

The Good Life

Ideas, advice, beliefs and perspectives for the enjoyment and education of our clients and friends

Period ending May 2016

June 2016

What We Are Thinking

Fixed Interest					
Years	1	2	3	10	YTD
One-year	2.5	2.6	2.7	4.7	1.1
Two-year	2.8	3.0	3.1	5.1	1.5
Five-year	4.6	4.8	4.6	6.8	3.2
Long Term					
Australian Shares					
Large	-2.5	3.7	8.0	5.8	3.6
Value	-7.4	1.0	4.4	4.7	6.4
Small	4.0	5.4	7.4	5.1	7.7
Global Shares					
Large	1.1	13.8	16.8	5.1	2.4
Value	-3.5	9.4	14.3	3.8	2.5
Small	3.4	14.9	18.9	6.4	4.7
Emerging Markets	-13.6	1.0	3.2	3.7	4.8
Real Estate	-3.4	2.4	7.0	5.4	3.1
Description of Indexes					
One-year FI	DFA Short-Term FI				
Two-year FI	DFA Two Yr Div. FI				
Five-year FI	DFA Five Yr Div. FI				
Long-Term FI	Bloomberg Aus Treas. 10+				
Australian Large	DFA Aus Large Co				
Australian Value	DFA Aus Value				
Australian Small	DFA Aus Small Co				
Global Large	DFA Global Large Co				
Global Value	DFA Global Value				
Global Small	DFA Global Small Co				
Emerging Markets	DFA Emerging Markets				
Global Real Estate	S&P/ASX 300 REIT Index				
	Data presented may be based on a combination of simulated and actual returns.				
	Past performance is not indicative of future performance.				

Dear Reader,

Welcome to the June edition of *The Good Life*. This month we include two articles from Jim Parker, one relating to proposed superannuation changes announced by the Coalition in the May Budget (which seems like a LONG TIME ago now). The other article compares producing a good wine with investing successfully. No one can control government policy and it's a lot harder to make a good wine year-after-year or to invest successfully year-after-year than it appears. It doesn't stop lots of people trying to be winegrowers and / or DIY investors and sadly many dreams turn into nightmares.

Wendy and I had a fantastic holiday however I must say I have found it difficult to get enthused about being back – cold weather, boring election campaigns, the country idling, footy team doing poorly again, having to deal with children and their problems. And that's not to mention the Brits deciding to leave the EU. Beam me back to Assisi for some real peace or Barcelona for some fun.

The only good news is about Le Bron and Cleveland, now that's a fairy-tale!

I've included a few photos from the trip. We took around 4000 photos on our holidays, all of them on our phones.

I've also included a short Dimensional commentary about the UK vote to leave the EU, together with a reality check cartoon. The commentary is a timely reminder of Dimensional's winning investment strategy.

Good News

In the meantime, we're continually blown away by what's happening in what we call the EXPONENTIAL WORLD. We've included a link to a 33-minutes talk given earlier this year that summarises some of the amazing changes coming to our life to make it so much better.

Like the EU referendum in the UK, you can be scared of what is coming and try clinging to the past or be excited by the wonderful advancements. We are excited by the future.

The Policy Maze

OUTSIDE THE FLAGS

Jim Parker,
Vice President
DFA Australia Limited



May 5, 2016

Along with market ups and downs and media noise, government policy is one of those things that investors can't control. But a good financial advisor can still help them navigate successfully through a constantly changing environment.

The risks that policy change poses to investors were dramatically highlighted by the recent federal budget in Australia, where a cash-strapped government announced the biggest shake-up in superannuation in at least a decade.

The announcement came just hours after *another* surprise policy change as the Reserve Bank of Australia cut its official cash rate to a record low of 1.75%, citing unexpectedly lower inflation and further signs of an economic slowdown in China.¹

In the budget, the government argued it is seeking to better target tax concessions for superannuation and to bring the system in line with its objective of "providing income in retirement to substitute or supplement the age pension".²

The changes include:

- A \$1.6 million cap on how much individuals can transfer into retirement accounts
- The reduction in the income threshold to \$250,000 (from \$300,000) for paying a 30% (instead of 15%) tax on concessional super contributions.
- The lowering of the cap on tax concessional contributions to \$25,000
- A \$500,000 lifetime cap on non-concessional contributions
- A superannuation tax offset for people on incomes below \$37,000

Many of these measures had been well flagged, but the \$1.6 million retirement account cap was a genuine surprise to most observers, as was the RBA's rate cut. Indeed, news agency Bloomberg reported on the morning of the central bank meeting that 15 out of 27 economists expected no change in rates.³

While the government says the changes in the tax concessions will not affect 96% of superannuation fund members, there clearly will be implications for many more people in the future as they progress to higher incomes.

Others can argue the rights and wrongs of these particular changes, but there is no question that the complexity and flux in superannuation rules highlight the value that an expert, independent financial advisor can bring to individuals and families.

For instance, how can you maximise your retirement income and minimise your tax? What do the changes mean in terms of when you can afford to retire? What tax-effective investment solutions are available to you outside super? If you come into an inheritance or sell a business, what are your options now?

In the case of the rate cut, people may ask about the effect of interest rate changes or inflation on their retirement saving and what strategies are available to ensure they can maintain their consumption as planned.

There are many possible challenges and questions that advisors can deal with at times like these, not only because of the complexity of tax and regulation but also due to the complexity and variability of people's lives, circumstances, risk appetites and preferences.

And all of this takes a human advisor, as no robot or sophisticated algorithm can be programmed quickly enough to deal with policy changes that come out of left field.

Yes, change can be unsettling and makes many of us anxious. But the unpredictability of government policy, like the unpredictability of markets, will always be with us.

Like a sailing boat skipper who knows how to set the sails to deal with shifting winds and choppy seas, a good advisor can provide the right combination of structure and flexibility in your portfolio to help you cope with policy change.

The outcome is a degree of comfort and security that you might otherwise miss if you attempted to navigate the complex policy maze all on your own.

1. Statement by Glenn Stevens, Governor, Reserve Bank of Australia, 3 May 2016
2. 'Tax and Super', Federal Budget 2016-17
3. 'Australia's Central Bank Cuts Rates to Record Low', Bloomberg, 3 May 2016

The Wine Lovers Guide to Investing

June 6, 2016

Savouring a vintage wine is one of life's great pleasures. But often overlooked in the joy of consumption is the carefully calibrated journey from grape to glass. Similar levels of care are critical to good investment outcomes.

A host of variables can determine whether a wine is great, good, mediocre or undrinkable. These include the quality of the grapes, the soil, the position of the vineyard, the weather, the irrigation and the timing of the harvest.

And picking the grapes isn't the end of it. The harvest must be sorted, the grapes crushed and pressed, then fermented, clarified, aged and bottled. At any stage of the process, a lack of attention to detail can spoil the final outcome.

As in winemaking, investment management requires attention to detail—researching and identifying the dimensions of expected returns, designing strategies to capture the desired premiums, building diversified portfolios and implementing efficiently.

Just as winemakers don't have any say over the weather, investment managers can't control the markets. Not every harvest will produce an excellent vintage, but expert professionals can still maximise their chances of success by putting their greatest efforts into things they *can* influence.

For winemakers that may be taking extreme care in picking the grapes at a time that delivers the desired balance of acidity and sweetness. For investment managers, it can mean precisely targeting the desired premiums while ensuring sufficient diversification to lessen idiosyncratic risk in the portfolio.

Winemaking is as much an art as a science. While fermentation comes naturally, the winemaker must still guide the process, using a variety of techniques to ensure the wine is as close as possible in style and flavour to what he is seeking to achieve.

Similarly in investment, real world frictions mean that basing one's approach purely on a theoretical model is unlikely to be successful. For instance, trade-offs must continually be made between the expected benefits of buying particular securities and the expected costs of the transactions. Managing the effects of momentum and being mindful of tax considerations are among the other issues to be balanced.

Just as in viticulture, investment outcomes can also be affected by any number of external events—such as the imposition of capital controls in an emerging market, or changes in regulation, a severe financial crisis, or a major geopolitical event.

Dealing with uncertainty and navigating the “unknown unknowns” are part of the job. So investment managers must build into their processes a level of resilience, through diversification for instance, so they have sufficient flexibility to work around unforeseen events.

Ultimately, the benefits of discipline and attention to detail are easy to overlook. Great ideas count for a lot, of course. But great ideas, without efficient implementation can mean even the best grapes in the world go to waste.

We hope you enjoyed this issue and would like to receive your feedback on articles you would be interested in or ways we can improve our newsletter. We have a lot more information on our website at www.integratedwealthsolutions.com.au where you can register to receive this free monthly newsletter.

John McMorrow

Editor

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That Bit Extra...

More Amazing Research Happenings in the EXPONENTIAL WORLD to Make Our Life Better [New Technology, the Future, and Education: Peter Diamandis ...](#)

Watch this if you want to know where the world is heading.

▶ 33:46 <https://www.youtube.com/watch?v=jndZviHWE28>

First Self-Driving Cognitive Vehicle Uses IBM Watson Internet of Things



What it is: Local Motors, a crowdsourced car-design platform and creator of the world’s first 3D-printed car, has developed the first self-driving ‘cognitive’ vehicle. The 12-passenger vehicle, dubbed Olli, uses IBM’s new Watson Internet of Things system to process data from 30+ sensors in the vehicle and enable passengers to interact with the vehicle using natural language. KurzweilAI reports that Olli can discuss topics such as “how the vehicle works, where they are going and why [the car] is making specific driving decisions.”

Olli is currently running in Washington DC with launches planned for Miami-Dade County and Las Vegas later this year.

Why it’s important: Olli is another example of the power of converging exponential technologies — in this case, AI, sensors and robotics. This convergence enables “unparalleled, customized experiences for customers, taking advantage of the massive amounts of streaming data from all devices connected to the Internet of Things, including an automobile’s myriad sensors and systems,” said Harriet Green of IBM Watson Internet of Things. Another benefit: because Local Motors will produce the car in its micro factories, they’re able to make performance tweaks and other improvements every time they build a new Olli vehicle. [Join the Discussion](#)

Gates Says Altered Mosquito Is Next Weapon to Fight Malaria



What it is: At a conference for the American Society for Microbiology in Boston, Bill Gates said that genetically engineered mosquitoes equipped with ‘gene drive’ could help bring an end to malaria. In normal reproduction, 50% of

a parent's gene is passed to offspring but with gene drive, an engineered DNA segment can be passed on to nearly 100% of offspring, dramatically increasing the rate at which a gene spreads. While Gates said that gene drives are still 3 to 5 years away from being "extremely beneficial," he also cited another mosquito project that involves infecting mosquitoes with a bacterium called Wolbachia rather than genetically modifying them. That project has already been deployed in Australia and Indonesia, with possible large-scale deployment in Columbia and Brazil next year.

Why it's important: In contrast to fighting disease via vaccinations and antibiotics, these methods show that we can alter the offending carriers and diseases directly, perhaps eventually rendering the problem of 'superbugs' moot. Similar techniques might one day help humans become more resistant to certain diseases such as zika and dengue. (Note: In [other news](#) this week, human trials were approved for genetic modifications to the immune system T cells in cancer patients, funded by tech billionaire Sean Parker's Parker Institute for Cancer Immunotherapy.) [Join the Discussion](#)

A Few Pictures from the trip

Van Gogh, Raphael & Botticelli



UK's EU Referendum Result June 24, 2016

On June 23, citizens of the United Kingdom voted to leave the European Union. While there has been much speculation leading up to and since the vote, many of the longer-term implications of the referendum remain unclear, as the process for negotiating what a UK exit may look like are just beginning.

Dimensional has nearly 35 years of experience managing portfolios, including during periods of uncertainty and heightened volatility. We monitor market events — including their impact on trading and trade settlement — very closely and consider the implications of new information as it comes to light. We are paying close attention to market mechanisms and they appear to be functioning well. Our investment philosophy and process have withstood many trying times and we remain committed.

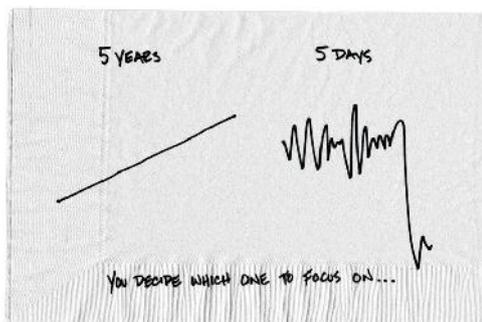
We urge caution in allowing market movements to impact long-term asset allocation. Long-term investors recognise that risks and uncertainty are ever present in markets. A drop in prices is generally due to lower expectations of cash flows, higher discount rates, or both. In some cases, a drop is also due to investors demanding liquidity. In the current situation, some investors and economists may expect lower cash flows due to possible trade barriers that may not be implemented. Higher discount rates may be occurring due to uncertainty about changes in the economic landscape and regulations. We have seen markets increase discount rates in times of uncertainty before, resulting in lower prices and increased expected returns. However, it is difficult to know when good outcomes will materialise in the future. By attempting to time the right moment to invest or redeem, one risks not enjoying the potential benefits of such materialisations. Many of those who exit the markets miss the recoveries. What we have often seen in the past is that investors who remained in well-diversified portfolios were rewarded over time.

The UK will have up to two years to negotiate a withdrawal during which time it remains subject to EU treaties and laws. Any potential operational changes depend on what path the UK and EU decide to take. Leading up to and since the vote, we have worked with our counterparties, including custodians, brokers and dealers regarding potential operational implications resulting from the UK leaving the EU.

Dimensional remains committed to helping our clients in the UK, other parts of Europe, and around the world have a good investment experience.

Diversification does not protect against loss in declining markets. Past performance is no guarantee of future results. Investing involves risk and the possible loss of principal. There is no guarantee strategies will be successful.

[CARL RICHARDS](#) on JUNE 27, 2016



Chartres Cathedral after cleaning off a thousand years of dirt, smoke and grime and Chateau de Versailles

