Integrated Wealth Solutions

The Good Life

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

August 2013

Period ending July 2013

Fixed Interest					
Years	**1**	**2**	**3**	**10**	**YTD**
One- year	3.4	4.2	4.7	5.5	1.8
Two-year	3.7	4.5	5.0	5.7	1.9
Five-year	3.4	6.1	7.0	7.2	1.0
Long Term	-3.1	8.5	8.7	6.9	-2.5
Australian Shares					
Large	24.8	13.2	9.4	10.0	11.9
Value	21.6	8.0	5.4	10.3	9.9
Small	10.0	-1.7	3.4	10.1	-1.4
Global Shares					
Large	46.6	22.3	13.7	4.4	33.1
Value	53.9	22.4	12.7	5.7	34.5
Small	56.6	22.9	16.1	7.4	37.5
Emerging Markets	22.1	1.5	-0.2	9.8	6.1
Real Estate	24.2	20.3	14.2	4.3	17.0

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	UBS 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	DFA Global Real Estate
	Data presented may be based on a combination of simulated and actual returns.
	Past performance is not indicative of future performance.

Your Money and Your Life Perspectives

Dear Reader,

Welcome to the August edition. We had to double check the one-year performance figures in the table on the left because we couldn't believe that global shares had done so well! Because we are committed to long-term investing we are not getting carried away with the one-year performance, but we are pleased that there has been a big turn around since the GFC. This month, with the football finals approaching, as well as a federal election, we thought we'd have a **Competition.**

There are three questions for you: for an investment portfolio consisting of 50% Australian Value Shares & 50% Global Value Shares, 1. What is the total one-year return, based on the July 2013 table opposite? 2. What is the total 10-year return?

From the Global Equity Diversification table on the last page of this newsletter 3. How many International Developed Stocks are there in the Multi Factor Growth trust?

First correct entry emailed to us gets to have **lunch at the RACV Club with us**. All correct entries will receive a best selling book that has been described as … *"An excellent primer for the investor who is not a finance specialist".* **Eugene F. Fama**, Robert McCormick Distinguished Service Professor of Finance, Chicago Booth School of Business, widely recognised as the "father of modern finance"

Jim Parker writes this month about how an investor can buy some (expensive) entertainment and accumulate a few war stories to share at his next golf game. He can do this without compromising the asset allocation painstakingly designed for him and his family.

We include a page from Dimensional's ***Quarterly Report for the Multi-Factor Growth Trust*** which looks at Global Equity Diversification. This fund invests in 43 countries and has 7,988 holdings. Is that diversified enough for you? If you'd like to read further about this new trust from Dimensional

Go to our website, it's on the front page, www.integratedwealthsolutions.com.au.
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Last month we introduced you to your **Second Life** (aka retirement) and this month, as part of our continuing series, we continue with further insights.

The Broccoli and Pizza Portfolio

By Jim Parker Vice President DFA August 19, 2013

For some of us, it's hard to give up on the idea that investment should be exciting. Picking stocks can be fun, after all, and there's nothing like getting your timing right and bragging about it later with friends.

For all the accumulated wisdom about asset allocation and understanding risk, and about diversification and discipline, some people seem bound to see investment as an end in itself rather than as a means to an end.

For these folks, picking stocks is a hobby. They follow the gurus and soak up the financial media. Despite evidence to the contrary, they're convinced they can build a consistently winning strategy from exploiting perceived mistakes in market prices.

Part of the reason for this is the natural human tendency toward over-confidence. For instance, we all like to think of ourselves as above-average drivers, when that's simply not possible. Likewise in investment, many of us believe we have powers of foresight not evident in the wider population.

A Duke University study of corporate executives, published in 2010, found a dismal record of prediction from a group you might have thought would do well. Indeed, of 11,600 forecasts of the S&P 500 index over nine years, the survey found executives' estimates of future returns and actual outcomes were negatively correlated. (This is a technical way of saying the executives were hopeless forecasters).[1]

Research also suggests this tendency to trade a lot and make confident forecasts about stocks has a gender bias. Whether it's a testosterone-driven instinct among men to big-note or something else, study after study shows the male of the species finds it harder to accept that they are unlikely to "beat" the market.[2]

For these red meat eaters, an investment approach that advocates working with the market, diversifying around risks related to an expected return, trading efficiently, exercising discipline and watching fees and taxes is going to sound like the financial equivalent of a broccoli and walnut salad – healthy but boring.

Surely the point of investment is to try hard and, Don Quixote-like, to charge at those market windmills? Are we not men?

There are a couple of ways of confronting this mindset. One is to hope for a change in human nature and convince each would-be master of the universe to separate his urge for ego gratification from his need to build wealth patiently and efficiently.

This is not impossible, of course. But one suspects it would take some time and would require an awful lot of face saving.

A second approach is to separate the investment nest-egg from the play money. If someone really wants to speculate on the market, they can be allowed to do that on the proviso that their long-term retirement money be invested the boring way.

This way the investor can buy some (expensive) entertainment and accumulate a few war stories to share at his next golf game without compromising the asset allocation painstakingly designed for him and his family.

It's understandable that for some people investing is a kind of a hobby. After all, this is what keeps much of the financial services industry and media in business.

But in separating the concepts of speculation and investment, you can still enjoy the odd treat while ensuring a balanced diet overall.

Call it the broccoli and pizza portfolio.

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1. Ben-David, Graham and Harvey, 'Managerial Miscalibration', Duke University, July 2010

2. Barber and Odean, 'Boys Will be Boys: Gender, Overconfidence and Common Stock Investment', Berkeley, 2001

I 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.

Dr Baden Rumble
Editor

Disclosure & Disclaimer

That Bit Extra...

Your Second Life

"The leading edge baby boomers are likely to work at least 20 hours a week. They'll be returning for second careers, they'll be going back to school."

Charles Longino, Jr ,Professor of Gerontology, Wake Forest University

Concerns Before and After Retirement

Before	After
1. Health	1. Alienation
2. Money	2. Health
3. Boredom	3.Money
4. Alienation	4.Boredom

Being lonely, cut off from former colleagues, groups and organisations, missing their jobs and feeling behind the times is what worries retirees after retirement.

We say don't retire, transition to your second life!

Multi-Factor Growth Trust

Quarterly Report

June, 2013

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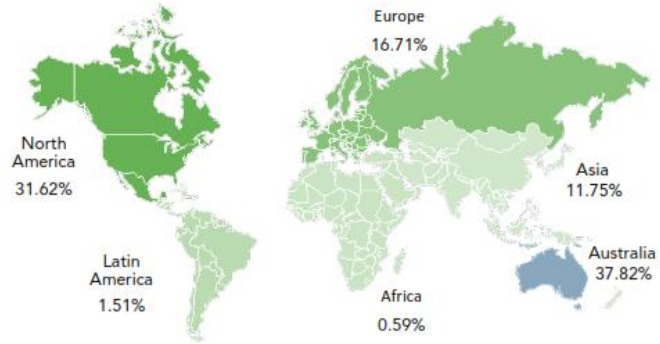
Global Equity Diversification

Exposure to a large number of securities around the world reduces the risk that any one stock or any one market would have a substantial impact on your overall wealth.

		Multi-factor Portfolio Exposure		Global Market
	Countries	Holdings	Weight	Weight
Australian Stocks	1	537	37.8%	3.4%
International Developed Stocks	23	5,546	54.9%	86.2%
Emerging Markets Stocks	19	1,594	7.3%	10.4%
Total	**43**	**7,677**	**100%**	**100%**



TOP FIVE OUT OF 43 COUNTRIES

	CURRENCY	WEIGHT
AUSTRALIA	AUD($)	37.8%
UNITED STATES	USD($)	28.6%
UNITED KINGDOM	GBP(£)	5.7%
JAPAN	JPY(¥)	5.6%
CANADA	CAD($)	3.1%
TOTAL		80.8%

TOP FIVE OUT OF 7,677 STOCKS

	WEIGHT
NATIONAL AUSTRALIA BANK LTD	2.49%
WESTPAC BANKING CORP	2.22%
AUST AND NZ BANKING GROUP	1.86%
WESTFIELD GROUP	1.30%
WESFARMERS	1.23%
TOTAL	9.09%

If you'd like the full Quarterly Report follow the link to our website: