Insight

PALLADIUM WEALTH PARTNERS NEWSLETTER AUTUMN 2016

Welcome

INSIGHT **AUTUMN 2016**

From all the team at Palladium Wealth Partners, welcome to the Autumn edition of our in-house newsletter.

Each new year heralds a new beginning and we hope the start of your 2016 has thus far proven to be a positive one.

With almost a quarter of the year gone and with it the end of Mad March in Adelaide and hopefully the hot and humid weather we have experienced over the summer, we can now turn our focus towards the cooler months of Autumn, the end to daylight savings and in general to the mid year cycle of events — dare we say it — the upcoming Federal Budget.

In fact, we are looking forward to hosting the Palladium Wealth Partners Client Seminar in May which will provide you with insights to the highly anticipated Turnbull Government's first Budget in this an election year as well as receive a unique economic perspective from our guest speaker, Stephen Halmarick, who will provide his view of financial markets.

We hope you and anyone else you may know who would be interested can attend and we anticipate sending out your personal and guest invites in April.

In the interim, in this edition of our newsletter, we provide the latest market update, whilst also including articles about:

- Back to School —Teaching Gen Y about Money; and
- Mind Games — What's your Bias?

In the 'Rear View" we introduce you to our latest addition to the Palladium Wealth Partners team.

In final, with Easter once again drawing near, we extend our well wishes to you and hope your Easter break may be safe and enjoyable with loved ones and friends.

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Palladium Wealth Partners Client Seminar

Tuesday 24th May 2016

ADELAIDE PAVILION

Corner of South Terrace and Peacock Road ADELAIDE

STEPHEN HALMARICK
Head of Economic and Market Research
Colonial First State Global Asset Management (CFSGAM)

Widely regarded as one of the best economic commentators and presenters in Australia it gives us great pleasure to host Stephen as our guest speaker for the May seminar.

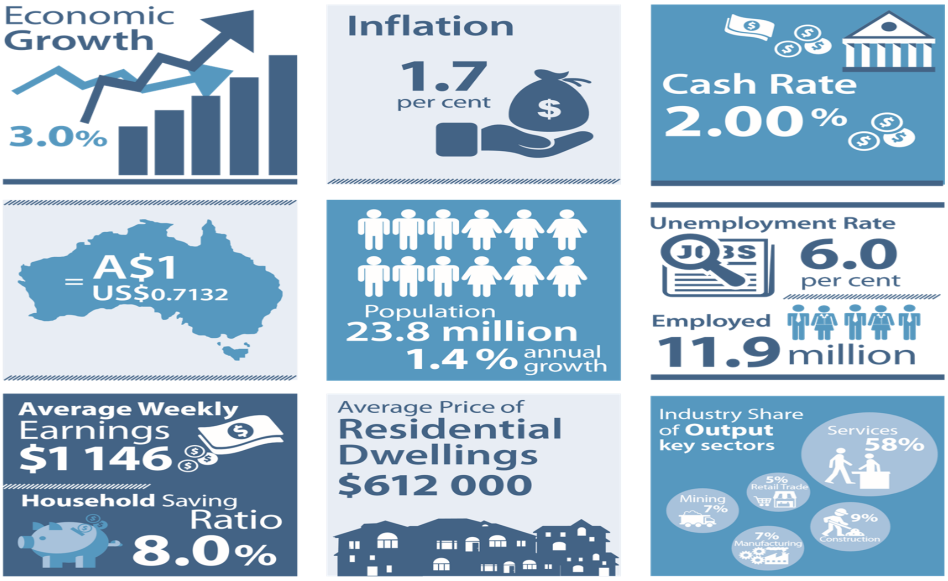
With over 29 years of experience as a financial markets economist Stephen works closely with all investment management teams at Colonial First State and has a deep understanding of the macroeconomic factors and their impact on markets.

Stephen is also a key spokesperson to clients and the media on macroeconomic themes and the broader financial markets.

Stephen holds a degree in Economics from Macquarie University and a Graduate Diploma from the Securities Institute of Australia (SIA).

Market Update

The beginning of 2016 began with fireworks — indeed the worst start for financial markets since 1929, yet most of the initial losses have been recouped in the last month's rally. What lies ahead?



Source: Reserve Bank of Australia

The new year most certainly began with a bang and not just by way of the renowned Sydney Harbour fireworks, but rather the turmoil on financial markets both home and abroad.

Even though volatility returned with a vengeance after a period of relative stability in the latter quarter of 2015, markets have since recovered all but a small fraction of their initial losses.

As you would be aware, our theme for 2015 was all about confidence and we were justly cautiously optimistic. Well this year, we are of the opinion that the theme will all be about credible and sustainable growth.

Although markets have reacted positively to further and recent central bank intervention, whether this be by the Bank of Japan (BoJ) lowering interest rates into negative territory and so too the European Central Bank (ECB) at their recent March 10 meeting or the US Federal Reserve announcing their intention to moderate the pace of interest rate rises through 2016, the rally may likely prove to be short-lived.

Indeed the only basis for a credible and sustainable financial market and in turn overall global economic recovery is founded on the basis of companies growing their earnings, increasing their profitability, widespread deleveraging (reduction of debt) across both private and public sectors as well as sustainable job growth and in turn rising wages coupled with low to moderate inflation.

With much of the reporting season concluded, both here and abroad, we have scant evidence to substantiate those above mentioned drivers for credible and sustainable growth.

So where to from here—let's take a look at each market more closely.

Australia

Australia continues to defy many of the nay-sayers who had to swallow some pride with the release of the December 2015 quarter Gross Domestic Product (GDP) figure of 0.6% as to take the annualised GDP figure to 3% which was significantly higher than expected.

Much of the growth can be attributed to household consumption via retail spending as well as increased tourism, ongoing housing construction — mainly residential as well as public investment by way of infrastructure projects.

Indeed the Reserve Bank of Australia (RBA) left the cash rate unchanged at 2% at their recent March meeting and stated their relative upbeat view of the domestic economy transitioning away from the mining boom.

Notwithstanding this more positive outlook, the RBA still maintains an easing bias due to continued low inflation, falling real earnings as well as the surprisingly recent resilience of the Australian dollar.

Globally

China

China is in the midst of restructure and much of the heavy falls in financial markets were due to concerns China may be heading for a hard landing.

In fact, China's manufacturing data still continues to deteriorate along with the ongoing falls across equities since mid last year, as well as weakening property markets.

As the recent Communist Party five year plan highlighted, China will face three ongoing challenges in order to maintain social cohesion, namely, to maintain orderly growth and transit the economy from purely an export driven one to one based on consumption, manage the devaluation of the yuan and decouple it from the US dollar as well as continue to liberalise the financial sector to facilitate capital movements.

We are of the view China and in turn emerging markets will continue to face headwinds over the course of 2016.

US

The US like Australia continues to show resilience with the December 2015 quarter GDP figure of 1% whilst the labour market continued to improve such that the unemployment rate now stands at 4.9%.

The US dollar continued to rise for much of 2015 and early 2016 against all major currencies. Yet this established trend has now reversed with the US dollar falling on the back of comments made by the US Federal Reserve last week regarding the likely pace of interest rate increases in 2016.

All in all though, we see the US build upon its recovery over the course of 2016 with the result of the Presidential election likely to be a key factor in how and if a continued recovery plays out.

Europe

Europe remains the weakest link in the global economy as not only does it have to contend with anaemic growth, deflation, credit worthiness of its financial sector, potential Brexit and the lingering Greece debt crisis but also the refugee crisis emanating from people fleeing the civil conflict in Syria placing the future of its open borders policy into doubt.

As stated previously the ECB is endeavouring to do all it can to sure up the European Union yet social upheaval could play havoc with such efforts without the necessary political leadership and resolve required.

So all said and done, we anticipate 2016 to have similar challenges as 2015 in terms of continued volatility and a variety of crises popping up intermittently to test investor nerves.

In the meantime and until the next market update …….. **Enjoy Life!!**

Back to School

Teaching Gen Y about Money

Money and how to use it can be a poignant point of difference between generations yet genuine understanding can be achieved by considering some of these pointers.

Do you have someone in your family that is part of Gen Y? Also known as Millennials, Gen Y refers to the generation currently in their mid-20s to early-mid 30s, who were born between 1980 and the early 2000s.

Celebrated and criticised equally, this generation is characterised by its access to information, technology and travel more than previous generations.

Equally, Gen Y has been shown to have very different attitudes to work and money than the generations that came before them.

Gen Y has also experienced an environment of economic volatility early in their adulthood, in some cases effecting their employment and their propensity to earn. For these reasons, many in this generation are choosing to live in the family home for longer and waiting until later in life to enter home ownership.

Research suggests a range of trends in how Gen Y thinks about money. If you want to engage your Gen Y family-member in improving their financial management skills or even involving them in the family finances, you might consider some of the following:

1. Create rules for the Bank of Mum and Dad

Whether borrowing, paying rent or contributing to household expenses, ensuring that your Gen Y is accountable for their use of the 'Bank of Mum and Dad' is a useful place to start.

Pulling their weight and paying their share of household expenses creates a broader awareness around the practicalities of running a household and maintaining a certain lifestyle, and informs their understanding of what it takes to live independently.

"Gen Y has been shown to have very different attitudes to work and money than generations that came before them".

2. Involve them in Long-Term Savings Goal

Studies show that Gen Y show consistent savings habits on a month-by-month basis, however this does not necessarily equate to implementing long-term savings habits.

Whether it's an apartment or buying the family's old car, help them create a tangible long-term savings goal that incentivises saving today.

3. Engaging with Superannuation

A persistent issue for superannuation is a lack of engagement from those who are furthest away from retirement, such as those currently in their 20s and 30s.

People in this age bracket are also more likely to have several superannuation accounts due to the multiple job roles that characterise early stages of people's employment lives.

Talk to your Gen Y son or daughter about managing their superannuation, for example by selecting an investment option most appropriate for their life stage and risk preference, or consolidating multiple superannuation accounts to minimise fees. This can be a useful way to start preparing them for making informed decisions with regards to their superannuation.

4. Discuss Debt

Generation Y is recorded to have more debt and at an earlier age than any other generation before them.

While this may be in large part due to student loans, this trend is also resulting in longer debt repayment periods.

If your Gen Y family-member has a loan or credit card, make sure they are aware of their total principal and interest payments and help them create a practical repayment schedule.

This may be part of a larger debt management plan.

5. Help them put a Plan into place

While Gen Y is more than capable of creating a budget, few actually do so.

From writing up a basic budget at home on Excel, through to visiting a financial adviser to get a run down on options for future financial savings and goals, getting numbers down in black and white and tracking finances is a highly valuable exercise to start engaging your Gen Y family member on money matters.

6. Encourage the Entrepreneur

Statistics repeatedly show that Gen Y has a strong tendency towards entrepreneurship, with this age-group comprising a large section of new company registrations over the past few years.

This could be attributable to the attractiveness of new digital business models, a trend towards collaborative start-ups or simply a desire for self-employment.

Whatever the case, if your Gen Y has an idea for a small business, you can guide them in turning this idea into a tangible outcome by providing personal, financial and administrative insight from your own experiences.

Running a business is a meaningful way in which to learn to become more responsible with money.

In summary, when it comes to money matters, it's better to have an open discussion with your Gen Y son and/or daughter as you may actually be surprised to find that you can achieve common ground.

Mind Games

What's your Bias?

Understanding your emotional bias can help to maintain a sound financial investment plan.

Our minds are constantly playing tricks on us. Studies show that we process the information we receive from the world through a filter that includes all sorts of biases many of which we are rarely conscious of.

A good example of this is the famed black and white image of the Rubin vase, which represents an ambiguous shape that can be seen as either a vase or as two faces. In this same way, our minds can interpret the same input in a multitude of different ways based on our preconceived biases.

Biases can be classified as cognitive, which means a 'rule of thumb' is assumed that isn't necessarily factual, or emotional, which means an action is guided only by feeling. Often a bias is a combination of both.

The biases listed below are commonly identified in investor behaviour– have these shown up for you before?

- **Confirmation Bias** – A confirmation bias is about 'seeing what you want to see'. People have a tendency to either find information that backs up their own theories, or interpret information in a way that confirms their existing hypothesis. You may recall a friend or family member that quotes the same outdated statistic each time a topic is discussed – this is an example of confirmation bias. Interestingly, confirmation bias also means that where information does not agree with our pre-conceived ideas, we tend to give it less weight or ignore it, whilst information that is favourable to us is given more weight than it is perhaps due.
- **Optimism Bias** – Also known as unrealistic or comparative bias, optimism bias causes people to assume that they are less likely to experience a negative outcome than others. Both neuroscience and social science suggests that people are more likely to be optimistic than realistic, so the optimism bias is a common trend amongst investors.
- **Loss Aversion** – Loss aversion refers to the tendency for investors to prefer avoiding losses more than acquiring gains.

  The interesting aspect of loss aversion in investors is that there is not only a preference, but a greater satisfaction gained from avoiding a loss than perhaps accruing a return.

  This bias has been strongly linked to risk aversion, whereby an investor chooses the investment option with the least amount of risk without due consideration to the likely returns.

  You will sometimes see people happy to sell an investment that has made money, to lock in the gain, and retain investments that have lost money.
- **Recency Bias** – This is the tendency for people to think that recent occurrences predict what will happen in the future. Often this is because it is easier to remember the events that have happened recently and relate our present circumstances to them, rather than to recall how things have unfolded over a medium or longer term.

  Though not on purpose, those with recency bias are likely to take a short-term view and may find it difficult to consider investments over a longer term horizon.
- **Herding** – Made famous by the actions of investors during times of financial crises like the GFC, herding refers to the tendency for people to follow the actions of a larger group, whether those actions are rational or not.

  Psychologists claim that herding is motivated by a desire to belong to a larger group of people and the assumption that it is unlikely for a large group of people to get something wrong.

  When it comes to investment, this could result in holding an investment for too long or alternatively selling an investment prematurely, due to the influence of other investors' actions.

Investors often have more than one bias and decisions can be affected by a combination of tendencies and preconceived ideas.

Let's look at a case study of how the above biases might play out in an investment decision.

Scenario: An investor is considering a new investment strategy with anticipated high returns.

Responses:

1. An investor with confirmation bias is likely to make a decision based on how the asset relates to their personal theory on the state of the investment market.
2. An investor with optimism bias might see the investment as a new and unique asset that is likely to provide higher returns than the rest of their portfolio.
3. An investor with loss aversion may be sceptical about the new investment due to the level of risk and decide instead to invest the money into a lower risk asset.
4. An investor with recency bias will most likely recall the performance of their last few investments and use this information to make assumptions about how the new investment is likely to perform.

And an investor that is biased towards herding is likely to find out whether other people decide to invest in this new strategy and make a decision based on how many others are also doing so.

Whilst we are all likely to tend towards one bias or another, following a sound financial plan, giving due consideration to your financial goals and investment strategy, and discussing your investment choices with us are a good place to start overcoming them.

The "Rear View"

Introducing another addition to the team.

Dianne Bourn joins Palladium Wealth Partners eager to be part of a passionate client centric office.

"I am really impressed with the dedication of the Palladium Wealth Partners team in how they care for client needs and I hope to compliment this further"

The entire Palladium Wealth Partners team wish to extend a warm welcome to our latest addition — Dianne Bourn.

Di has joined us as a Client and Office Manager and brings with her over thirty (30) years of banking and finance experience with the last nine (9) years providing support to senior financial planners at Westpac.

In fact, Di previously worked closely with existing Palladium Wealth Partners adviser Daniel D'Amato and it is fair to say they are both excited to once again be working and servicing clients together.

Indeed, for many of Daniel's clients who have recently visited our office, Di's appointment has presented a pleasing surprise and reassurance knowing that she is also taking care of their needs.

As many of you will experience in due course, Di has a friendly and professional approach to assisting clients, and brings a wealth of administration support and office management to our team.

Di recently commented to us how impressed she is of the dedication shown by the Palladium Wealth Partners team in how they care for client needs and she hopes to compliment this further.

We have no doubt her caring nature and experience will make a meaningful difference and enhance our business as a whole by providing invaluable client support.

On a personal note Di is married and has two (2) young adult children to also keep her busy.

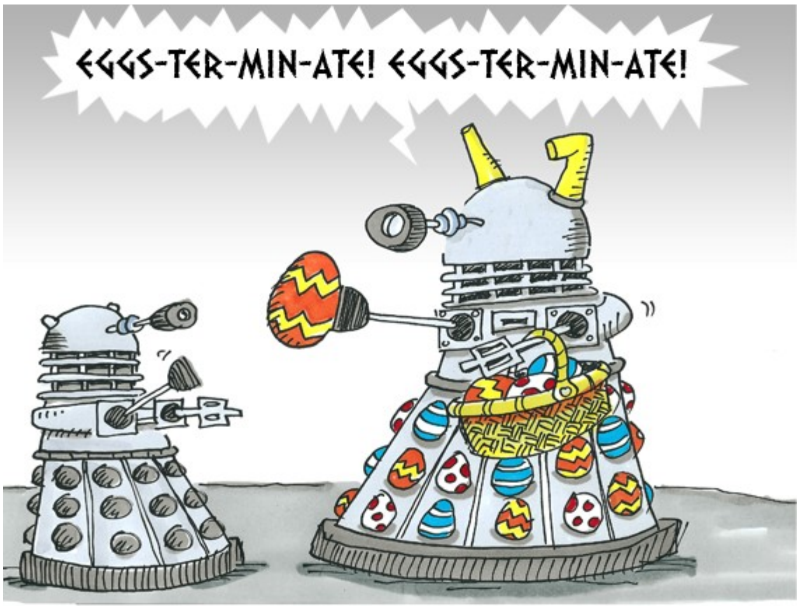
Di enjoys spending time at her shack in Pt Broughton with family and friends as well as travelling in general when the opportunity arises.

In fact, she is looking forward to her upcoming trip to France and Dubai in May as to celebrate her 50th birthday.

Di is a parochial one-eyed Crows supporter (we won't hold that against her) and enjoys watching her son and daughter play local football as well.

Please make Di feel welcome and part of the Palladium family at your next meeting in the office or if you happen to speak with her on the phone.


BLAME GLOBAL WARMING, KID


EGGS-TER-MIN-ATE! EGGS-TER-MIN-ATE!


OVER COMMERCIALIZED EASTER
IT'S HOLLOW!