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# INVESTING IN UNCERTAIN TIMES

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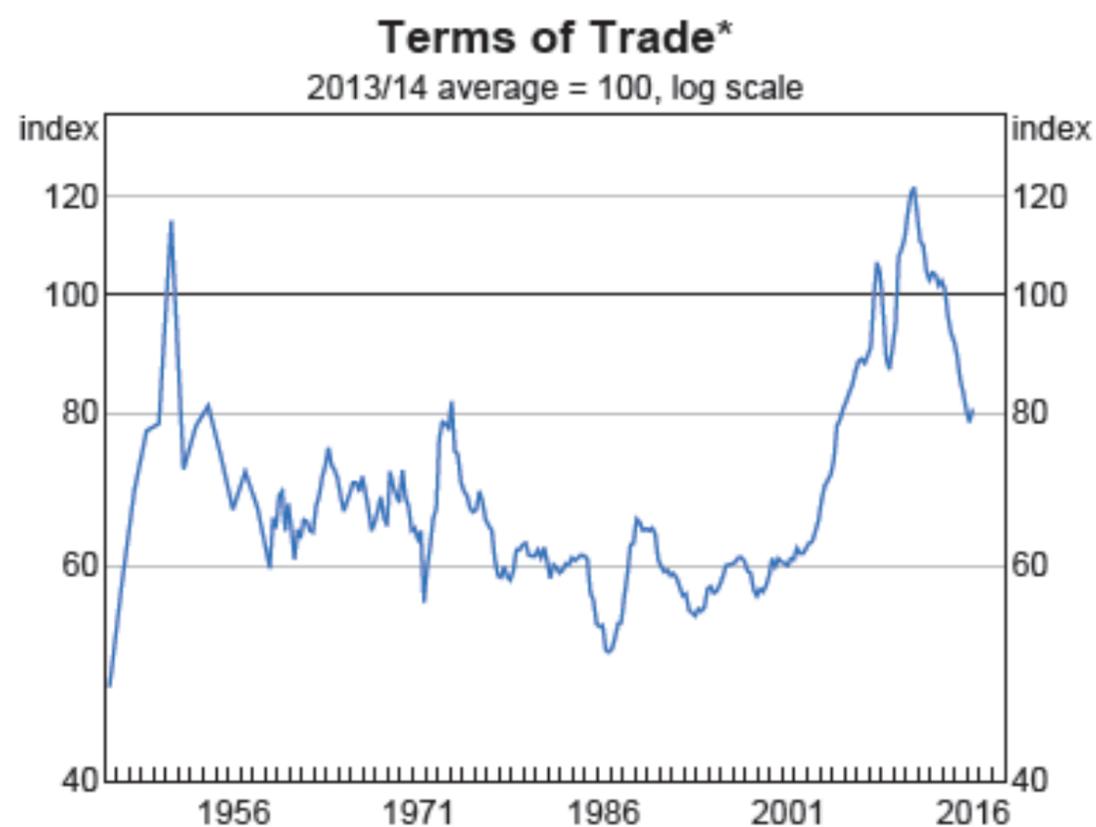
# AGENDA

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

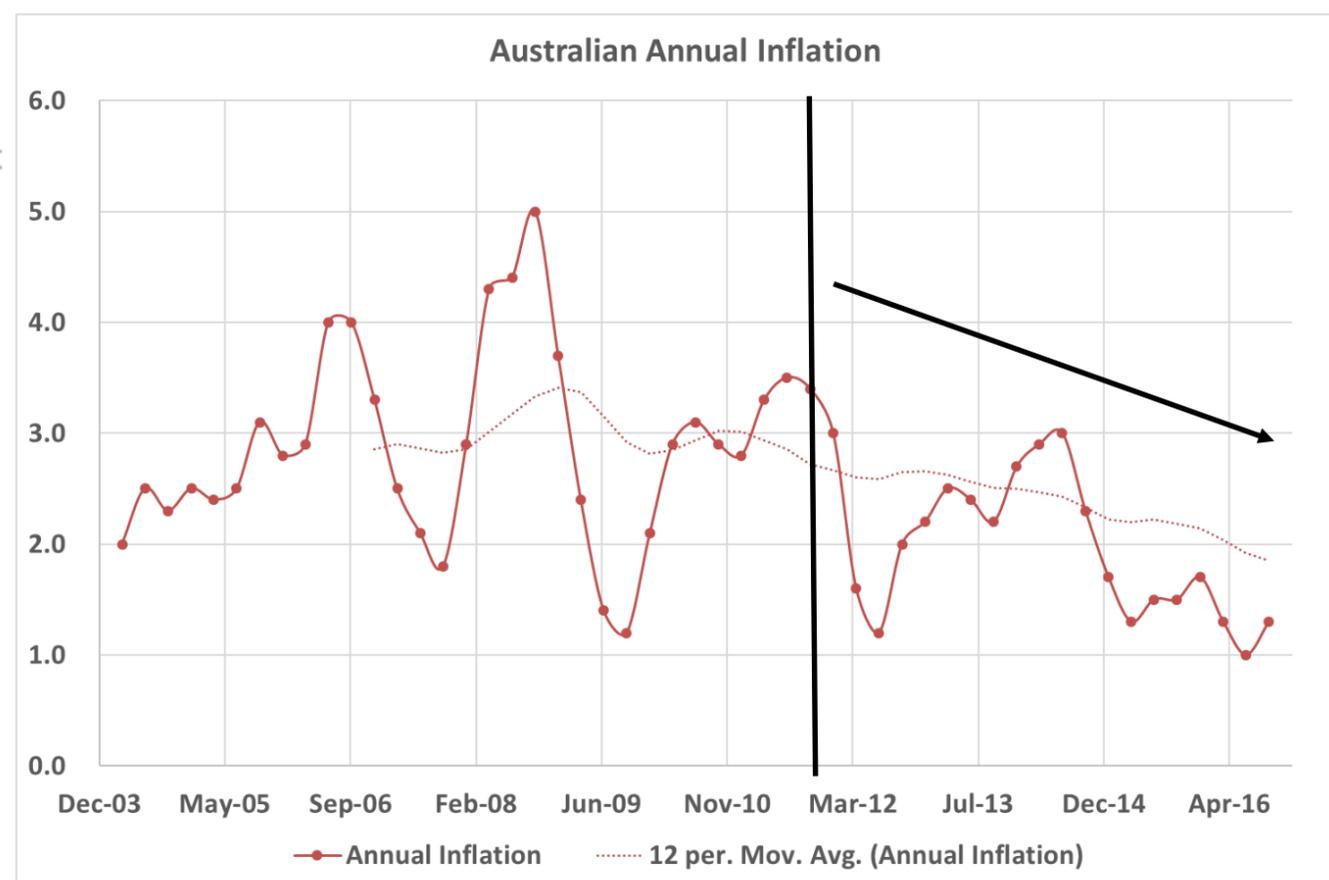


# AUSTRALIAN ECONOMY

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

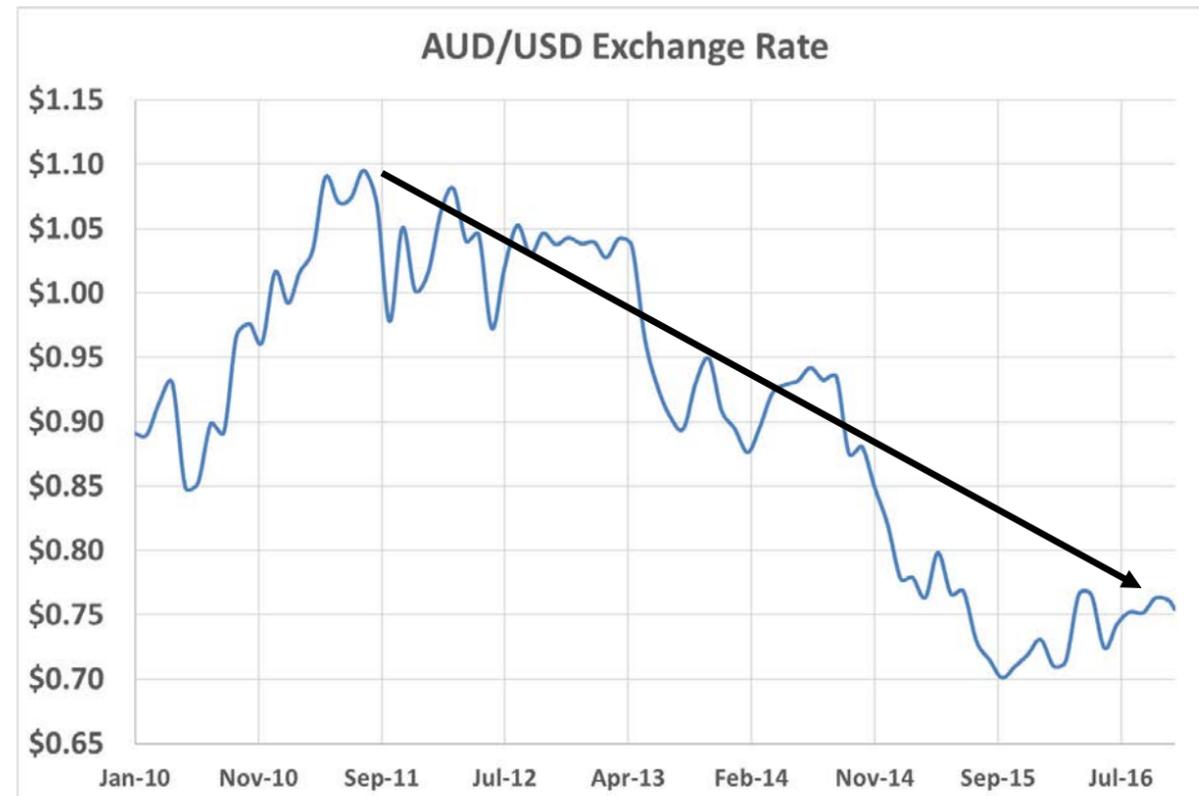
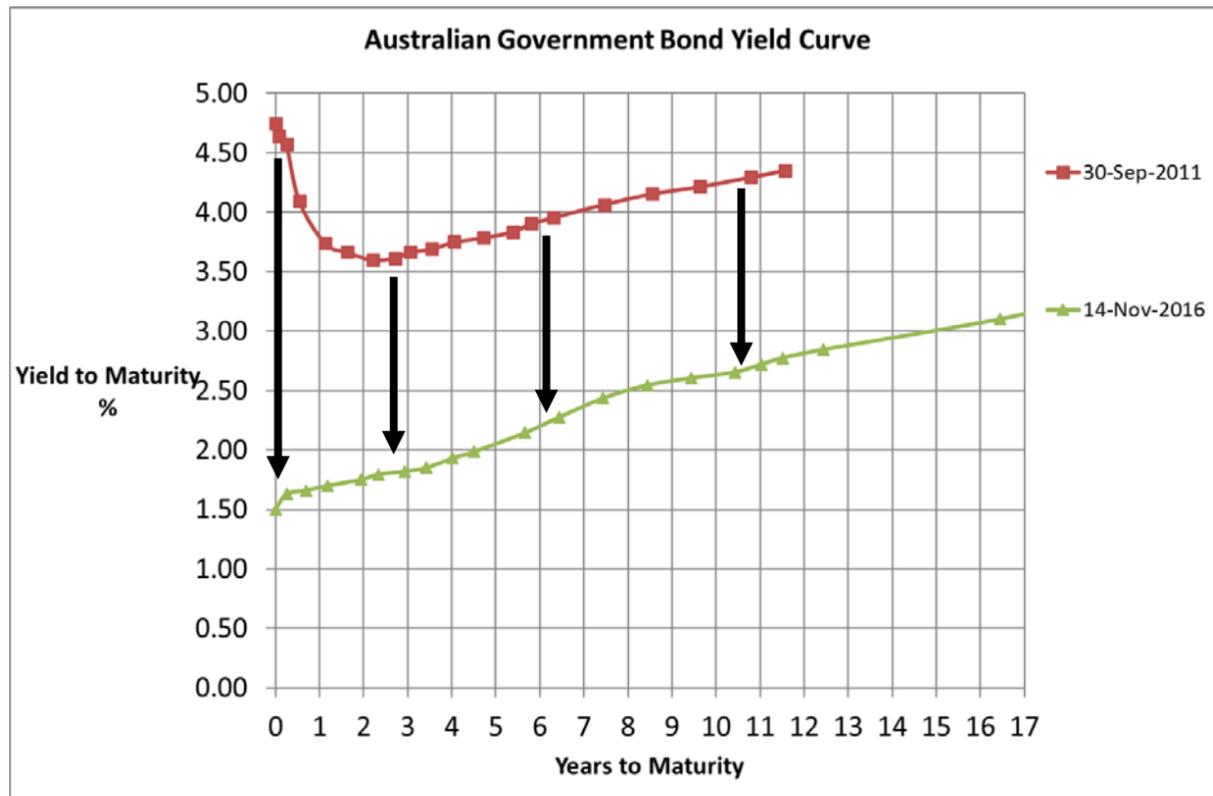


\* Annual data are used prior to 1980  
Sources: ABS; RBA



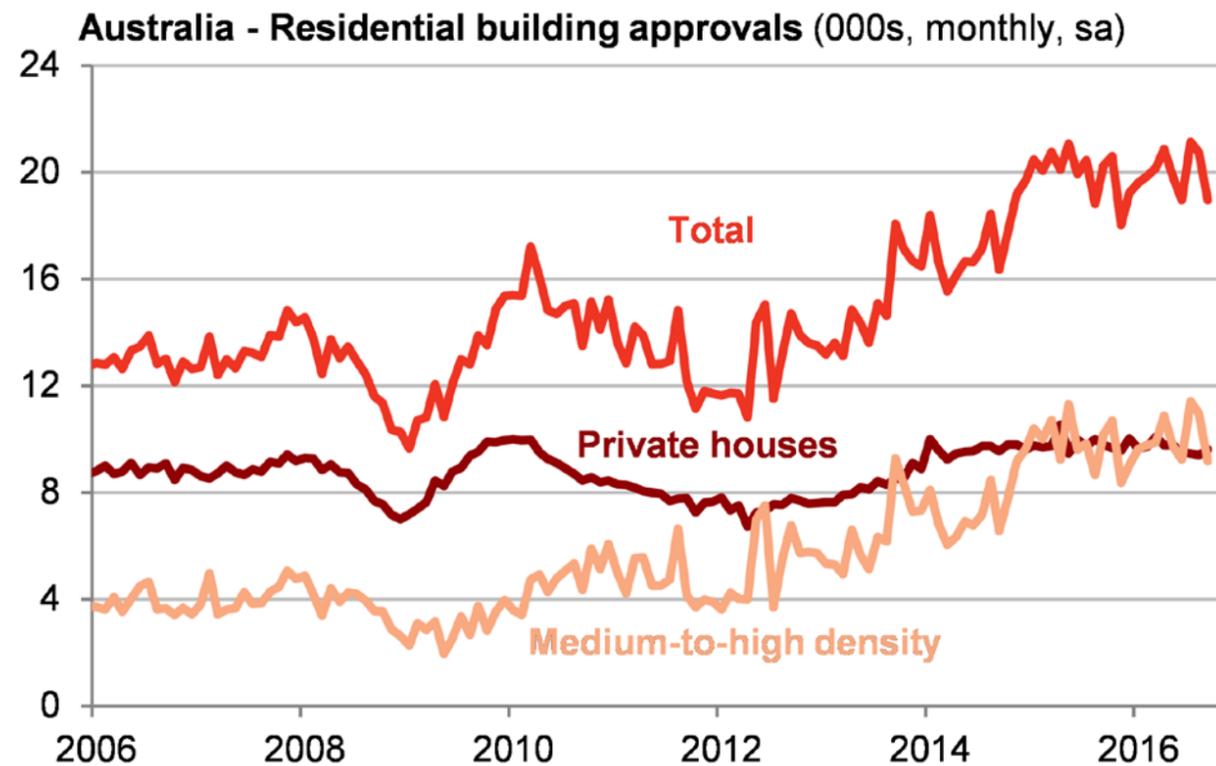
# MARKETS

- 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



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- If Older Australian economic drivers return ...

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- Future Economic Drivers

- Agriculture?
- Trump Infrastructure spend?
- ??? → Lower Australian Dollar → Low Interest Rates



# GLOBAL ECONOMY

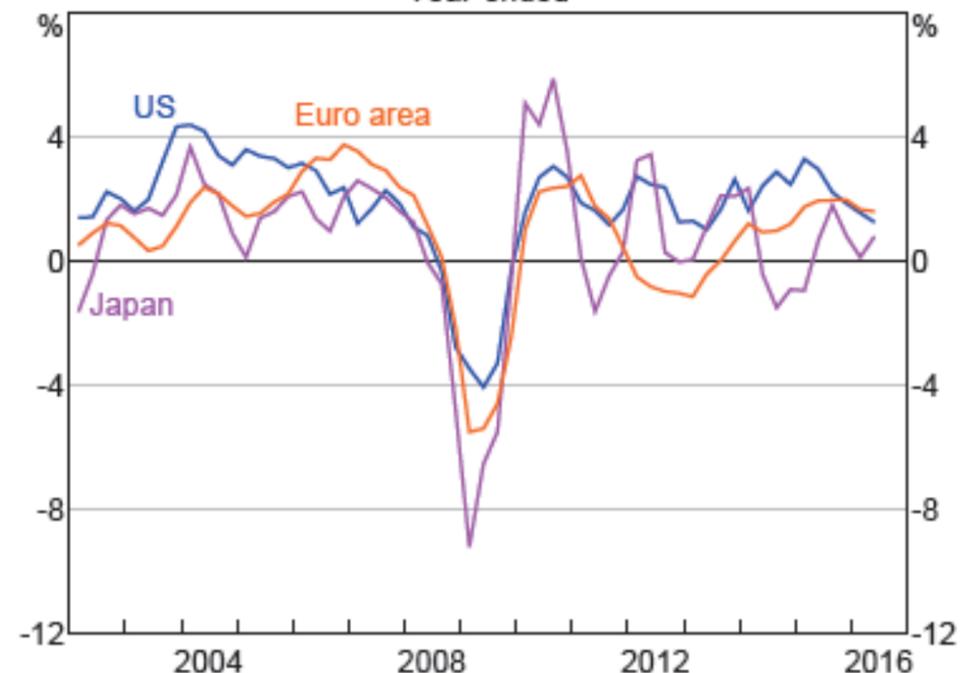
- Sluggish GFC Recovery ...

**GDP Growth – World**  
Year-ended



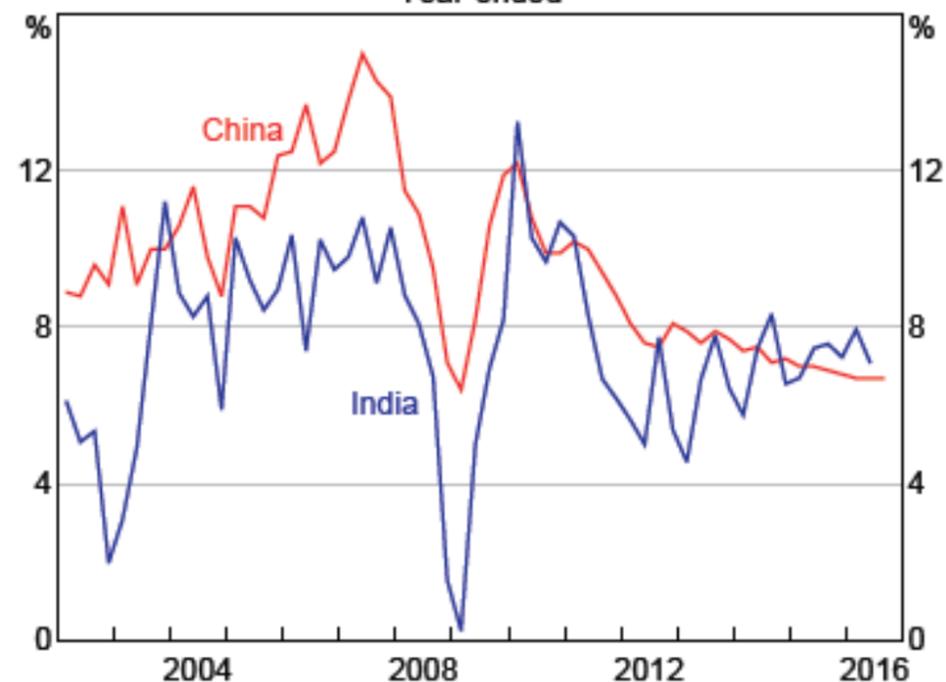
\* Weighted using Australian export shares  
 \*\* PPP-weighted; accounts for 85 per cent of world GDP  
 Sources: ABS; CEIC Data; IMF; RBA; Thomson Reuters

**GDP Growth – Advanced Economies**  
Year-ended



Source: Thomson Reuters

**GDP Growth – China and India**  
Year-ended

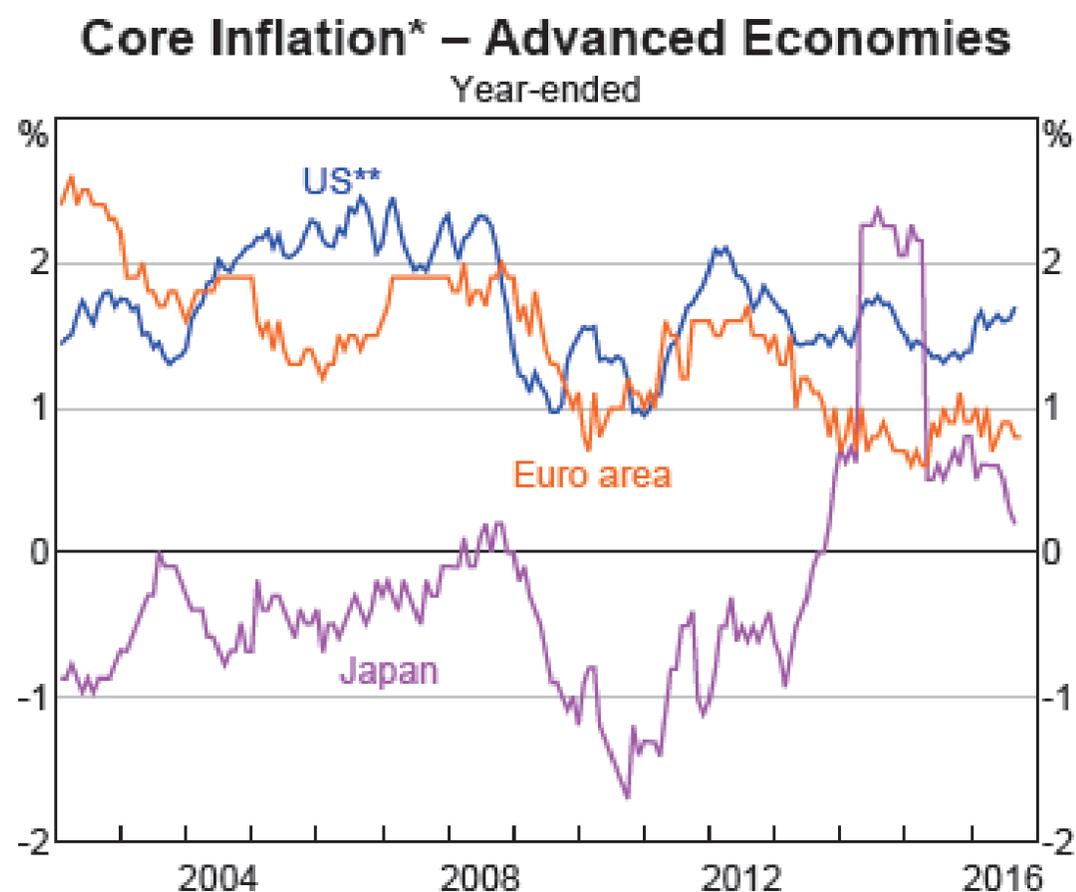


Sources: CEIC Data; RBA



# LOW INFLATION TOO...

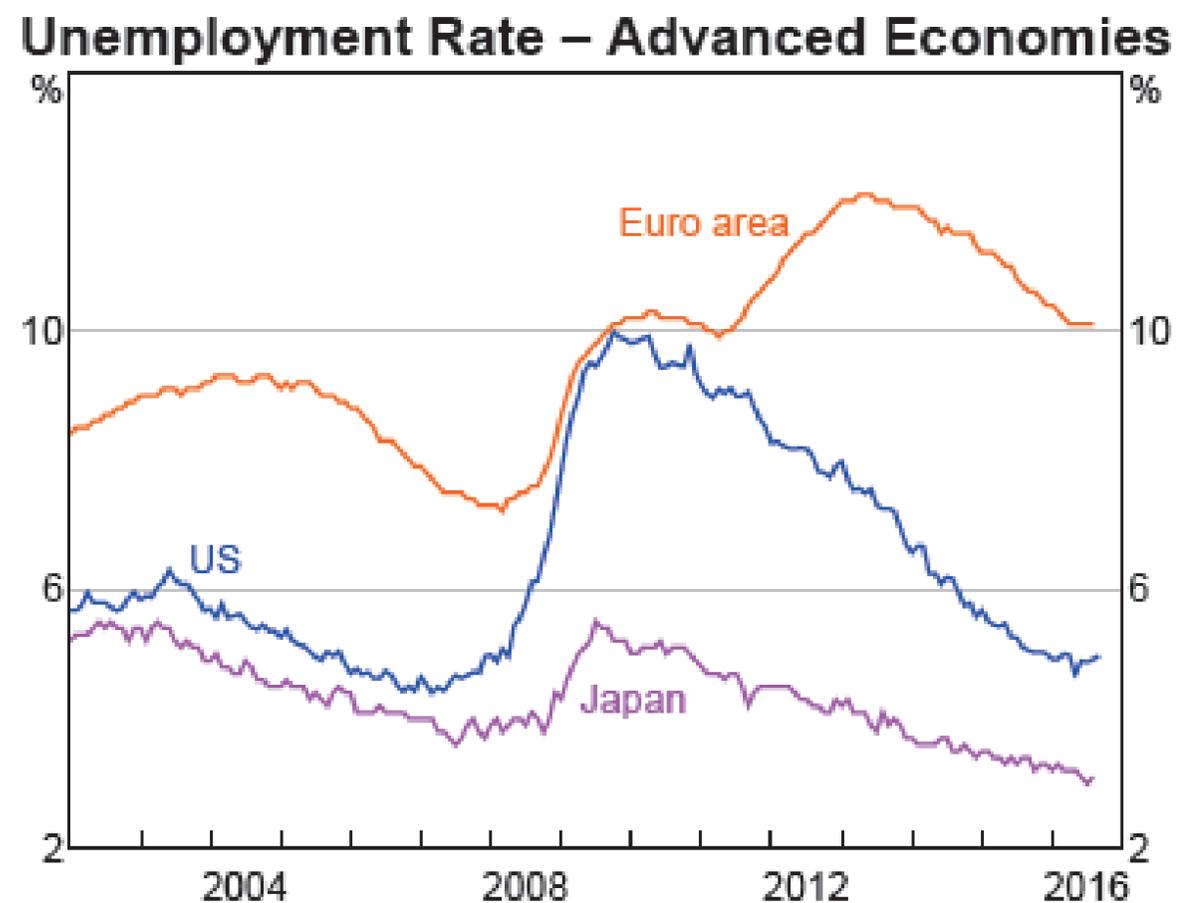
- ... despite improvement in unemployment



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

\*\* Core price index for personal consumption expenditures

Source: Thomson Reuters



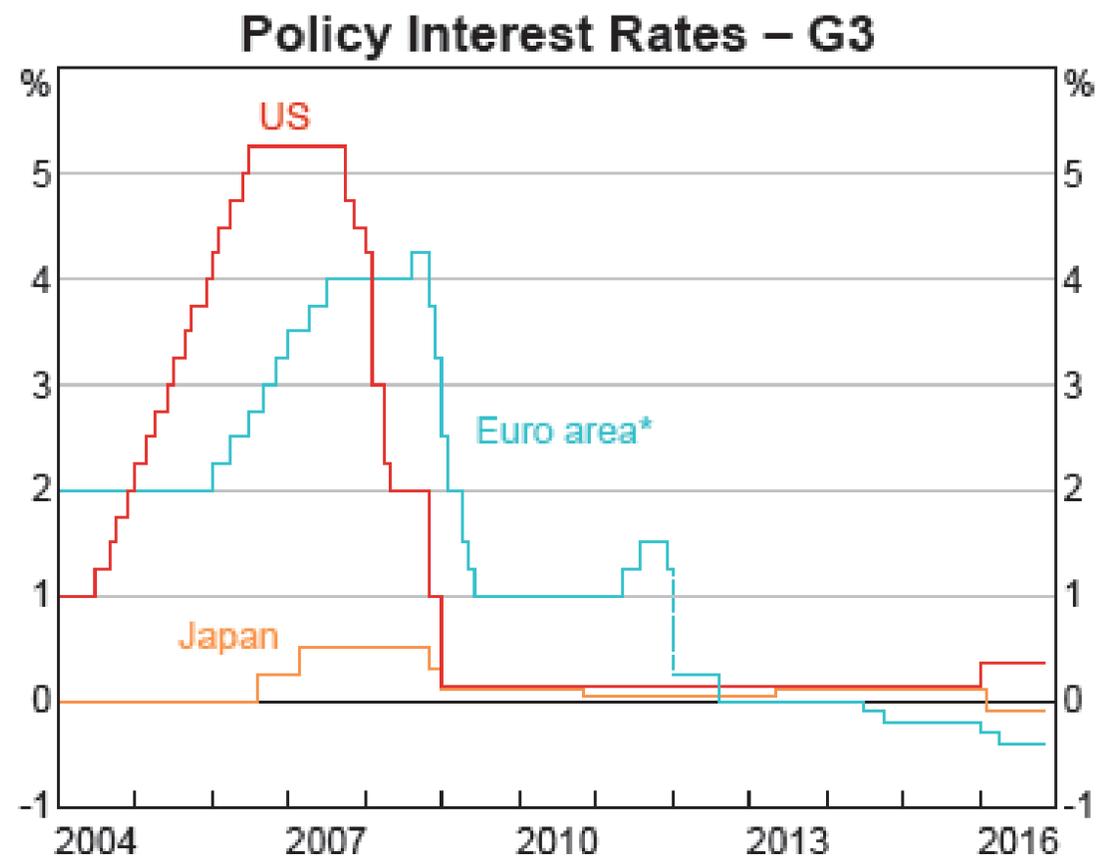
Source: Thomson Reuters



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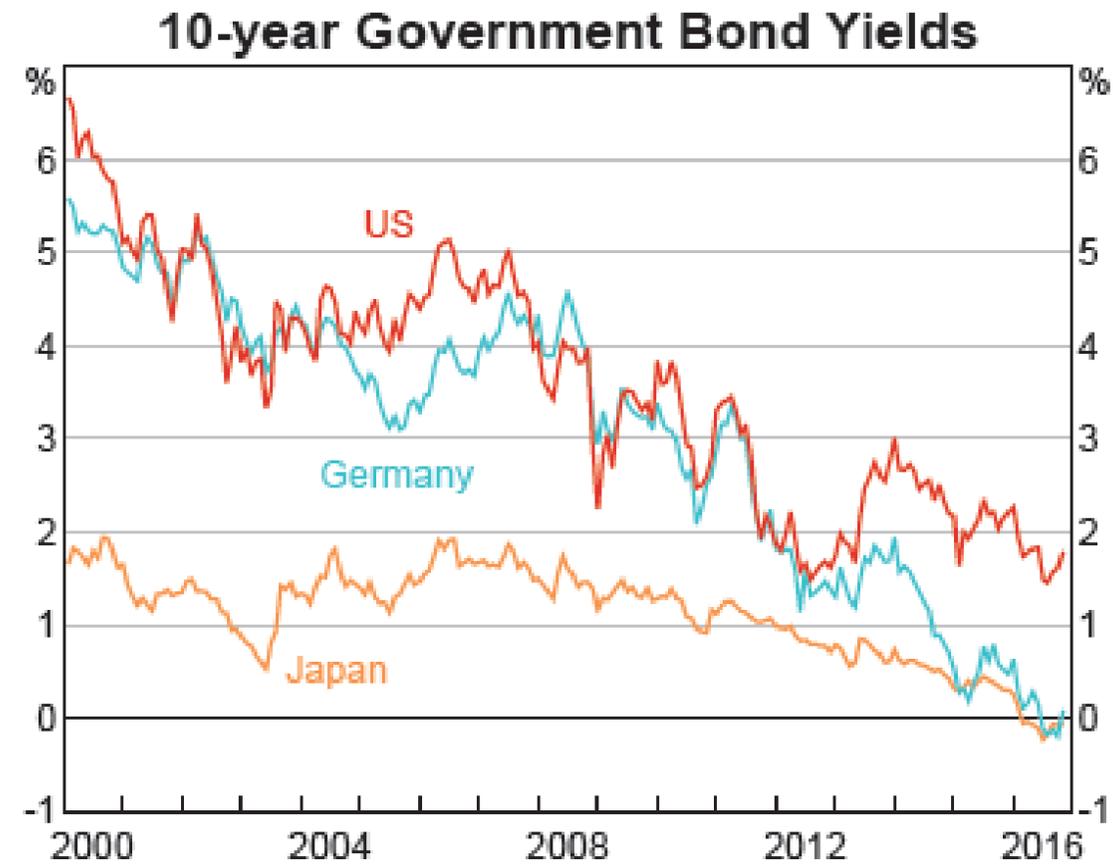
# SO LOW INTEREST RATES HAVE PERSISTED

- ...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



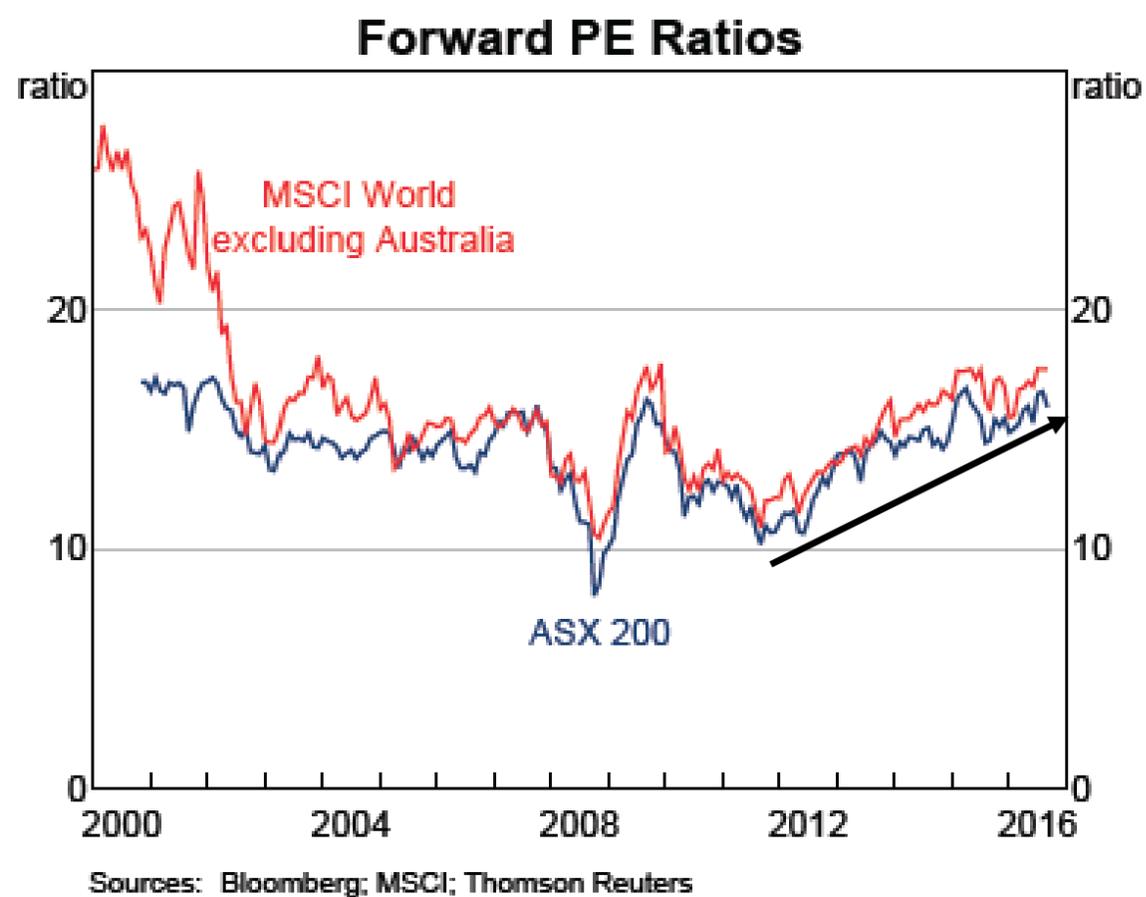
Source: Thomson Reuters



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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



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- Investment Philosophy ... beliefs
  - Active vs passive
  - Smart beta
  - Funds, ETFs, Managed Accounts
  - Alternatives



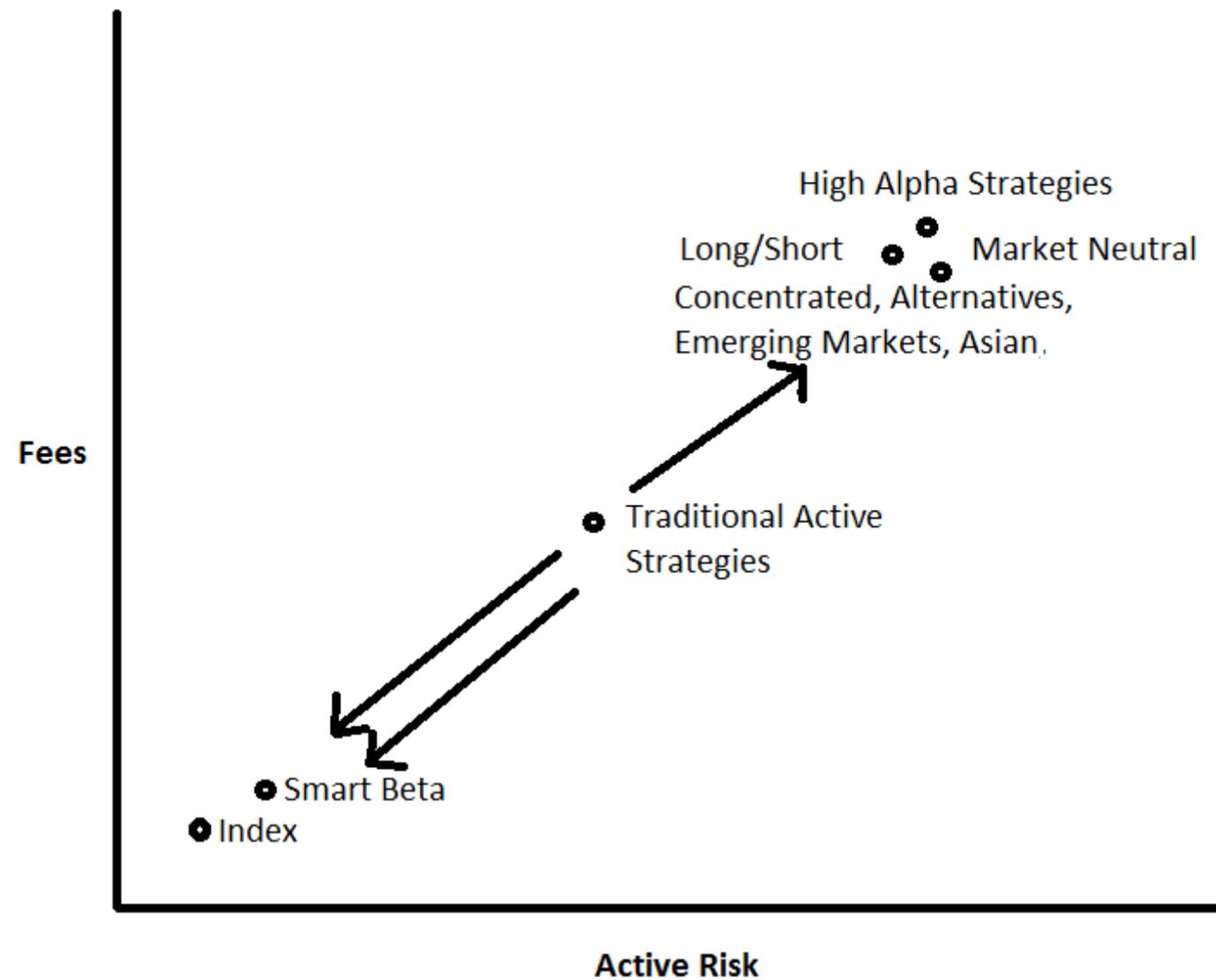
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  - Funds, ETFs, Managed Accounts
  - Alternatives
- Asset Allocation Policy
  - Strategic or Dynamic
  - Objective-based investing ... Retirement Income



# 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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