CompleteFinancial
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NEWSLETTER – FEBRUARY 2018

News from Complete Financial Planning

- BREAKING NEWS: We have just heard from our Research House that Colonial First State Global Resources has been set to redeem status. Colonial First State are not longer going to be investing in the Resource section. This is a fund we use in your most of your portfolios. We are currently in the middle of preparing the paperwork to switch you all out of this fund and into another. This will be emailed or posted to you next week with all the relevant information. So please keep an eye out for this and contact us if you have any questions.
- The online Survey from My Next Advice was delivered to your email on the 8th of February. It will be asking you how our Company is performing and how we can improve. We would appreciate if you could spare 5 minutes to complete the survey to help spread good news to the public about the value of Financial Advisers!! The link is notifications@mynextadvice.com – so please check your junk mail if you haven't received it. The cut of date for the survey is next Wednesday the 28th of February.
- Emma and Monkey are happy to share the news that they will have baby number 2 arriving in September 2018. Those with annual reviews in September, October, November and December – Emma will be seeing you before the baby comes.
- CFP Annual Movie Day will be in July School Holidays this year
- Remember that you will be receiving calls or emails from the office to get updated information before your review with Emma or Kathy
- Don't forget the office is shut on a Friday, as Kathy and Emma work from home these days – they can be contacted on their mobiles, 0413 348 472 and 0488 198 200 respectively

Volatility: an investor Survival Guide

Financial markets can be subject to periods of event-related volatility during which investor confidence can be significantly undermined. Here, we provide 10 key messages to help investors steer their portfolios through volatile times.

1. Volatility is a normal part of long-term investing

From time to time, there is inevitably volatility in stock markets as investors react nervously to changes in the economic, political and corporate environment. Above all else, financial markets dislike uncertainty. Yet markets are also prone to over-react to events that cloud the short-term outlook. As an investor, it is important to take a step back at these times and keep an open mindset.

When we are prepared at the outset for episodes of volatility on the investing journey, we are less likely to be surprised when they happen, and more likely to react rationally. By having an open mindset and a longer-term investment perspective that accepts short-term volatility, investors can begin to take a more dispassionate view. Not only does this help with the job of staying focused on long-term investment goals, it also allows investors to begin to exploit lower prices rather than lock in losses by emotionally selling at lower prices.

2. Over the long term, equity risk is usually rewarded
Equity investors are typically rewarded for the extra risk they face – compared to, for example, sovereign bond investors – with higher average returns over the longer term. It is also important to remember that risk is not the same as volatility. Asset prices regularly deviate from their intrinsic value as markets overshoot or undershoot, so investors can expect price volatility to create opportunities. In the long term, stock prices are driven by corporate earnings and have generally outperformed other types of investment in real terms, i.e. after inflation

3. Market corrections can create attractive opportunities
Corrections are a normal feature of stock markets; it is normal to see more than one over the course of a bull market. A stock market correction can be a good time to invest in equities as valuations become more attractive, giving investors the potential to generate above-average returns when the market rebounds. Some of the worst historical short-term stock market losses were followed by rebounds .

4. Avoid stopping and starting investments
Those who remain invested typically benefit from the long-term uptrend in stock markets. When investors try to time the market and stop-and-start their investments, they can run the risk of denting future returns by missing the best recovery days in the market and the most attractive buying opportunities that become available during periods of pessimism. Missing out on just five of the best performance days in the market can have a significant impact on longer-term returns .

5. The benefits of regular investing stack up
Irrespective of an investor's time horizon, it makes sense to regularly invest a certain amount of money in a fund, for example each month or quarter. This approach is known as cost averaging. While it doesn't promise a profit or protect against a market downturn, it can help lower the average cost of fund purchases. And although regular saving during a falling market may seem counter-intuitive to investors looking to limit their losses, it is precisely at this time when some of the best investments can be made, because asset prices are lower and will benefit from any market rebound. (Investors should always review their portfolio from time to time and adjust it if needed.)

6. Diversification of investments helps to smooth returns
Asset allocation can be difficult to perfect as market cycles can be short and subject to bouts of volatility. During volatile markets, leadership can rotate quickly from one sector or market to another. Investors can spread the risk associated with specific markets or sectors by investing into different investment buckets to reduce the likelihood of concentrated losses. For example, holding a mix of 'risk' assets (equities, real estate and credit) and defensive assets (government and investment grade bonds, and cash) in your portfolio can help to smooth returns over time.

Investing in actively managed multi-asset funds can be a useful alternative for some investors as they provide ready-made asset level and geographic portfolio diversification. These funds are typically constructed on the basis of strategic long-term asset returns, with asset weights managed tactically according to expected conditions. Spreading investments over different countries can also help to bring down correlations within a portfolio and reduce the impact of market-specific risk.

7. Invest in quality, dividend-paying stocks for regular income

Sustainable dividends paid by high quality, cash-generative companies can be especially attractive, because the income element tends to be stable even during volatile market periods. High quality, income-paying stocks tend to be leading global brands that can weather the ups and downs of the business cycle thanks to their established market shares, strong pricing power, and resilient earnings streams. These companies typically operate in multiple regions, smoothing out the effects of patchy regional performance. This through-cycle ability to offer attractive total returns makes them a useful component of any portfolio.

8. Reinvest income to increase total returns

Reinvesting dividends can provide a considerable boost to total returns over time, thanks to the power of compound interest . To achieve an attractive total return, investors need to be disciplined and patient, with time in the market perhaps the most critical yet underestimated ingredient in the winning formula. Regular dividend payments also tend to support share price stability and dividend-paying stocks can help protect against the erosive effects of inflation.

9. Don't be swayed by sweeping sentiment

The popularity of investment themes ebbs and flows – for instance, technology has come full circle after a late 90s boom and 2000s bust. Overall sentiment to emerging markets tends to wax and wane with the commodity cycle and as economic growth slows in key economies like China. As country and sector specific risks become more prominent, investors need to take a discriminating view, since a top-down approach to emerging markets is no longer appropriate.

But there are still great opportunities for investors at the stock level, as innovative emerging companies can take advantage of supportive secular drivers like population growth and expanding middle class demand for healthcare, technology and consumer goods and services. The key point is not to allow the euphoria or undue pessimism of the market to cloud your judgement.

10. Active investment can be a very successful strategy

When volatility increases, the flexibility of active investing can be especially rewarding compared to the rigid allocations of passive investments. In particular, volatility can introduce opportunities for bottom-up stock-pickers, especially during times of market dislocation. At Fidelity, we believe strongly in active management and we have one of the largest buy-side research teams in the asset management industry to support this. Because we analyse companies from the bottom up, we are well positioned to invest when other investors might be shying away during bouts of market volatility.

Remember, too, that the stocks you do not own in a fund can be as important as the ones you do own. There are companies in every stock market that are poorly managed or which suffer from fundamentally difficult outlooks; active managers can avoid these stocks. Moreover, the value added by avoiding some of the worst stocks in the market builds over cycles and with the passage of time, making research-driven active strategies particularly appealing for long-term investors.

Please don't forget…

Our success is a result of referrals from clients and friends like you. We could always use a few more. So, if you have children, family members, friends or colleagues that may need some advice, please pass our details to them.