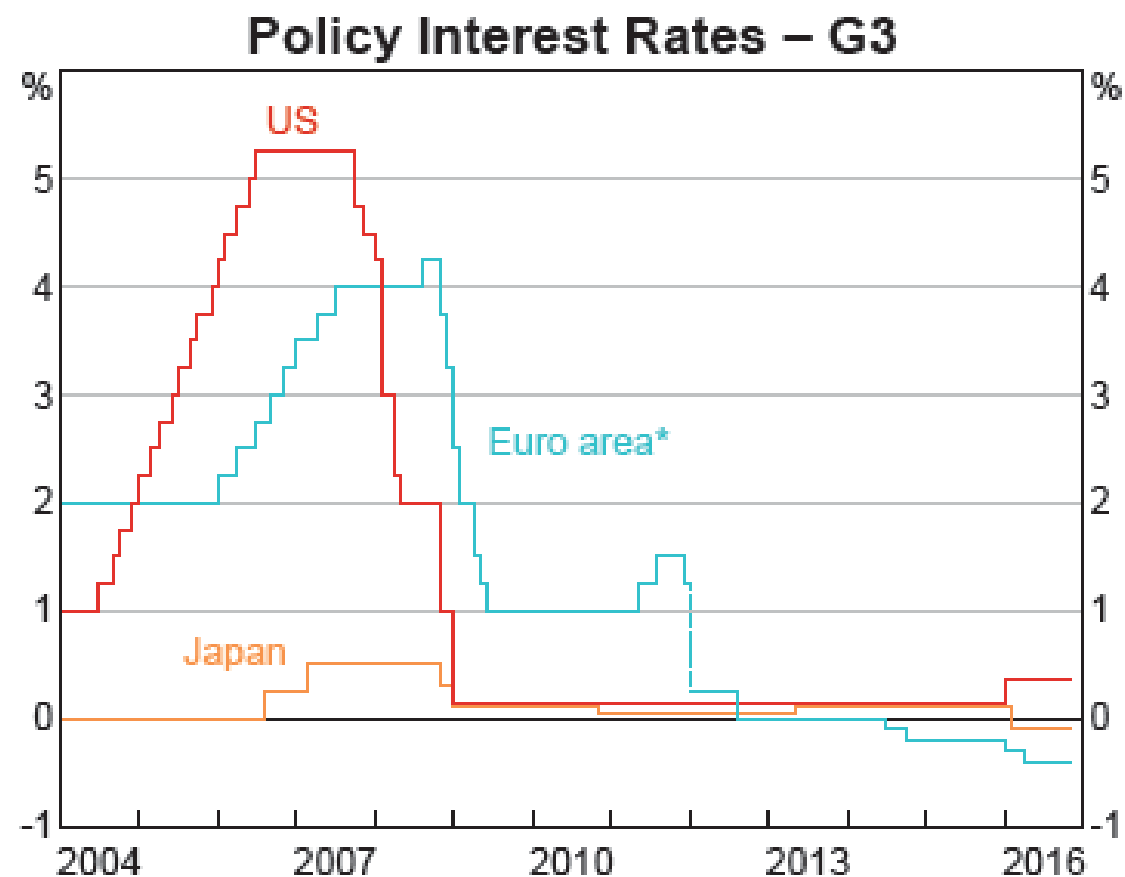
Source: Thomson Reuters



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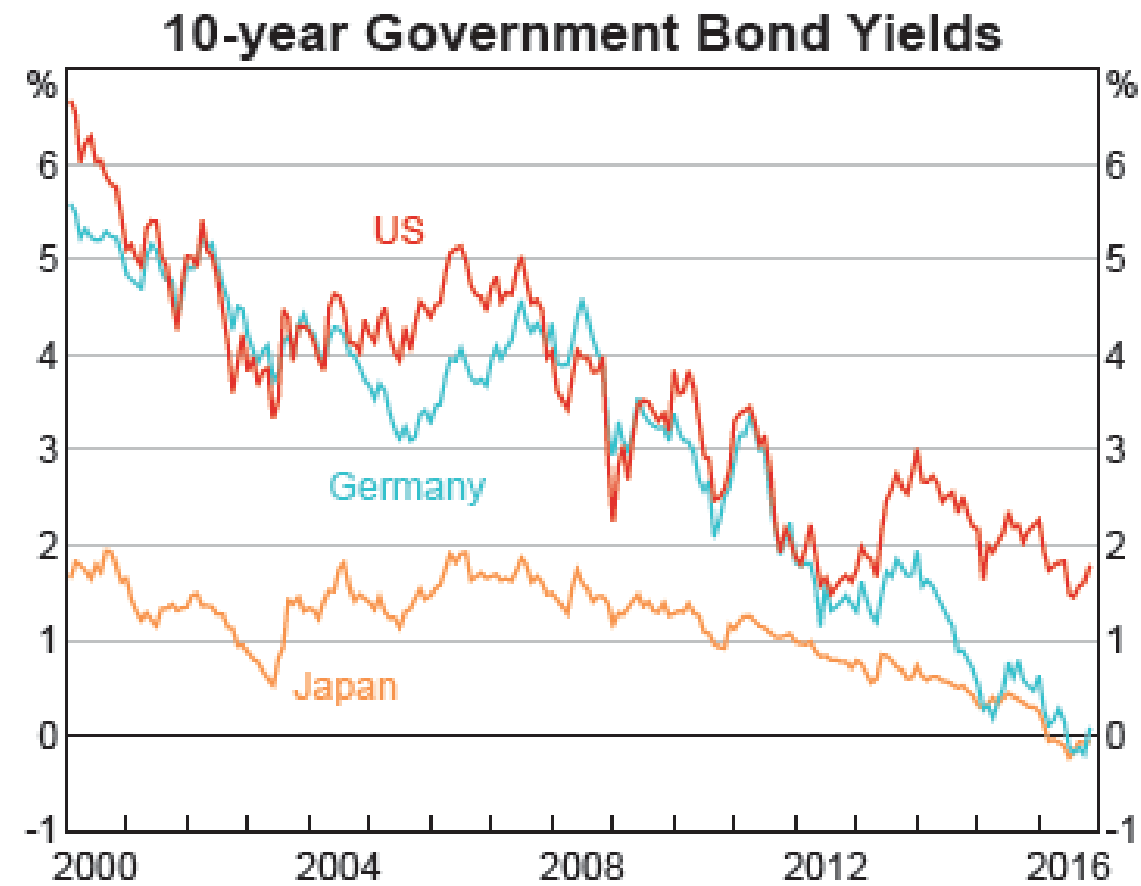
SO LOW INTEREST RATES HAVE PERSISTED

- ...and are negative in Germany, Japan ...& elsewhere



* Main refinancing rate until the introduction of 3-year LTROs in December 2011; deposit facility rate thereafter

Source: central banks



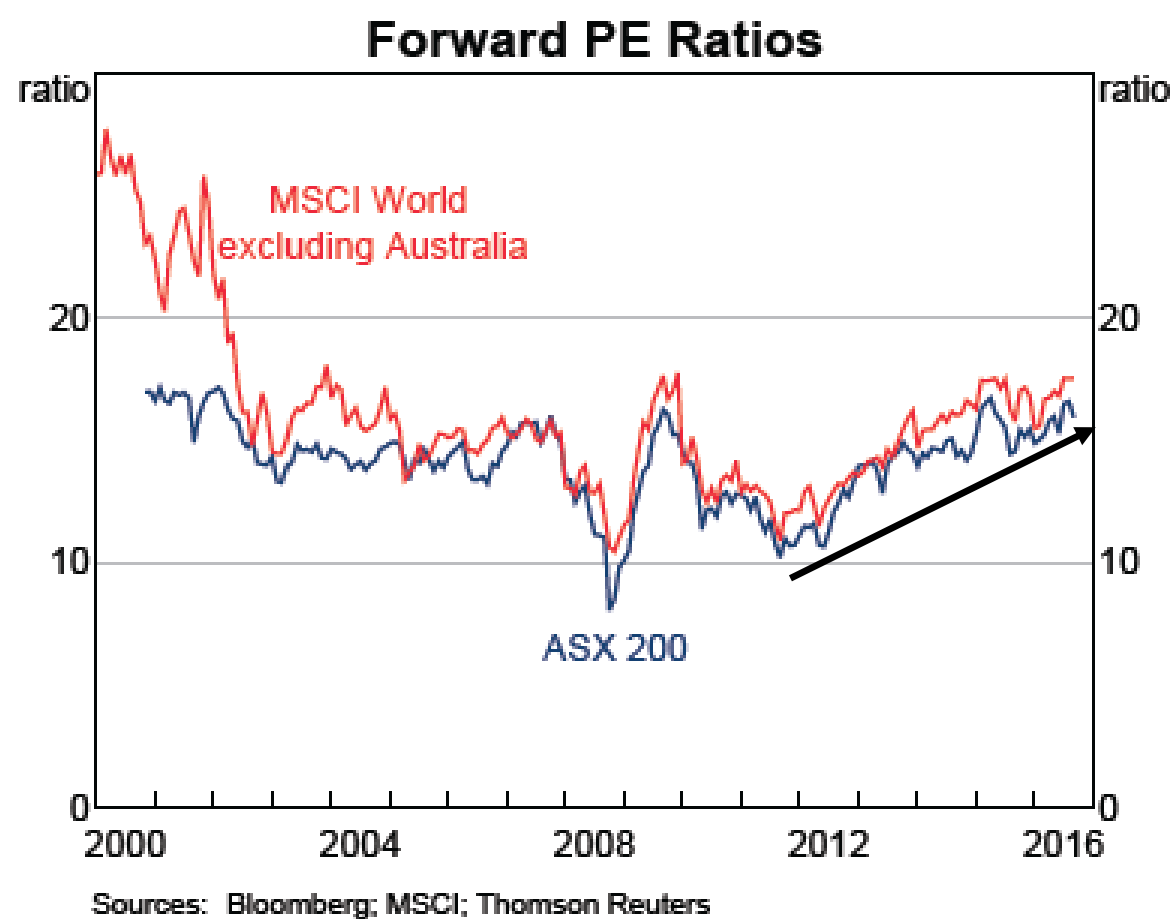
Source: Thomson Reuters



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VALUATIONS

- Sharemarket valuations have increased



WHERE ARE WE TODAY?

- Sluggish economies
 - US???
 - Europe ... Brexit, Structural problems
 - China ... growth still slowing + Trump concerns
- Rise of the Demagogue ... greatest Geopolitical risk for some time
- Low cash rates
- Low yielding bonds
- Historically expensive sharemarkets



CONCLUSION

- Geopolitical risks are high
- Expect market volatility
- Low return environment for all asset classes



LATEST INVESTMENT TRENDS

- The move away from traditional active managers
- Dynamic Asset Allocation
- Advisers becoming Fund Managers

- Value-add attempts
- Post - GFC
- & FOFA

- ↓
- Increased focus on Investment Governance



INVESTMENT GOVERNANCE

- Setting Investment Policy
 - Investment Committee charter
 - Return and Risk objectives
 - Constraints ... including Fee budgets



INVESTMENT GOVERNANCE

- Setting Investment Policy
 - Investment Committee charter
 - Return and Risk objectives
 - Constraints ... including Fee budgets
- Investment Philosophy ... beliefs
 - Active vs passive
 - Smart beta
 - Funds, ETFs, Managed Accounts
 - Alternatives



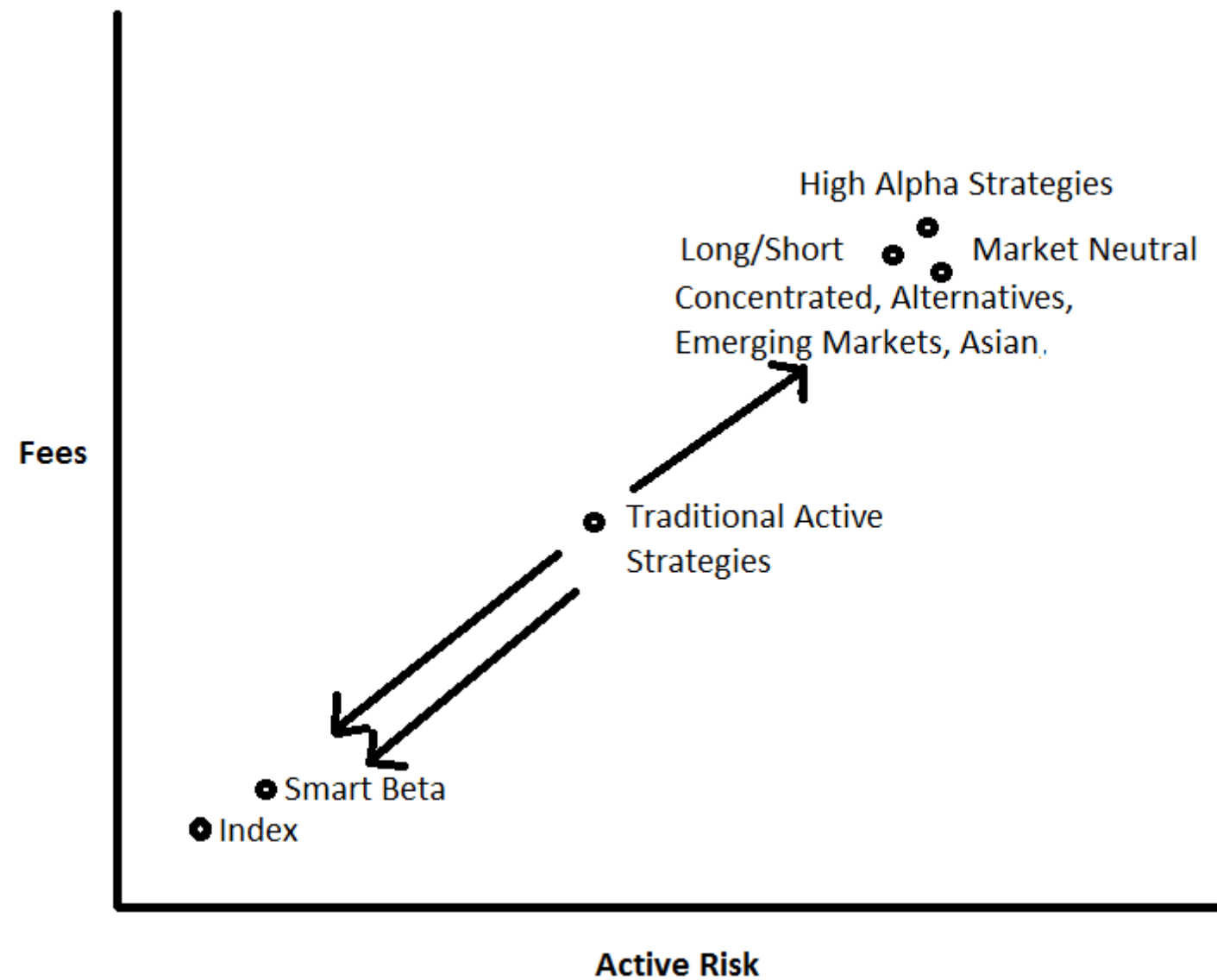
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 - Alternatives
- Asset Allocation Policy
 - Strategic or Dynamic
 - Objective-based investing ... Retirement Income



TRADITIONAL ACTIVE MANAGERS ... STRUGGLING

- We used to accept traditional active management



ENSURING CLIENTS ARE COMPENSATED APPROPRIATELY FOR THEIR INVESTMENT RISK

- Focus on the easy value add
 - Execution
 - **Savings** and/or **expense management**
 - Protection ... structures, insurances, estate planning
 - Education, guidance, financial coaching



ENSURING CLIENTS ARE COMPENSATED APPROPRIATELY FOR THEIR INVESTMENT RISK

- Communication
 - We are still in a low return environment
 - Expect volatility
- The new investment trend is not an asset class or product ...



ENSURING CLIENTS ARE COMPENSATED APPROPRIATELY FOR THEIR INVESTMENT RISK

- Sell your Investment Philosophy ... not your investment ideas
 - Higher returns requires acceptance of higher risk ... and risk means bad things might happen
 - Diversification
 - Valuation matters
 - Markets may not be totally efficient but they are still hard to beat



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