PATTINSON F.S

Your dreams, our passion, the future together.

December 2018 Newsletter

Wishing you a Happy Holiday and New Year! One of the real joys of the festive season is the opportunity to say thankyou. From all of us may your holiday be filled with joy and good cheer, and the new year bring you happiness.

Staying the course versus timing the market

Key Takeaways

- As the old saying goes, time in the market is generally superior to timing the market. Yet, investors tend to have a bad habit of buying winners too late and dumping losers too soon.

-Staying the course does not necessarily mean sitting still. It means avoiding bad behaviour, remembering your goal and ensuring you approach markets with discipline.

“Stay the course” is a nautical phrase that has been popularised by world leaders, primarily in the context of battle, according to Wikipedia. According to Stewart Alsop’s 1973 memoirs of a conversation with Winston Churchill, the British prime minister contemplated towards the end of World War II: “America, it is a great and strong country, like a workhorse pulling the rest of the world out of despond and despair. But will it stay the course?”1

We ask the same question today of investors, after what has been an emotive period for financial markets. From trade wars to Brexit, North Korean tensions to Italian political turmoil, we’ve had plenty of noise to deal with. So, what do we mean by “staying the course”? It is not always about sitting still (even though this is often the easiest path to investing success), but rather, to focus on the goal that you set in the first place and ensure your behaviour aligns with it.

Let’s face it, investors too often redirect their focus from the destination to the journey. Much like in other walks of life, we can lose focus, making us susceptible to capitulation or giving up at the exact moments when we require fortitude and resolve. That is, investors are hard-wired to be procyclical, chasing the winners and selling out of the losers because of a yearning to make money work harder for us.

Therefore, it is vital that as investors we remain vigilantly aware of how animal spirits can drive irrational decision-making, and that we adopt a reasoned framework for investing. Behavioural errors can wreak havoc on long-term portfolio returns due to excessive and unjustified turnover.

A Step-by-Step Guide to Staying the Course

The best thing an investor can do when contemplating change is to reflect on their goals. Would the investment change align with the original investment plan or strategy for reaching well-defined goals? The key question to ask is whether anything has fundamentally changed since setting the original strategy or whether it’s just that the client is disappointed with the progress towards goals.

If something has fundamentally changed, the next question to ask is whether you can clearly identify what has changed. Write it down, then balance this by writing what it might mean if you’re wrong. This should include any misjudgment risk as well as the added costs if you decided to change investments. You will often find that the change you desire is not necessarily going to increase the probability of reaching your goal/s. If it has “just” disappointed you, but nothing has fundamentally changed, the likely best option is to stay the course. By thinking probabilistically and remembering that investment markets never move in straight lines, you may avoid the perils of trying to time the market.

Furthermore, you may benefit by doing the opposite to your intuition (given the evidence against it) and teach yourself to be a contrarian.

How We Think about Staying the Course

As professional, multi-asset investors, we focus on the investment objective, always bearing in mind the opportunity costs and risks. We also write down a balanced thesis that ensures we remove any emotion rom our decision-making.

In this sense, staying the course is not idle or passive, but rather about staying aware. Some investors may look at a recent period of lean returns and, with a hindsight bias and the herd mentality at play, will fear for the future. Many will further justify to themselves that reward for risk is simply not sufficient and will consider a change in strategy. This thinking is usually well intentioned, but it is dangerous and must be thought through with a long-term perspective.

Staying the Course vs. Timing the Market

Investing, like many things, often involves taking the thorns with the roses. Over

Being prepared for surprises – good and bad – is a smart financial strategy

While none of us can predict the future, we can do a lot to lessen the shock that can arise from unexpected events and emergencies at any time of life. For retirees relying on investments for day-to-day living, having a contingency plan means you'll be prepared for any surprises that could derail your financial security and lifestyle goals.

Your financial plan has you on the right foot, but it can be a good idea to make sure you have a sufficient safety net to protect your retirement income, and other long-term investments, from one-off or cascading personal life events that can crop up at any time, which especially affect people at or after retirement. Examples include sudden illness, an accident or disability, the death of a spouse, or those same events affecting close family members such as children, siblings or aging parents. It's also not unusual for changes to superannuation benefits or pensions to affect retiree expenses.

Other surprise expenditures that can interrupt your income stream might be emergency repairs to your home and investment properties due to everyday wear and tear or a severe weather event; maintaining the family car; or if a beloved pet racks up a large bill from the veterinarian. Having a savings safety net can also come in handy should you need to help out a relative, such as a son or daughter losing a job, or suffering unexpected health or life costs.

Your financial plan may already include a savings safety net – if so, that's great news. However if you set your plan in place some time ago, you may want to consider talking to your financial planner to ensure that you have enough flexibility in case of a rainy day. Insurance provides another form of safety net, helping you to deal with unexpected losses.

From general insurance covering fire, flood and theft of property and vehicles to life insurance that provides important financial support to a family, many of us take a set and forget approach to our policies. But take the time to review your protection, checking that values are still up to date, perhaps organising for new quotes on policies, and making sure that you are covered for the events of concern to you.

Mind the gap

Preparing for events that may never happen can be overwhelming, but it's really a matter of managing the gap between enough funds to cover your retirement goals, and a safety net of savings to protect those funds. That's the ideal scenario, but many retirees and those approaching retirement are carrying more debt than ever before. Average mortgages and other property loans held by people approaching age 65 have more than doubled since 2002, and credit card debt is up 70 per cent, according to a report by Kellyresearch.[1]

The report also shows that "increases in wealth through rising asset values, easy credit, and higher earnings" have led to a higher standard of living for working households.[2] But a higher standard of living based on debt is unsustainable. That's why retirees need to be careful about debt liability and having a focus on building up superannuation to the detriment of other forms of saving, because both approaches lock up funds that may need to be accessed quickly. That's where contingency planning comes in.

1. Household savings and retirement:

We wish you all a Merry Christmas and a happy and safe New Year. Our office will be closed over the holiday period but we will be back in the new year.

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Economic Update December 2018

Within this month's update, we share with you a snapshot of economic occurrences both nationally and from around the globe.

US Fed gives markets renewed hope!

- **Fed chair changes his tune on rate hikes**
- **Brexit is getting messier**
- **Australian labour market strengthens further**

We hope you find this month's Economic Update as informative as always. If you have any feedback or would like to discuss any aspect of this report, please contact us.

The Big Picture

For the last two months, stock markets having been reeling on a roller coaster ride. It's almost all been due to the evolving best guesses of what the US Fed might be thinking.
When the official interest rate is above the "neutral rate", monetary policy is tightening in an attempt to slow down the economy. High interest rates are usually the precursor to a recession.

At the start of October, Fed chair, Jay Powell, stated that rates were "a long way from neutral". That is, there were likely to be many more rate hikes in the pipeline and markets corrected sharply. Other Fed members started to soften this view and markets settled somewhat. At the end of November Jay Powell reversed his stance by stating rates were "just below neutral" even though the official rate hadn't changed in the intervening period! Wall Street jumped 2% on the news and 4.8% over the last week.

The Fed minutes (of the "FOMC") also supported this softer view but they are still pointing towards a hike on December 19th. That hike would take the official rate to be in the range 2.25% to 2.5%. With most experts thinking that the neutral rate is somewhere in the range 2.5% to 3.5% there is now a feeling that the Fed might slow down its hiking programme for 2019 – or even pause it for a while.

The so-called 'dot plots' that indicate Fed members' expectations of rates for the next year or two will be published at the December meeting. At that point markets will have a much clearer view of what may happen in 2019 and markets should settle down further. If those plots show a reduction from the three or four 2019 hikes that seemed to be in the Fed pipeline, markets should rally. It is hard to see any real downside from the December 19th meeting. The other current key market driver is the status of the US-China trade talks. The G-20 meeting in Buenos Aires, which ended on December 1, should start to clarify much – particularly as Trump had dinner with President Xi that evening. It appears that the tariff war is now on hold for 90 days with no new tariffs to follow after January 1st.

To read more please visit https://www.infocus.com.au/news/economic-update-december-2018/.

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