

Investment Update July 2016



Aspirations Wealth Group
Build and Protect your Wealth

Our aim at Aspirations Wealth Group is to keep our clients informed regularly about their portfolio, investments and markets. Below we have provided a review of 2015/16 and our outlook for 2016/17

Don't count the minutes, count the laughs.

Embrace change.

Trust in yourself.

LIVE FOR TODAY AND PLAN FOR TOMORROW.

and...MAKE EVERY MOMENT COUNT!

Review of 2016:

In our December 2015 update we noted *“returns from the average balanced superannuation fund will exceed cash in 2015, but are on track for their softest results since 2011”*. This statement was correct.

On the next three pages we provide charts on the price movements of the Australian, US and UK share markets. You will note that prices have been volatile over the past year with periods of negative results followed by periods of large gains. Most equity markets have been range-bound but we have seen sharp sell-offs caused by fears of slowing Asian growth, US rate rises and now BREXIT. However each time they have been tested, the markets have recovered.

Britain will at some point in the coming years leave the EU and have to face the potential dissolution of its own union. Remember though that this is not an economic crisis, which is a less controllable event; rather it is a political one which the various politicians and bureaucrats have control over the timing of the process. We are luckily on the other side of the planet and culturally interested but not significantly exposed to UK trade. The negative sentiment will remain until investors can see how this divorce proceeds.

Whilst investor sentiment has improved somewhat, corporate earnings in Australia have been under significant pressure over the last few months, with earnings set to drop this year in keeping with a now multi-year trend of very low or no profit growth. Many of the darling stocks of the ASX200 such as the Big Four Banks, supermarkets and health care players have seen their margins crimped by regulatory or competitive factors and share a flattening growth outlook. Some of these large stocks pay much of the dividends from our market; we may see further dividend cuts as earnings come under pressure. However, it is important not to get too pessimistic during these uncertain times, as the volatility often produces some great bargains in the market.

Make no mistake; the major risk to Australia remains the weakness in the Asian region, particularly China which continues to remain stuck in a downward trajectory of lower growth. Ongoing structural headwinds from higher debt levels, weakening demographics and disinflation from weaker export growth has kept broad GDP growth trapped in a slowing growth trend. This comes at a time when credit in China has expanded rapidly in recent years, meaning bad debts are only likely to increase in their banking system as households and corporate struggle to make repayments and may run into issues with bad debts in their banking sector.



1 Year Price Movement for Australian Share Market

S&P/ASX 200

■ ^AXJO





1 Year Price Movement for USA Share Market

S&P 500
■ S&P500





1 Year Price Movement for UK Share Market





Outlook for 2017:

Australian share market returns for many years were boosted by the mining boom, rising house prices and easily available corporate profits. However, these favourable trends have either peaked or are under pressure from lower export prices, less household and business confidence or disruptive competition.

Our guidance for the current market:

> **Hold the line.** So far, domestic re-balancing has gone fairly smoothly, thanks to lower rates. But the non-mining economy will struggle to replace the profitable gap left by mining. We need to be positioned for the continuation of a low growth, income seeking, and risk-averse world, rather than a sharp rebound. The recent bouts of volatility have been a shot across the bow, but market participants need to keep a cool head and remember that volatility can throw up great opportunities for shrewd investors. We suggest our clients use uncertainty to lighten your exposure to at-risk sectors, and add to positions with strong balance sheets and resilient business models.

> **Think about sustainability of dividends.** In an environment of record low interest rates, investors continue to chase yield. Whilst this may have drawn many to the allure of Australian equities, which pay dividends well above deposit rates, it is important to question the sustainability of this yield. With considerable market volatility in recent months, earnings have come under pressure yet many stocks continue to maintain their elevated payout ratios. It is important to remember that as long term investors we should not sacrifice quality for yield in this uncertain macroeconomic environment.

> **Keep a valuation focus.** As we face an uncertain market outlook, quality has been increasingly difficult to find in the ASX200. It is important to maintain a valuation focus and continually assess whether the earnings justify the valuations. Investors should centre around defensive stocks which offer strong balance sheets and resilient earnings.

How to become wealthy. *"Be fearful when others are greedy. Be greedy when others are fearful."* - Warren Buffett



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