Integrated Wealth Solutions

The Good Life

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

September 2014

Period ending August 2014

Fixed Interest					
Years	**1**	**2**	**3**	**10**	**YTD**
One- year	2.9	3.1	3.6	5.2	1.9
Two-year	3.3	3.4	4.0	5.4	2.1
Five-year	5.8	4.1	5.4	6.8	4.1
Long Term	12.3	3.5	7.9	7.4	13.3
Australian Shares					
Large	14.8	20.0	15.5	9.8	8.4
Value	12.2	16.9	11.7	8.6	7.8
Small	10.8	10.6	4.7	8.6	7.1
Global Shares					
Large	15.2	26.1	21.3	4.8	1.6
Value	15.7	29.2	22.8	5.5	1.6
Small	15.4	30.5	22.5	7.2	-0.4
Emerging Markets	16.1	17.4	8.9	9.1	7.0
Real Estate	18.5	18.1	18.6	3.6	15.4

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 September edition of The Good Life. Isn't it a wonderful time of year, here in Australia, down in Melbourne? Flowers, bushes and trees adding colour and beauty to the day and a crispness in the air that calls you to action.

Last weekend Ian attended his mother-in-law's 90th Birthday celebration. She's still living in her home and enjoying life, spoilt by her children and grandchildren. Her mother had also lived past 90. We have been studying longevity risk. The risk of outliving your money and we think it is much more than a risk, it's a certainty, especially for healthy active baby boomers like our readers.

It is clear to us that the only way to survive is to stay a long-term investor all your life. Not just while you are working.

This month Jim Parker writes about taking the guesswork out of investing. There are four important things to remember and we have marked them out in blue in his article. The magic word is "diversification", which we use to invest your money.

In That Bit Extra we've included some information about Alibaba. Not a story from the Arabian Nights but the biggest ever IPO (Initial Public Offering) of a Chinese company on the US stock market. Bigger than the Big Australian, BHP. Alibaba is similar to Amazon or Ebay but operates in China, and it already has more transactions (USD$248 BILLION in 2013) than those two combined.

It makes us reflect on the fact that, despite what you read in the Australian newpapers, we are pretty insignificant on the world stage.

Taking Out The Guesswork

September 23, 2014

It was late 2012 and US Congressional leaders were in tense negotiations on the "fiscal cliff" — a January 1 budget deadline to avoid huge tax hikes and spending cuts. Amid this standoff, equity analysts were cautious about the 2013 market outlook.

With the negotiations dragging on, newspaper *Barron's* surveyed 10 strategists about equities' prospects for the coming year. The mean prediction for 2013 was for a price gain in the US benchmark S&P 500 index of about 10%.[1]

"This month's knotty negotiations among lawmakers over the so-called fiscal cliff…greatly complicate the job of forecasting next year's market returns," the newspaper said, quoting several analysts as dismissing hopes of a deal.

Across the Atlantic, an easing in Europe's sovereign debt crisis had spurred confidence in markets there, though there was still concern among analysts about whether the recent reversal in sentiment was sustainable.

"Risks abound for next year", Reuters reported, citing turmoil in Italy, Spain, France and Greece and a looming general election in Germany. "The downside risks are less than they were, but they have not been removed."[2]

In Japan, the yen dropped to a 27-month low in December 2012 as a newly elected Prime Minister Shinzo Abe pledged drastic and aggressive action to revive a moribund economy which had been battling deflation for 15 years.

Given the backdrop of the time, the hedging of bets and the prevarication among forecasters looked completely reasonable. There was a lot of risk around and it was difficult to forecast market returns with any sense of confidence.

So, what happened? The US Senate at New Year passed legislation to avert the fiscal cliff and attention turned back to the wider US economy. Europe stumbled on economically, but its equity markets stormed ahead. And Japan showed signs of responding to the Abe stimulus, sending its equity market dramatically higher.

In fact, the US market was the top performing developed market in the world in 2013. The S&P 500's gain of just over 30% represented its best calendar year performance in 16 years and was three times the forecast of the Barron's survey.

European markets were close behind, with Germany posting gains of a little over 30% in the year. Spain, which in late 2012 was pleading for money to bail out its banks, was the third best performing developed market in the world.

Even Japan, a market which had repeatedly disappointed investors over the years, staged an extraordinary rally to post its biggest annual rise since 1972, thanks in part to the stimulus efforts of the Abe government.

At the other end, Australia, for so long deemed the miracle economy, was one of the laggards. While its gain of just over 20% was respectable, it nevertheless made it the second worst performing developed market after Singapore.

What are we to make of all this? Well, firstly, it seems evident that developing a reliable investment strategy on a forecast is extremely difficult. We have seen that even the most highly paid stock analysts struggle to get it right.

What happens to be driving markets when they issue forecasts is not necessarily what will drive markets in the period ahead. Getting that right requires them to correctly anticipate the news AND guess how the markets will react to the news.

Secondly, there is no real reason to be betting about which market will perform best in the coming year or longer. Concentrating your portfolio in one country or in one sector or one asset class just exposes you to unnecessary risk.

And remember, a bet on one market at the expense of others not only means you are taking needless risk, it also means you may miss opportunities elsewhere.

Thirdly, a strong economy does not necessarily imply strong share market gains going forward. When the news is bad, investors discount share prices to reflect what they perceive as the risks ahead. Lower prices relative to fundamentals just means those securities or markets are offering higher expected returns.

Finally, there is a way of taking out the guesswork so that you minimise unnecessary risk, maximise opportunity and smooth out the bumps along the way. It's called diversification. If you don't know which markets will perform best from year to year, you hold a globally diversified portfolio.

By owning a little bit of many markets, you are ensuring you are in your seat when each market gets its turn at the top and you avoid the pain of having all your money staked on the one at the bottom.

This is the benefit of diversification. Chopping and changing and second guessing is a costly business. It's better to assume the market knows best.

And that way, no guesswork is required.

1. 'Outlook 2013', Barron's, 17 Dec 2012

2. 'Investors Bet on Euro Assets in 2013 Despite Risk', Reuters, 15 Dec 2012

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…

Alibaba is China's — and by some measures, the world's — biggest online commerce company. Its three main sites — Taobao, Tmall and Alibaba.com — have hundreds of millions of users, and host millions of merchants and businesses. Alibaba handles more business than any other e-commerce company.

Alibaba is the most popular destination for online shopping, in the world's fastest growing e-commerce market. Transactions on its online sites totalled $248 billion last year, more than those of eBay and Amazon.com combined.

China's E-Commerce Market

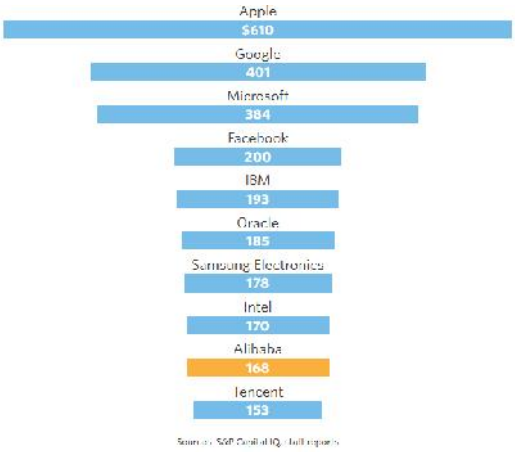
$74 billion in 2010, $295 billion in 2013 and $713 billion estimated in 2017 Source: iResearch

80% of China's online shopping market is dominated by Alibaba. Source: CLSA

MARKET CAPITALIZATION

Alibaba became one of the most valuable tech companies in the world after raising an initial $21.8 billion from its U.S. IPO. It is also one of the most valuable Chinese public companies, ranking among some of the country's state-owned enterprises.

How Alibaba Compares With the Biggest Tech Firms



How Alibaba (USD$168 B) compares with Australian Companies (in US Dollars)

It's Already Bigger than the Big Australian.

BHP	**$162 Billion**
CBA	**$112 Billion**
Rio	**$97 Billion**
NAB	**$71 Billion**
Telstra	**$59 Billion**