Integrated Wealth Solutions

The Good Life

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

December 2014

Period ending November 2014

Fixed Interest					
Years	**1**	**2**	**3**	**10**	**YTD**
One- year	2.8	3.0	3.4	5.2	2.6
Two-year	3.1	3.3	4.0	5.4	3.0
Five-year	5.1	4.2	6.0	6.8	5.7
Long Term	18.3	5.5	7.6	7.4	17.9
Australian Shares					
Large	4.8	14.3	14.8	8.2	4.1
Value	0.0	10.6	9.4	6.6	-0.2
Small	-2.3	2.3	2.5	5.7	-4.8
Global Shares					
Large	15.5	30.0	23.6	5.8	10.7
Value	11.6	29.8	24.0	5.7	6.8
Small	9.1	31.1	24.0	7.2	4.2
Emerging Markets	8.4	14.2	12.3	8.3	6.8
Real Estate	28.5	23.2	22.7	4.3	27.0

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	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	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.

What We Are Thinking

Dear Reader,

Welcome to the December and last edition for 2014 of *The Good Life* .This month, we look at *Festive Forecasting* with Jim Parker. How can we stop making the same old mistakes that we are hard-wired to keep on making? Also keep watching those episodes of *How To Win The Loser's Game* over Christmas and the New Year.
http://www.sensibleinvesting.tv/how-to-win-the-losers-game-part-4

Speaking of last editions, this will be Baden's last newsletter as editor because he is taking up another position in the financial services industry. Congratulations Baden.

He has enjoyed communicating with you over the last decade and he hopes you will continue to be informed and entertained by future editions of *The Good Life*.

He wishes you all the best for the coming festive season.

This year, while Baden is heading to Canada for a white Christmas, Ian is heading for the beach after Christmas & into the New Year. He will return to Melbourne mid-January.

Ian would like to thank all clients and readers and wish you and your families a Peaceful and Happy Christmas and a Wonderful New Year.

In *That Bit Extra* we've included an article from serial entrepreneur and XPrize founder **Peter Diamandis,** talking about the coming robot revolution**,** from a positive perspective.

Peter Diamandis foresees that in the near future, we'll see robotics making a significant impact in five areas.

We are particularly interested in the use of robotics in Healthcare. Any way robots could help make nurses' work easier, and more fulfilling would be wonderful. It's sure to be a booming area, particularly as we age.

We also have a link to Tesla, the electric car coming to Australia in 2015 that's going to rock the car industry.

Festive Forecasts

December 9, 2014

As human beings, we are hard wired to tell stories about our experience. Applying tidy narrative structures to often random events helps us to make sense of the world. And this impulse tends to really kick in around the end of the calendar year when we're taking stock.

Tapping into this tendency, media outlets populate their year-end editions with stories that seek to build catchy tunes out of noisy reality. In the financial media, the set narrative is applied to investment. So we're told this year has been all about "x" and next year will be all about "y".

Annual investment outlooks and media round-tables about the year ahead can be entertaining to read, of course. Everyone has a right to their opinion, and some professional pundits can be adept at telling convincing sounding stories about the future that resonate with readers. But problems can arise when individual investors act on those forecasts, overlooking how much each scenario is dependent on a whole host of other assumptions. Ultimately, the world is much more complex than any conventional narrative can accommodate.

For instance, each year around this time *The Australian* newspaper publishes its "Top 100 Picks"[1] for investors in the coming 12 months. Inevitably, there are some winners in the "collected wisdom" of the journalists and contributors, but there are also plenty that miss the mark.

Often these picks are based on a view about a particular sector. So we were told a year ago that Moko Social Media (MKB), which builds smartphone apps, would be a "cool dude" investment for 2014. Cool perhaps, but not in a good way. As of early December, Moko's one-year return was -45%.

Not deterred by its disastrous picks in the gold sector the year before, the newspaper doubled down in its 2014 outlook, singling out miner Beadell Resources (BDR) as one seen as "absurdly undervalued". Well, perhaps not by enough, as Beadell was down by 73% a year later.

Elsewhere among miners, *The Australian* saw exciting prospects for Guildford Coal (GUF). But perhaps the panel didn't count on the 15-20% slide in coal prices in the intervening year as the stock had delivered a one-year return of -51% as of early December.

In the gaming sector, the newspaper's forecasters picked two stocks. One of them, slot machine maker Aristocrat Leisure (ALL), delivered with a positive return of 45%. But the other pick, rival gaming machine maker Ainsworth Game Technology (AGI), fell 50%. Call it a 50/50 bet then.

Ultimately, it seems clear that investing this way (judging the future prospects of individual companies) is a bit of a crap shoot. You'll get some calls right and others wrong. And even your good calls, based on the individual company information, can come undone due to outside influences.

For instance, resource companies can be hostage to the commodity price cycle. Retailers can be influenced by changes in household spending patterns and the macro economy. Regulation and interest rate cycles can influence the fortunes of financial services companies.

So even if you carefully study each company's management, product range, industry position, balance sheet, analyst ratings and all the other variables that influence its outlook, there is still no guarantee you will get it right. There are just so many variables to consider.

We have seen that "bottom-up" forecasting (judging the outlook for individual securities) is notoriously difficult. But top-down forecasting (picking the movements of big economic variables) isn't easy either.

In January of 2014, *The Sydney Morning Herald* asked a panel of six economists their forecasts for cash rates, the $A and shares. While their forecasts for the currency and shares were broadly correct, all six predicted cash rates would rise. As of yearend, though, the cash rate remains at 2.5% and the market increasingly expects the next move to be down.[2]

It seems pretty clear, then, that basing your investment strategy upon the forecasts of share analysts, economists and journalists about the outlook for individual companies, sectors, industries and the broader Australian and global economy is a dicey proposition.

So what can you do? First, you can start by accepting that all those views about the outlook—from the rosy to the gloomy—are already reflected in market prices. Some people will get it right sometimes. Others will get it wrong. But the winners and losers are changing all the time.

This is no reflection on the skills of forecasters, by the way. Their cases may be based on first-rate analysis. But because they can't forecast every variable and because new information is always coming into the market, their assumptions can quickly go awry.

The alternative to hitching your fortunes to a forecaster is to harness the collective information already built into prices, which are always changing as news develops. By the time you have spent days and weeks poring over forecasts, the market has already moved on.

The second thing to do is diversify. Will Australia outperform global shares in 2015? Will interest rates rise? Will they fall? Has the Australian dollar bottomed out? Will mining stocks recover? What will drive growth domestically? How about internationally? Which sectors will perform best?

The truth is no-one knows the answers to these questions with any confidence. We see that over and over again. So the smart response is to spread your risk. Some sectors will do well next year. Others will do badly. As we don't know which is which, we can own a bit of each of them.

The third thing to do is to focus on things you can control. Costs can make a huge difference to investment outcomes, as can taxes. What matters to you ultimately are not just the returns from your investments, but what is left in your pocket after fees and taxes.

A final reminder is to regularly rebalance. That just means ensuring your allocation to various asset classes remains in line with your original targets based on your risk appetite and goals. So if shares have had a bad year and bonds a good one, you might take some money out of the strong performer and reinvest into the underperformer. This means you are selling high and buying low.

Most of all, keep in mind that risk and investment go hand in hand. No investor can expect greater returns without bearing greater risk. As we don't know when risk will be rewarded, the best approach is to stick to the plan you decided on with your financial advisor.

It's in our nature at the end of the year to look back on the last 12 months and project possible outcomes for the coming year. The danger, as we have seen, is in investing our own money in a forecast that assumes the world is much less complex than it really is.

Letting go of the idea that successful investment comes from making accurate predictions about the market and economy can free you up to focus on what is within your control—like asset allocation, diversification, costs, taxes, discipline and rebalancing. In the meantime, many happy returns!

IWS's comment about 2015 would be to save hard, pay down debt with rates so low and build up your cash for buying opportunities. While the Australian stock market struggles along, it's flying in the US. As we've said before a drop in the market is just like shares being on sale. Be ready and full of courage.

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.

Baden Rumble
Editor

Disclosure & Disclaimer

That Bit Extra…

What's In Store For The Future?

When serial entrepreneur and XPrize founder **Peter Diamandis** *talks about what's in store for tomorrow's leaders, the conversation verges on ecstatic. Can you blame him? Through his own initiatives, he's working to prolong human life (Human Longevity), commercialize space flight (Space Adventures), and mine asteroids (Planetary Resources). Diamandis, whose new book, Bold, hits stores in February, encourages entrepreneurs to aim high.*

Finally, the robot revolution is arriving.

There's a Cambrian explosion in robotics, with species of all sizes, shapes and modes of mobility crawling out of the muck of the lab and onto the terra firma of the marketplace, about to enter your home and your shopping experience.

Here's why…

4 Converging (Enabling) Technologies

Four converging tech areas enable the revolution. I write about this in detail (both the technologies and business opportunities) in my next book ***BOLD*** (coming out February 2015). *See if this makes sense…*

1. **Sensors:** The sensors that cost you $10 today would have been military secrets costing you tens of thousands of dollars 20 years ago. Sensors that listen, look, feel and navigate are plummeting in cost, size, weight and power consumption, thanks to the smartphone revolution.
2. **Infinite Computing:** Your mobile phone processor is a supercomputer from 20 years ago. Better yet, it's connected to the cloud and enables near-infinite computing. Combined with sensors, this allows robots to have situational awareness and "comprehend" contextual information in real time.
3. **3D Printed Parts:** Smart design software and 3D printing technologies are allowing entrepreneurs to rapidly design, prototype and build novel robots and test them in the market before committing to production.

4. **Open-Source Movement:** There is a massive online open-source movement sharing designs, posting software updates, answering questions and more. Whatever expertise you need you can find online, 24x7, for free. Post a question, get it answered.

As I've mentioned in previous blogs, there was a big move made in Q4 of last year when Google announced the acquisition of eight robotics companies, including Boston Dynamics. At Google, they're playing with delivery drones, autonomous communication balloons and self-driving cars.

In recent months, we've seen the introduction of robotic guards (Nightscape's K5, for example) and Savioke, a robot delivery boy in hotels and hospitals. Fellow Robots (a Singularity University startup), has partnered with Lowe's to introduce autonomous retail robots that know what's in stock and where items are located (see below).

Here's what's most exciting for me…

5 Top (Consumer) Robotic Applications

In the near future, we'll see robotics make a significant impact in the following areas:

Drones: You can now buy a drone that sends images to your iPhone for $50. This technology would have been highly classified as a military secret 10 years ago. Another one hovers and takes your selfie. Others will image your home on demand or carry your package from village to village.

Autonomous Cars: Make no mistake, autonomous cars are robots, and every major car company is working on their own version. This year, Google's self-driving cars have logged over 1.2 million autonomous miles. Tesla's recently announced Model D has an autopilot and will park itself in your garage (assuming you own it).

Retail: ***Fellow Robots*** has partnered with Lowe's to supply their first generation of "OSHBots" -- autonomous robots that know where all of the store's merchandise is located, can navigate the aisles on their own, can interact with customers with natural language (in multiple languages), and help you fulfill your visit to the hardware store quicker and easier. We're also seeing the introduction of robotic guards (***Nightscape's K5 & K10***) that will roam your store looking for intruders. Then there's ***Savioke's Botlr*** robot. Botlr is a fully autonomous robotic hotel servant, programmed with a detailed map of the hotel and able to deliver a toothbrush, boarding pass or newspaper to a guest's room.

In Your Home: It started with the Roomba years ago. Now, I have ***Suitable Technology's Beam*** telepresence robot that I use to visit with my kids during breakfast or dinner. I can pilot my Beam robot around the house, find my kids and chat with them. I also use the Beam (12 of them in total) in all of my corporate locations.

Healthcare: Robotics have hundreds of applications in healthcare and medicine. Robotic surgeons, like the da Vinci robot, will perform more accurate surgeries without the limitations of humans (shaky hands, lack of sensors, viewpoint limitations). Robot nurses will patrol the hallways of hospitals monitoring the vitals of patients and alerting doctors to urgent situations. Telepresence robots will allow the best diagnostician to beam in and consult on your case. Robots will help nurses lift heavy patients, and other robots will provide affection and mental stimulation to the old and frail.

Things Are Going to Flip

Today, robots are still early in their design and user interface. You don't know whether to trust them or ignore them.

But that will change.

There will come a time, soon enough, when you're at the hospital and an older-looking surgeon approaches you.

Your reaction will be, “Oh no! ***No, no, no…*** I do not want that human cutting me open. I want the robot that has done it perfectly a thousand times to do the operation.”

Same in the retail store. Do you want the human who kinda knows what you want and where it is, or the Robot that doesn’t chit-chat, and takes you directly to the item you need – or, better yet, goes and fetches it, charges it to your account and says a polite “thank you” at the end?

There will be a moment where things are going to flip.

And robots will be your preferred interface.

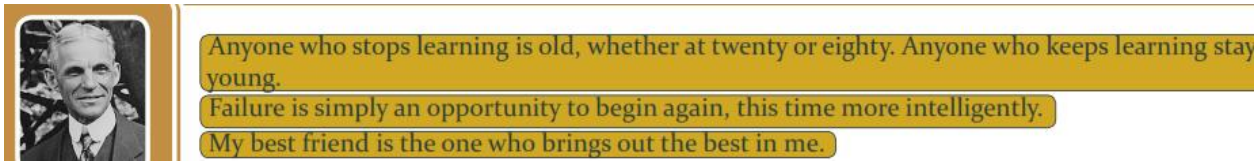
Start Thinking About This Today

How is this going to affect you? How is this going to affect your business?

We need to start thinking about and preparing for these changes now.

Another Disruption, This Time To Cars

Henry Ford changed the world and now Tesla co-founder and CEO Elon Musk may do the same.



http://www.teslamotors.com/en_AU/blog/tesla-unveils-model-x

They look good don’t they!