Your Wealth Bulletin

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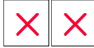

Hi,

Sharemarket Reminders

The rewards of risk

While painful to endure, when stockmarkets suffer underperformance to that of their historical averages, in the short term it can serve as a wake-up call about risk and return.

The reason is that if stocks were not volatile investments, they simply would not provide a risk premium above that of other investments.

Periods like 1929-32, 1973-74 and 2000-02, when the US market index lost between 15 to 23%, is the reason why the stockmarket has historically produced annual returns of 10-12% per annum.

The standard deviation (or volatility) of that risk premium in the US market for example, has been about 20 percent.

Just like property, share investing involves risk of losses-if those bear markets didn't occur, investors would not have earned those great returns that disciplined buy-and-hold investors were rewarded with because the risk premium would not have been there in the first place.

Bad periods remind investors that there is risk and that volatile investments are priced to compensate investors for taking that risk in the first place.

As we discussed last month, and as shown in the Fidelity illustrator, if you are a disciplined buy-and-hold investor then the volatility along the way is simply noise testing your resolve.

Over the last 107 years of the Australian sharemarket,

no consecutive period of 8 years or more has resulted in losses.

Therefore staying in your seat while the market rides it's up's and down's means that while there are risks in the short term, this volatility will be washed away over time and you will be rewarded for your discipline.

A leading adviser from the US, Larry Swedroe points to the fact that investors with knowledge of financial history are sufficiently forewarned so as to have the discipline to stay the course. They actually look at periods of underperformance as opportunities to buy shares when they are effectively 'on sale'.

Swedroe concludes with his point that 'the market is a mechanism that transfers wealth from those with a strategy and strong hands, to those without one and weak hands.'.

Property within superannuation

New financing arrangements

The September 24 changes from last year means that you can now effectively borrow money to finance purchases within superannuation.

This includes shares, property and even art.

Due to the unexpected nature of this legislation, it has taken a few months for the banks to evaluate what this all means and how they can offer a finance service for clients.

Based upon the communication with a number of financial institutions, they certainly haven't sat on their hands as a host of Superannuation Loans are about to hit the market in coming weeks.

Yesterday, Macquarie announced their new Property Lever package that is for residential property. It has 55% borrowing limits with the super fund providing the other 45% of the purchase price. The choice of the property is entirely for the investor.

A range of other providers are expected to announce their offerings for both residential and commercial property investment within the next 2 weeks with rates anticipated to vary from 9.3% up to 10.95% depending

upon security and borrowing ratios.

Given the hot competition in the home loan market, it seems assured that the new finance for superannuation will take a similar path in coming months.

If you would like to know more about leveraging superannuation and how the new legislation may effect you, feel welcome to email david@reedfinancial.com.au or call us directly on (02) 9525 0777.

If you have any queries about this month's newsletter or would like to discuss your financial situation in more detail, please feel free to email or call our office on (02) 9525-0777. If you would like to forward this email to a friend, click on the forward email link below.

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