MONEYNEWS

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Welcome 2016

Happy New Year! Summer is in full swing and that means lazy days outdoors and weeks of cricket and tennis on our TV screens. Hopefully you have also had time to make plans for the year ahead and reflect on the year that was.

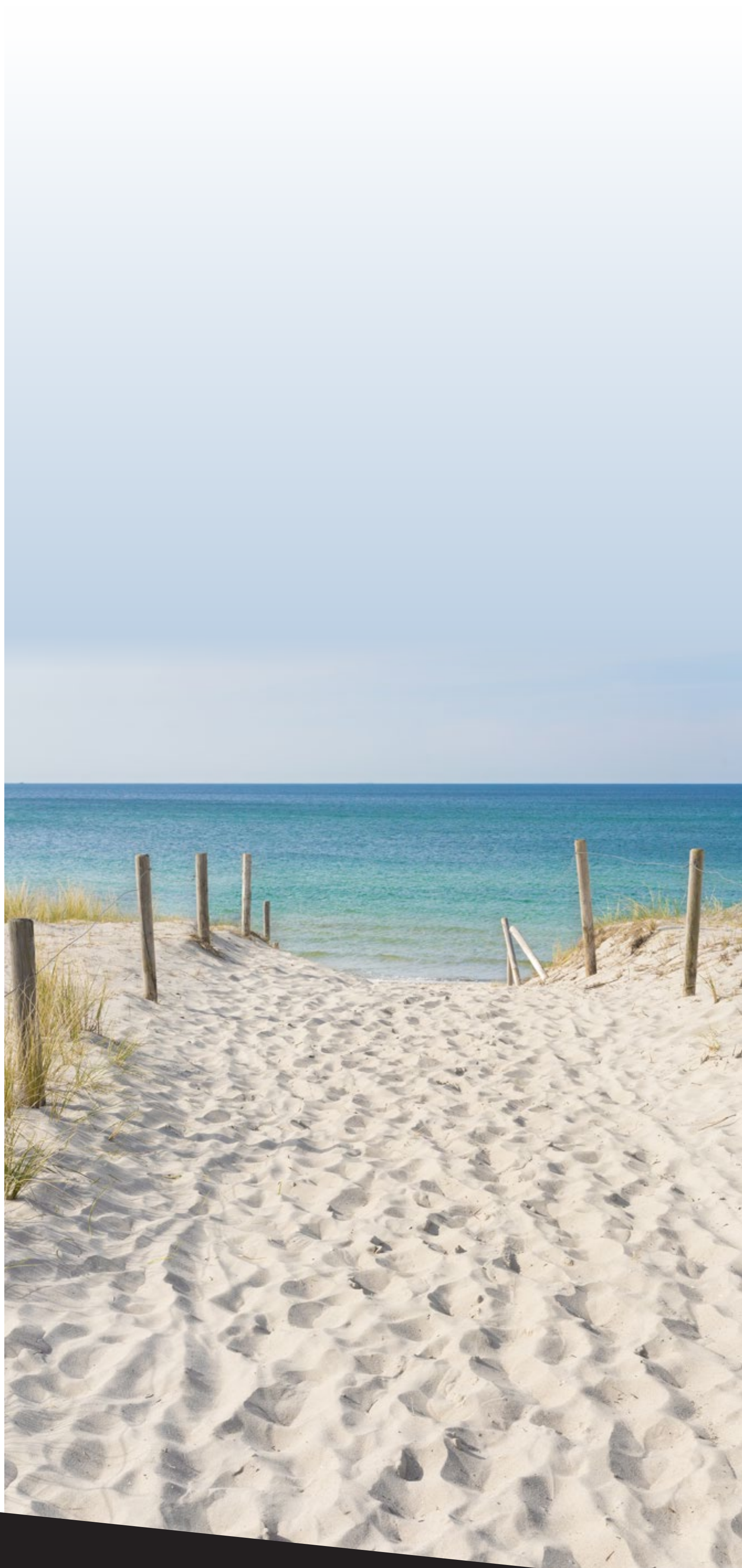
For Australian investors, 2015 was a year when investment selection mattered. Residential property in Sydney and Melbourne rose more than 11 per cent but values fell in four capital cities. It was a similar story on the sharemarket. Resource stocks fell 38 per cent along with commodity prices, while industrials were up 13.5 per cent including dividends.

On the economic front, positive consumer and business surveys in December, along with reports of strong retail sales heading into Christmas, give cause for cautious optimism going forward.

Australians' perceptions of their family finances compared with a year ago were at their highest level in seven years, according to the last ANZ-Roy Morgan consumer confidence survey of the year.

Global investors spent most of 2015 asking "will she, won't she". And in December, she did. After much delay, US Federal Reserve chief, Janet Yellen announced a long-anticipated rise in interest rates from an effective rate of zero, where they were stuck for almost eight years, to a range of 0.25-0.5 per cent.

The move was an important vote of confidence in the ongoing US economic recovery. And despite the rocky start to share market trading in 2016, a strengthening US economy is good news for investors everywhere.



Why a New Years Revolution is better than a New Years Resolution

It happens every 31st of December. Millions of people all over the western world promise themselves to improve at least one important aspect of their lives and make it their New Year's Resolution to do so.

According to Wikipedia, the most popular resolutions remain unchanged year after year, drawn from a list that includes getting out of debt, saving money, getting a better job, getting fit, reducing stress, drinking less alcohol, and quitting smoking. Sound familiar?

Broken resolutions

These are all important and worthwhile goals, but here's the sad thing. Research indicates that by January 7th of the new year, 29 per cent of these resolutions will already be broken. And this attrition rate will continue, so that up to 54 per cent are likely to have been abandoned after 6 months[1].

So how can you make sure that you will be one of the minority who do not break their new year's promise to themselves? We think the answer is a New Year Revolution instead of a New Year Resolution – a whole new way to approach this important commitment.

Plan to succeed

The first thing you should do is decide whether or not you have the time and energy available to achieve the change you want, because if your life is already overcommitted you are more likely to fail than to succeed. If your day is already overcrowded, for example, it is unlikely that you will find the extra 30-60 minutes each day to jog, swim, ride a bike or go to the gym unless you drastically reorganise things.

It is also important to prepare yourself long before New Year's Day. Don't promise yourself to start eating healthier food from January 1st and then do nothing about it until after feasting at Christmas. Start investigating a healthier eating plan now, source suppliers of healthier foods like an organic home delivery service, see a nutritionist if you need to, and be ready to start your healthy eating plan on January 1st.

Similarly, if you are resolved to achieve a healthier work-life balance in 2016 by giving more time to your partner, family, social life or personal fitness, you are going to have to work out how to implement your new priorities well before the new year starts. Isn't the December break a great opportunity to experiment with some new routines and make some key decisions about how you can spend fewer hours at the office without sacrificing the quality of your work?

Be patient after you have made your resolution. It takes 21 days to make a new habit so forgive any lapses, stay focussed on you goal and you will get there.

As you can see, the difference between wishful thinking and real behavioural change is commitment and a plan, and this is never more important than when planning a brighter financial future.

In a famous Yale University survey graduates were asked if they had ever written down a financial plan. Only 3 per cent said Yes. Twenty years later, they quizzed the same graduates about their financial worth. The 3 per cent who had taken the trouble to write down a plan were richer than the other 97 per cent put together. (It also helps if you can automate the plan – a bank transfer to place part of your salary to an investment account every month, for example, eliminates the need for willpower.)

And finally, tell all your friends about your resolution so you can earn their praise if you succeed and feel their scorn if you fail – peer pressure is a powerful incentive!

Three simple steps to staging a New Year's Revolution in 2016!

1. Commit yourself
2. Prepare a plan
3. Make your commitment known to others

Let us know if we can assist in helping you achieve your financial revolution.

References: 1. Norcross, John C., Ratzin, Albert C., & Payne, Dorothy. (1989). Ringing in the new year: The change processes and reported outcomes of resolutions. Addictive Behaviors, 14(2), 205-212.

Shaking things up

The business disruptors

When car-sharing pioneer Uber was born five years ago in San Francisco, few would have predicted the speed and size of the impact it would have on the taxi business. Or that in five short years it would become a business valued at US$50 billion, with operations in almost 60 countries.

Fewer still contemplated the trickle-down effect this success story would have on taxi equipment makers, car fleet manufacturers and even listed company Cabcharge, which has seen its share price halve in 12 months.

From the advent of motorised vehicles killing off horse-drawn carriages, to media streamers speeding up the demise of DVD rental stores, business disruptors have been around for centuries. And while the economic and investment fallout is considerable, so are the potential benefits.

Uber is judged for having taken away fares from the traditional taxi industry, despite the high-profile company having legions of happy passengers all over the world.

Stay informed

The challenge for investors in a time of rapid change is to be aware of what is happening and the potential impact on your investment portfolio, without being swept away by the glamour of the new or burying your head in the sand.

At the outset of a new business or technological trend, it can be difficult to predict which companies will be the Apple or Facebook of the future. Often it is easier to predict which companies are likely to be adversely impacted.

When cars first started rolling off the Ford production line, it was clearly not the time to invest in a blacksmith store.

Similarly, if a company today is struggling to compete with nimble newcomers, its profits are in terminal decline and management has no plan to deal with the challenges facing its industry, then it is worth considering if that business deserves a place in your portfolio.

Winning ways

The three hallmarks of game-changing disruptors in the digital age are a product or service that is cheap, flexible and easy for the customer to navigate on a smart phone around-the-clock.

Unlike the taxi industry, some traditional companies such as airlines and telcos have moved quickly to respond to the threat of efficient, no-frills operators by diversifying into low-budget products themselves.

Faced with cut-price competition from more nimble mobile phone plan players, Telstra partnered with Boost Mobile. Boost matches its cheaper rivals' offering of unlimited calls and texts, data use and cheap monthly payments.

Through the alliance, the giant telco has cast a safety net under its core business by competing with the disruptors in a new space, where existing customers may not necessarily be lost to rivals.

However, other companies will struggle to stay competitive as the disruptors spread quickly from one industry to another, unburdened by large payrolls and expensive technology that weighs down incumbents with high overheads.

Crowd pleasers

Among the new players shaking up old-world thinking here in Australia and elsewhere are online accommodation hub Airbnb, household job outsourcer Airtasker, fast loan provider Nimble, cloud-based human resources specialist Zenefits and car insurer Metromile, whose premiums are calculated according to a driver's mileage.

Each of these disruptors has a customer-focused, high-tech model that challenges the revenue making strategies of some of the nation's largest, household-name companies. But only time will tell which of these trailblazers lasts the distance. You need only cast your mind back 10 years or so to the promising new telco, One. Tel which collapsed spectacularly despite the hundreds of millions invested in it by backers.

And not even the major banks are immune. Research by Macquarie shows that electronic payment platforms, smart phone-based lending products and automated financial advice have the potential to hurt future bank profits.[2]

But before you dump your blue-chip investments in favour of running with the tech bulls, it is worth considering that not all disruptors are capable of sustaining valuations beyond the honeymoon of a spectacular listing.

If you would like to discuss your investment portfolio in light of the opportunities and risks in the new era of disruption, give us a call.

References: 2. 'Digital disruption could cost Australian banks $27bn a year' by Stephen Letts, ABC News, 4 July 2014, http://www.abc.net.au/news/2014-07-04/digital-disruption-could-cost-australian-banks-27-billion-dolla/5571948

Investing
An emotional business

Common sense may say that the time to invest is when markets are down, but the reality is that most investors wait until markets are running hot before they get on board. Then, terrified of losing money, when the market starts to fall, they sell.

The psychology of an investor plays a significant role in what drives financial markets and explains in part why the prices of many assets, including property and shares, go through booms and busts.

Two common characteristics of human behaviour that tend to play havoc with many investors' decision making and investment markets are fear and greed.

Fear may prevent you from buying something when it appears to be out of favour because of the possibility of losing money. Greed may encourage you to aggressively chase returns into investment opportunities beyond your normal comfort level.

There is another type of investor who may be less worried about the risk of losing money in the short term. They are more focussed on the possibility of long terms gains based on their view of the company and broader economic conditions. This person may invest regardless of what the market is doing.

The same investor might prudently rebalance their portfolio back to a desired asset allocation using an objective rationale. For example, they might want to maintain a balance of 60 per cent shares and 40 per cent fixed interest so will buy and sell investments to ensure that mix is maintained over time.

Rather than make decisions rationally based on available information, most investors left to their own accord are much more likely to let their emotions drive at least part of the process.

It is because of emotion that most investors sell when markets are close to their bottom and buy when markets are nearing their peak.

Loyalty doesn't always pay

Feeling loyal towards an underperforming company just because you have held the shares for a long time is no reason to keep holding them. Nor is buying shares in a company just because you are envious of others having them.

There are numerous investor behaviours that may be hard to identify and control. It may be dwelling on what has happened in the past as an indication of what may happen in the future or getting carried away and making over-zealous decisions when markets are running hot.

Reactions such as these can be common, particularly when markets are going through periods of boom and bust, such as we saw in the lead up to and during the Global Financial Crisis.

It is important to understand that investment markets are driven by more than just fundamentals and that investor psychology plays a significant role.

Just by understanding that emotion rather than logic can play a significant role in the decision making process can go a long way in helping you make rational decisions and, hopefully, avoid bad ones.

Common biases

There are several common biases that have been identified by psychologists as influencing investor behaviour; once recognised these biases may be resolved:

Herding: Safety may well come in numbers, except when the numbers are only growing because others are there. The reality is that large numbers of people can be wrong and when they are, the damage can be a lot worse. By following the crowd, or herding, individuals are more likely to buy when markets are near their top and sell at the bottom.

Familiarity: Investing in a company or an area you are familiar with is understandable, but there may be consequences if part of your aim is to have a diversified portfolio. For example, buying shares in companies in only your own country, while ignoring opportunities in other countries, fails to recognise the benefits of diversifying against geographical risk.

Anchoring: Nobody likes to think they have made a bad investment decision, but it doesn't always pay to get set on something like a share price or old information. A company whose shares suddenly drop from $20 to $10 isn't necessarily going to get back to $20 just because it was there once.

Loss Aversion: If there is a good way to destroy investment returns, it is to hang onto loss making investments in the belief they will come good and to sell winners quickly just for the instant gain. We do this because we feel more pain from a loss than we feel happiness from a gain.

The highly successful US investor Warren Buffet turned the phrase "be fearful when others are greedy and greedy when others are fearful" knowing that investors don't always act rationally and when money is involved, emotions can run high.

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