

When will we have the next Financial Crisis?



Aspirations Wealth Group
Build and Protect your Wealth

Our aim at Aspirations Wealth Group is to keep our valued clients regularly informed about their portfolios and investment markets. Below we have provided our view on the next Financial Crisis.



What is a Financial Crisis?

The term financial crisis is broadly applied to a variety of situations in which some financial assets suddenly lose a large part of their value. In the 19th and early 20th centuries, many financial crises were associated with banking panics and many recessions coincided with the panics. Other situations that are often called financial crises include stock market crashes and the bursting of other financial bubbles. Many economists have offered theories about how financial crises develop and how they could be prevented. There is no consensus and financial crises continue to occur from time to time.

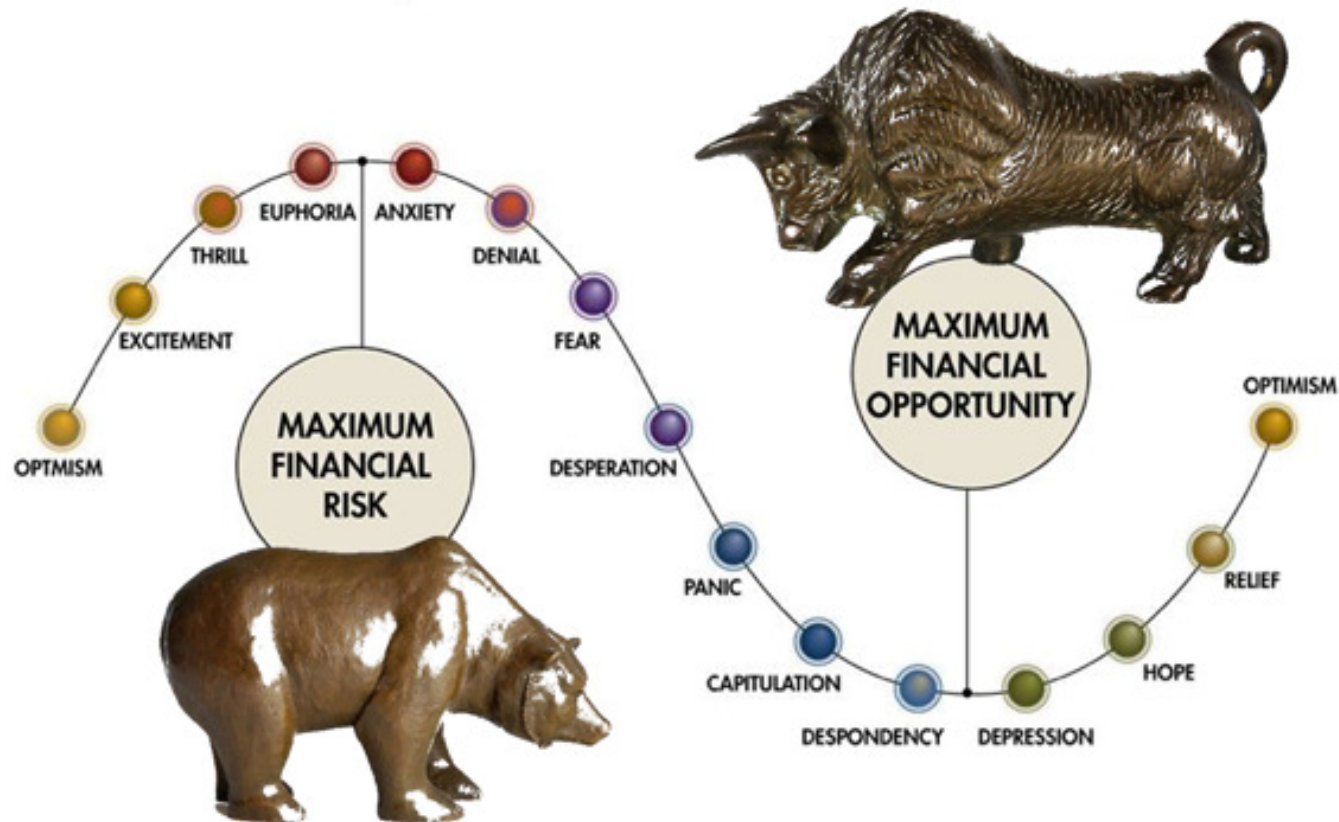
What do we monitor to show signs of a Financial Crisis?

Aspirations Wealth Group does not overreact to market volatility however, we do want to be on the lookout for the next crisis. In order to do this we monitor a number of important signals and metrics. Below, we have detailed some key indicators and our view on current readings.

Signal	Australia Reading	USA Reading	Notes
Share prices	Moderate	High	Most share markets are highly priced, however this is due to low interest rates
Debt levels	Very High	High	Everywhere you look (government, consumer and business) debts are high and this may well be the cause of the next crisis
Property prices	High	High	Key markets like Sydney, Melbourne, New York are expensive however demand continues to be strong
Interest rates	Low 1.5%	Very low 0.25%	Interest rates are on hold in Australia and on the way up in the USA
Inflation	1.0%	1.1%	High inflation is a problem and low inflation (or deflation) is a problem. At present most inflation readings are in the ok level
Economic growth	3.3%	1.4%	Growth rates are acceptable
Sentiment	Excitement	Thrill	Caution is needed when investors become euphoric , see table on page 3 which shows the cycle of market emotions



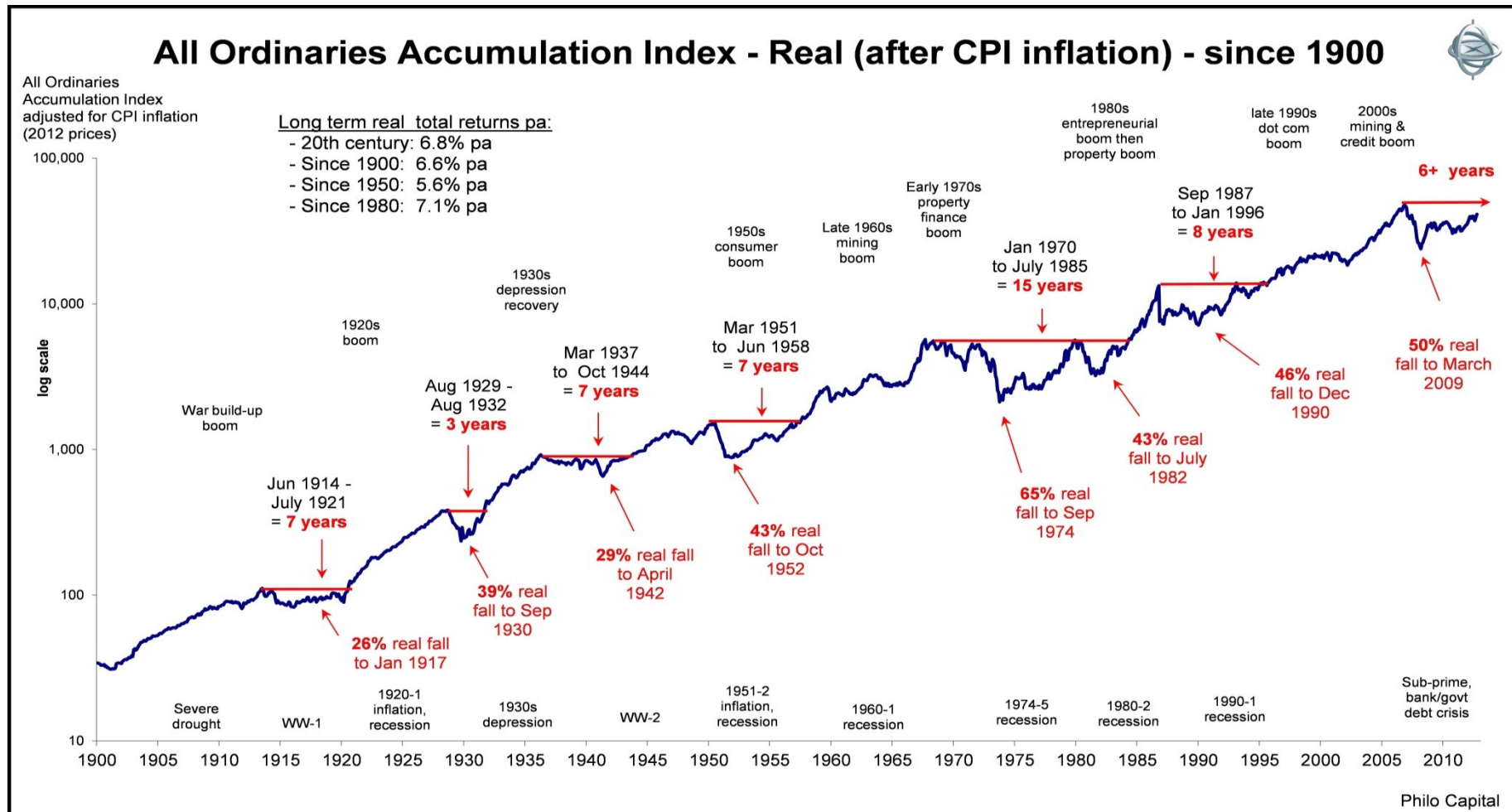
The cycle of market emotions





How often do we have a Financial Crisis?

The graph below details over 100 years of Australian share market history and shows the **8 times** we have seen a major market crisis. It also shows the time it has taken for markets to exceed the previous high, post crisis.



When will we have the next Financial Crisis?

There are few things more valuable to an investor than being able to identify and predict a crisis. Unfortunately predicting a crisis is very difficult. Such difficulty and uncertainty was one of the primary factors that led ex Federal Reserve Bank president, Alan Greenspan, to argue that monetary policy shouldn't attempt to prevent bubbles, but rather to just clean up after they burst.

We believe that there will be a financial crisis sooner rather later, however economic expansions don't die of old age; they die because something kills them. History suggests that the financial assassin of an economic expansion has usually been the central bank lifting interest rates (reacting to an overheating economy), or a major oil price shock, or the bursting of a credit-fueled housing bubble (like in the USA 2007/08).

Our current forecast for 2017 is for modest ongoing growth because we don't expect the 'financial assassin' will show up yet, as central banks are still fighting the opposite of overheating economies, oil prices seem capped by supply and credit is not exactly booming in the USA or Europe. **Hence, we do NOT believe that a global recession or financial crisis appears to be on the short term horizon.** We also believe that there are still some quality investment opportunities that will provide solid returns over the next few years.





What to do in a Financial Crisis?

Until the “financial assassin” appears we do not expect a financial crisis, however we do expect large levels of market volatility in the near term. Here are four things to consider in volatile markets:

1) Ignore the news headlines

Generally, most people don't pay too much attention to the stock market or spend much time thinking about it. But when markets fall dramatically media outlets love to run the ‘world is ending’ news headlines. Every share market investor would have endured many crashes in the past and will continue to face them in the future. The trick is to ride them out and stick with your plan. You will eventually be rewarded for stomaching the volatility.

2) Understand that volatility comes with investing in shares

Most people, even those in retirement, need the long-term earning potential of shares to ensure they meet their financial goals. Owning shares can be painful in the short term however that is the price you pay for the long term higher returns shares offer. The share market often makes very large moves in a short period of time. Don't panic, think about your long-term plan and what kind of assets you need to get there. Remember that share markets have been through volatility before, many times and much worse. These bouts of stress are why shares return more than other assets.

3) Keep the long-term perspective in mind

Volatile times in the share market make us feel like we need to do something, reacting out of panic is rarely a good strategy. Don't blindly sell shares because they are suffering. Investors who sell shares and hold cash are stuck sitting on the sidelines and can end up missing the bulk of a share recovery.

4) Hold cash and look for opportunities

A financial crisis provides the best investment opportunities you will ever see and you should look to buy quality assets at cheaper prices. Therefore holding some cash in a portfolio for opportunities is a good idea.



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