Insight

PALLADIUM WEALTH PARTNERS NEWSLETTER SUMMER 2017

Welcome

INSIGHT

SUMMER 2017

From all the team at Palladium Wealth Partners,

Happy New Year and welcome to the Summer edition of our in-house newsletter.

We hope the year has commenced on a positive note for you all and will mark the start of many good things to come.

In fact, we hope 2017 will be unlike 2016 which was full of, shall we say "unexpected surprises" - yet, somehow though, we have the feeling that it may have just been a prelude.

In this bumper edition of our newsletter, Dino provides the latest Market Update, whilst also including articles about:

- The 3 Bucket Approach to Retirement Investing;
- S.M.A.R.T Budgeting;
- Advance Care Directives;
- The Sharing Economy; and
- Helpful Tips in Identifying Pyramid Schemes.

In the 'Rear View" we recount Simon's recent visit to Sydney where he caught up with a number of investment managers as to provide an insight into the behind the scenes functions we do to maintain your portfolios.

In final, we continue with our newsletter competition whereby you have the chance to once again win 2 Gold Class Movie tickets to Events Cinema by correctly guessing the location of the newsletter front cover picture.

Enjoy!!

Palladium
Wealth Partners Pty Ltd

Suite 3, Level 1
148 Greenhill Road
PARKSIDE SA 5063

(08) 8272 2298

www.palladiumwealth.com.au

Market Update

A seismic shift has occurred in recent months with not only the election of Donald J Trump as 45th President of the United States of America but with the US Federal Reserve raising interest rates by 0.25% in its December meeting.

We look at why this rate rise may be more significant and ominous over the course of 2017 than a Trump Presidency.

The last quarter of 2016 will be looked back in the years ahead as being a historical reference point in time for two reasons.

Not only because did it usher in the unexpected outcome for many of the election of Donald J Trump as the 45th President of the United States of America, but rather the US Federal Reserve chairwoman Janet Yellen raising interest rates by 0.25% as to increase the cash rate to between 0.5% to 0.75%.

The latter for many was a given and nothing unexpected as to compare to the election of Donald Trump to the White House.

Indeed, as the first private citizen without having served in public office nor served in the military in a theatre of war, at 70 he also is the oldest person to ascend to the role of US President.

Furthermore, he has the worst public approval rating of any incoming US President and is now cast-typed (mostly by his own exploits) as being illegitimate and the most divisive figure in recent US history—more so than George W Bush Junior in his victory in 2000 over Al Gore by way of the Florida Supreme Court decision with respect to 500 disputed ballots.

All this alone should most certainly overshadow an interest rate rise of a mere 0.25%.

Or for that matter and without trying to put Donald Trump on a pedestal whether to love him or loathe him, investment markets across the world rather than tumbling as was feared have surged—many to new all time highs.

In fact, a quadrella for US markets, whereby the Dow Jones, the S&P500, the Russell 2000 and the Nasdeq simultaneously hit new all time highs on 21 November 2016, i.e. post Trump's election—a feat last achieved in 1999 during the Dotcom boom.

Forget the Santa rally—the rally across many investment markets inclusive of our own market boils down to the big and boisterous Donald Trump effect or more so the likely stimulatory fiscal policies of putting America first coupled with proposed infrastructure spending, reduced regulation and corporate tax cuts to as low as 15% - all music to the ears of Wall Street.

Yet why should the latest interest rate rise by the US Federal Reserve be of any more significance as to indeed likely trump Trump in the year ahead. Could it be an ominous sign irrespective of the Trump effect?

Let us take a look at the year ahead and the possible outcomes of these two pivotal events.

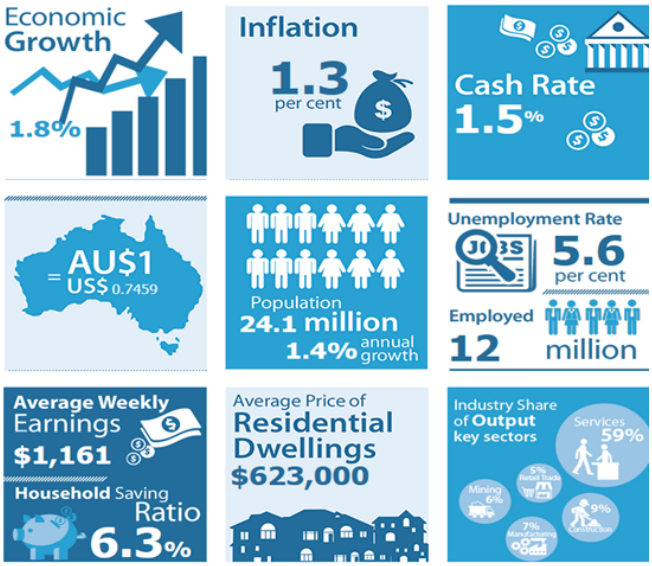
Australia

Australia's economic growth for the September quarter was abysmal, being negative 0.5% and a real wake up call. Thus the annual rate of growth moderated from a then surprisingly robust 3.1% per year to a meagre 1.8% per year.

Indeed, all three rating agencies S&P, Fitch and Moody's are closing watching events in Canberra on the ready to snatch away our prized AAA rating.

Unfortunately our politicians have squandered time to repair the Budget and it will be likely that Australia will be downgraded to AA+ and thus lose its coveted AAA rating over the course of 2017.

To add salt into the wounds should a trade war between the US and China occur, the latter nation being that which spared us from the ravages of the GFC with its extraordinary economic stimulus (*apologies to Kevin Rudd and Wayne Swan, it was not just your $900 cheques in the post or BER stimulus)* may yet drag us down as to inflict a recession in Australia not seen for over 26 years since the infamous "the recession Australia had to have" comment by then Treasurer Paul Keating in the early 1990's.



Source: Reserve Bank of Australia

Although the RBA left the cash rate unchanged at 1.5% over the last quarter, should a recession arise, it will have no choice but to reduce interest rates.

The $AUD fell in the last quarter against the $US to $0.7208 yet has since rebounded back to trade in the low $0.74. We anticipate the $AUD to weaken over the course of 2017 against the ascending $US.

The only bright spot for the Australian economy last quarter was an increase in household consumption yet at the expense of a falling savings ratio.

US and International Markets

International markets more broadly over the last quarter also benefited with the Trump rally.

However, sectors such as bonds, infrastructure and property suffered on expectations of rising interest rates in the foreseeable future due to the likely inflationary stimulus policies of the Trump administration.

This will likely also cause the $US to appreciate over the course of 2017 against most major currencies.

Over in Europe, over the course of the last quarter the ECB announced an extension to its asset purchase / QE program out to the end of 2017, whereby it will inject 60 billion Euros a month from April 2017.

Brexit will take centre stage with the UK Prime Minister Theresa May intending to exercise Article 50 of the Lisbon Treaty by end of March as to commence exit negotiations with the EU.

We expect such negotiations to be long and drawn out, yet hopefully will avert a hard landing for both the UK and European economies over the short to medium term.

The populist movement may spread across the Atlantic given a number of elections in Europe throughout 2017, in particular in France, Germany and Holland with the possibility of a snap election in Italy will also test investor nerves and sentiment.

No major changes economically speaking in the Asian region over the last quarter, yet geopolitically speaking North Korea and the South China Sea dispute will cause angst over the course of 2017..

So, all in all 2017 will not be too dissimilar to 2016 with a possible exception for the said US Federal Reserve interest rate rise. Why?

Well, such a rise was the second rise since December 2015 and interestingly only the second rise overall in 10 years.

More to the point was the fact that over the last 45 years the US Federal Reserve has always raised interest rates a second time within a 12 month period of having raised them the first time in a given cycle. This is in fact what I eluded to in our last newsletter.

Again drawing from history, and more ominously, is the fact that every time this has occurred in a given cycle over the last 45 years, global markets (inclusive of Australia) over the subsequent 18 to 24 months have receded from their highs.

So will this meagre 0.25% trump the Trump rally? Quite possibly and by way of such we remain on the defensive with client portfolios.

I do however take some comfort from the Split Enz song "*History Never Repeats".*

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

The '3 Bucket' Approach to Retirement Investing

Can setting up your retirement savings via this approach make your money last the distance?

When devising a retirement plan, there are several different strategies that a financial adviser can employ to make sure that you have enough to meet your retirement lifestyle needs.

This may or may not include relying in part or wholly on other sources of income including social security entitlements such as the Age Pension at some stage.

One such strategy is the '3 Bucket' approach which is the main strategy we employ for the majority of our clients at Palladium Wealth Partners.

This involves dividing assets into different short, medium, and long-term buckets to leverage the relationship between risk versus return (pegged to your specific time frames and cashflow requirements) whilst still applying the principle of diversification and risk profiling within your investment portfolio.

Essentially, the '3 Bucket' approach involves segmenting your investments into two or more buckets (in retirement these might be held in your account-based pension):

- A 'cash bucket' with cash investments to fund your short-term retirement lifestyle (expected lump sum withdrawals and regular pension payments) over the next one to two years;

The types of investments a 'cash bucket' would contain include:

- cash on hand or in an everyday bank account;
- high interest savings accounts, i.e. online accounts; as well as
- 30, 60 and 90 days term deposits.

- A 'stable bucket' with other income generating investments (e.g. fixed interest) to help account for an additional one to two years of retirement income;

The types of investments a 'stable bucket' would contain include:

- long dated term deposits 12 months+;
- Government and blue chip corporate bonds; as well as
- multi-asset investments which pay a regular income.

- A 'growth bucket' with the remaining balance held with more risk-associated investments (e.g. property and shares) in accordance with your risk profile for longer term growth.

The types of investments a 'growth bucket' would contain include:

- Australian and International shares — either direct or via a managed fund or Exchange Traded Fund (ETF);
- property — either direct or via a managed fund or ETF; as well as
- infrastructure, alternative investments.

The cash and stable buckets are then replenished periodically, with enough funds to cover the next two to four years of expected lump sum withdrawals and regular pension payments.

Depending on the strategy approach taken, this could occur:

- At the end of the two or four-year period, or earlier if the cash and stable buckets are depleted sooner;
- Each year when your financial situation is reviewed; or
- Tactically, where the growth bucket cumulative returns have exceeded certain benchmarks, or the growth bucket appears overvalued.

When using the '3 Bucket' approach, we work with you to find an optimal level of investment risk you are willing to take to achieve your short, medium, and long-term financial goals and objectives, then match this to an appropriate investment portfolio.

For example, if you are willing to take additional risk you may find that you are more heavily weighted towards shares and property assets.

Comparatively, if you are less risk-adverse then you may hold more of your wealth in cash, term deposits, bonds, and annuity assets.

A range of other considerations may also play an important role in establishing these same parameters.

"To assist with capital preservation, smooth out market volatility and guard against longevity risk, the '3 Bucket' approach is the main strategy we employ for the majority of our clients at Palladium Wealth Partners".

All in all, the '3 Bucket' approach can assist with preserving capital, smoothing out market volatility and guarding against longevity risk, be it, the risk of running out of money.

Things to consider

Life expectancy in Australia has improved dramatically for both men and women in the last century due to our increased awareness and understanding of the factors that influence our life span such as genetics, health care, hygiene, diet and nutrition, exercise, and lifestyle.

In Australia, if you were aged 65 in 2013-15* then you could expect to live for another 19.5 years (male, to age 84.5 years) and 22.3 years (female, to age 87.3 years).

Past historical returns, although not indicative of future returns, have shown that growth assets such as shares and property are on average likely to outperform purely cash and fixed interest based investments over the long-term (the sort of timeframe that normally applies to an account-based pension given current life expectancies). In the short-term, however, the share and property market can be volatile, as anyone who has endured the global financial crisis would know.

The logic of the bucket approach is that regardless of the short-term performance of the investment pool your expected lump sum withdrawals and regular pension payments can continue from the cash and stable buckets without the forced sale of more risk-associated assets in the growth bucket at unfavourable prices.

This simple example*^ may help to illustrate the effects of potentially being too conservative with your portfolio weighting as you not only approach, but also start to enjoy your retirement years.

Matthew and Mary just reached age 65 and have decided that the time has come to hang up their boots.

A combination of concessional and non-concessional contributions throughout their working life, as well as investment growth, has meant that they have managed to accumulate $640,000 in total account-based pension wealth and now wish to draw down a combined $59,160 per annum in regular income payments, adjusted each year to offset inflation, to fund their comfortable# retirement lifestyle.

If they were both invested in:

- Cash portfolios, earning 2.9% per annum return before costs, they may find their annual income falling by 5% below their income requirements at age 75 and their total account-based pension wealth reaching zero at age 76; or
- Balanced portfolios, earning 8.0% per annum return before costs, they may find their annual income falling by 5% below their income requirements at age 79 and their total account-based pension wealth reaching zero at age 80.

What you may have already noticed is that despite the Balanced portfolio potentially having the capacity to stretch the account-based pension balances further than the Cash portfolios there is still a shortfall in the income required to fund Matthew and Mary's retirement lifestyle to their respective life expectancies.

We are not advocating you step outside of your risk tolerance zone by weighting your portfolio beyond what you are comfortable with.

However, you should consider options to maximise your retirement 'nest egg' so that you have adequate income to meet your life expectancy, particularly given the tightening of Age Pension entitlements moving forward.

This may include strategies prior to retirement such as: planning for your retirement much earlier, making additional contributions to build your superannuation, as well as possibly rethinking your retirement lifestyle expectations.

Another potential strategy that can make a significant difference is working an additional couple of years or undertaking part-time employment.

As it stands, the average superannuation balance#^ for a 60-65-year-old Australian is $292,510 (males) and $138,154 (females) and roughly 80%#* of all Australians aged 65 years and over rely, at least in part, on the Age Pension.

In final and as to bring it all together, it is important to review your personal finances, the investment environment, and available options to maximize your financial position on a regular basis.

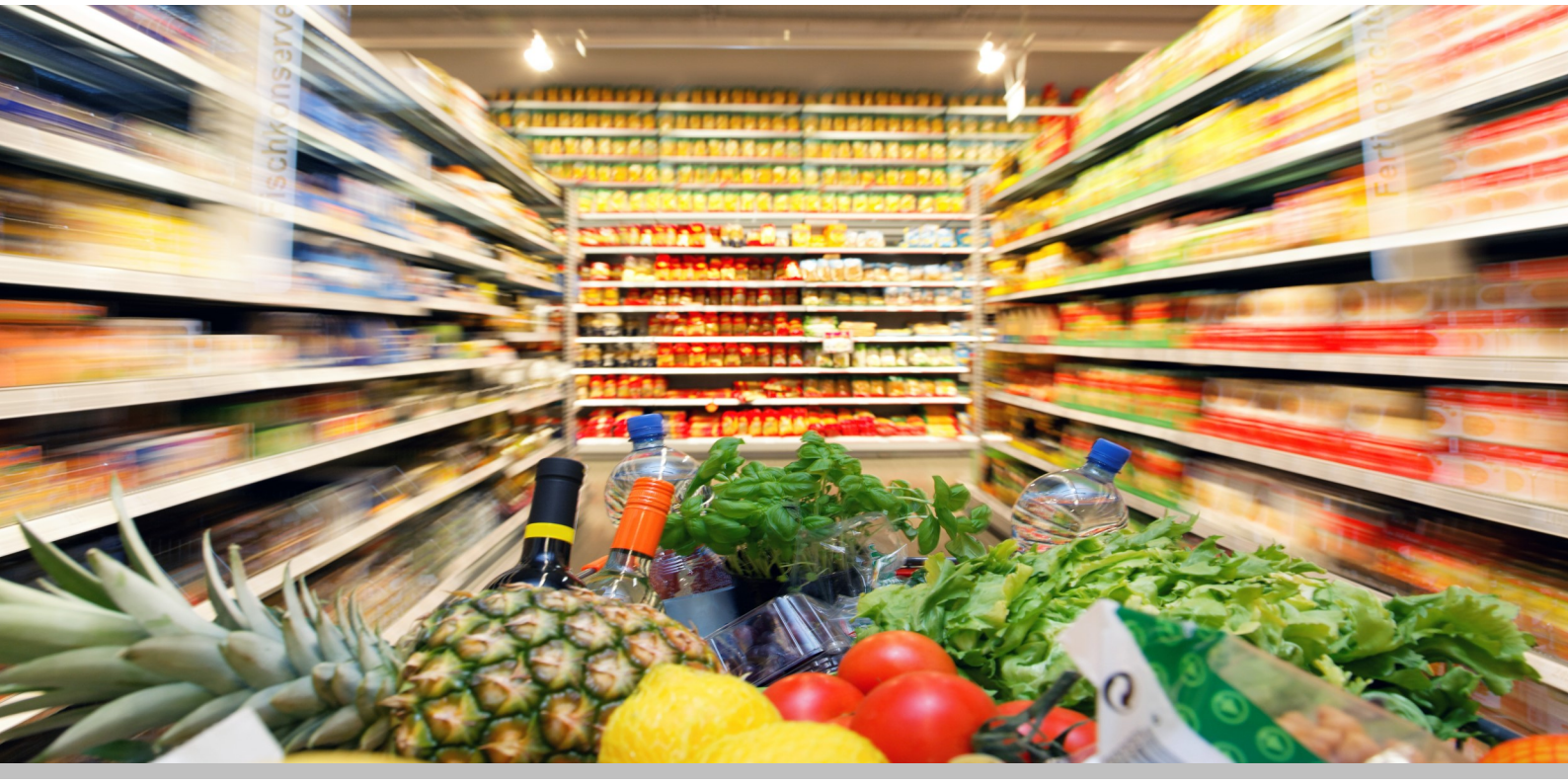
*Australian Government, Australian Bureau of Statistics. Life Tables, States, Territories and Australia, 2013-2015. Retrieved from: http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3302.0.55.0012013-2015?OpenDocument

*^As this is information only, the calculations above have not included potential Age Pension entitlements, other income generating investments outside of superannuation, nor has there been considerations towards investments available or fees associated with specific account-based pensions; these, along with consideration of your own financial goals and objectives, are important when devising an appropriate retirement plan with your professional financial adviser.

#ASFA Retirement Standard. Retrieved from: http://www.superannuation.asn.au/resources/retirement-standard

#^ASFA. Superannuation Statistics, September 2016. Retrieved from: https://www.superannuation.asn.au/resources/superannuation-statistics

#*Australian Government, Australian Institute of Health & Welfare. Australia's Welfare 2013. Retrieved from: http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=60129544075



S.M.A.R.T Budgeting

The advent of a new year provides a perfect opportunity to review your financial circumstances and set new goals. A smart way to achieving those goals is with a S.M.A.R.T Budget Plan.

Many people who make resolutions unfortunately set themselves up to fail. This may be due to a combination of factors such as unrealistic expectations, ill-defined goals and objectives, poor time management, the wrong mindset or simply just getting distracted with life.

The S.M.A.R.T principle is a well-known method of guiding people in setting of objectives via an established set of criteria:

1. **Specific** – focus on a specific area that you would like to target for improvement
2. **Measurable** – devise a system of quantifying the progress towards your objective
3. **Assignable** – make sure you understand your role and the role of others involved
4. **Realistic** – implement an objective that can be attained, given available resources
5. **Time-Related** – specify the time-frame in which you will reach your goal.

S.M.A.R.T Budget Planning

One of the first steps to building your personal wealth is understanding your household's income and expenses.

Completing a budget is a good way to see what are you currently earning, where you are spending your money, and how much you have left.

By assigning yourself and other household members the task of completing our Budget Planner Calculator you can begin to understand and take control of your total inflows /outflows and surplus as they exist today.

A common theme among Australians as they progress through life is that their expenses increase.

For example, on average per week*:

- A lone person aged under 35 has a household expenditure of $869
- A couple aged under 35 has a household expenditure of $1,429
- A couple with kids (eldest child under 5) has a household expenditure of $1,484
- A couple with kids (eldest child between 5-14) has a household expenditure of $1,670
- A couple with kids (eldest child between 14-24) has a household expenditure of $1,900.

In part, this can be due to increased 'needs' and the costs associated with raising a family, however, for some this also leads to a search and an accumulation of more 'want' costs over time for example, alcohol consumption and recreation.

With this in mind, review your budget, and assess what you are spending your money on in the areas of housing, fuel and power, food and drinks, clothing and footwear, medical and health expenses, alcohol, transport, and recreation.

You may find that some of your expenses are fixed, whereas others are variable or discretionary and the way you spend money will be influenced by your money personality and your lifestyle.

If you do find that there are areas where you are 'living in excess' or places where adjustments can be made then think about how else you may use this rediscovered surplus.

Consider the concept of paying yourself first in a realistic and time-related manner i.e. allocate portions of your income to reducing your levels of debt or indeed consider consolidating your debts into your home loan, so you pay a comparatively lower rate of interest across the board.

In conjunction with this, consider saving for a holiday, establishing an emergency fund, and growing your investments for retirement before you go looking for that next 'want' purchase.

It may take time and some shifting of your priorities (needs / necessities versus wants / luxuries), however challenge yourself to create a plan in consultation with us and take action towards the future financial situation that you would like to see.

Just remember not to be too frugal in your endeavours, make sure you cover your needs before wants, and still enjoy life's journey.

*Australian Bureau of Statistics Household Expenditure Survey, 2009-2010

A 'Living' Will: Advance Care Directive

Much consideration is given to ensuring a Will and Powers of Attorney are put into place yet a detailed Advance Care Directive is often overlooked. Should you have one?

We generally expect that our wishes for medical treatment will be respected, but what happens when we are not able to make decisions, due to an accident, sudden illness or a progressive disease that impacts our decision making capacity?

An Advanced Care Directive (ACD), often referred to as a 'Living Will', is a document that describes our future preferences for medical treatment in anticipation of a time when we are unable to express them.

Having an ACD is entirely optional. You may prefer not to make decisions for the future but rather have these decisions made at the time the need arises.

But often, having a reflective discussion about advance care planning and formally completing an ACD while you are healthy, can prepare all involved – health care professionals, family members and friends alike.

It is particularly relevant when considering situations where inappropriate life-sustaining treatment or under-treatment may be applied.

A complying ACD is a legally binding document in most states under statute law (and common law) in relation to the right to determine one's own medical treatment.

When drafting your ACD you may choose to prepare it within your Enduring Guardianship appointment documents, or alternatively have it drafted independently.

Regardless of your preference, it pays to seek legal advice.

Documenting an ACD

Before an ACD can be considered to have sufficient authority, there are several conditions that may need to be met:

- Specificity, the ACD should be clear and specific enough to guide all involved in relation to both existing conditions as well as future anticipated conditions.
- Competence, you should be competent to make decisions about your health care, which can often entail your capacity to comprehend, retain, and weigh up the relevant information (preferably in consultation with health care professionals) and then decide.
- Currency, an ACD prepared a long time before it is referred to can still be legally binding if it was made when you were competent, however to make sure it continues to reflect your current intentions it is important to review it on a regular basis.
- And, witnessing, it is not essential to have a ACD witnessed, however it may help to confirm your competence at the time of its drafting as well as provide some protection against forgery.

The scope of your ACD may cover:

- Medical treatment preferences;
- Unacceptable situations in which life-sustaining treatment is applied (e.g. severe brain injury);
- How far treatment should go depending on your condition (e.g. terminal, incurable, or irreversible);
- Nomination of a substitute decision-maker that health care professionals can liaise with in regards to discussions involving treatment decisions; and
- Other non-medical aspects of care (e.g. 'creature comforts' and dietary considerations).

Things to Consider

For an ACD to be acted upon, it must be readily available and its contents known at the time decisions need to be made.

A simple approach to consider is for the nominated substitute decision-maker, as well as any health care professionals involved, to be given a copy (and any revisions) of the ACD.

Although confronting and perhaps daunting to consider our own fragility, the need for an ACD is likely to become even more important in the next decade as a large predicted increase in the number of people with dementia and cognitive disability results in greater numbers with loss of capacity to determine their own medical treatment.

If you have not completed an ACD or it has been a while since you last reviewed yours, have a think about what you would like to happen in regards to medical treatment if a sudden or progressive disease was to take away your decision-making capacity.

If you are unsure or have questions, please ask us for assistance.

The Sharing Economy

With more and more disruptive technology enabling people (particularly retirees) to earn additional income, what things should one consider before making the plunge?

The sharing economy currently consists of ride sharing (e.g. Uber), staying (e.g. Airbnb), buying (e.g. Gumtree and eBay), car sharing (e.g. CarNextDoor), services (e.g. Air Tasker) and funding (e.g. Kickstarter) whereby users and providers are connected through a facilitator who usually operates an 'app' or website.

There is an index called the '*RateSetter Sharing Economy Trust Index*', which seeks to measure the attitudes and behaviours of Australians towards sharing economy services.

RateSetter has found that nearly two thirds of Australians participated in the sharing economy in the last six months.

In terms of spending and earning habits, the figures show that on average:

- 34% of Australians using goods and services in the sharing economy spend more than $50 per month with:
  - 18-24 year old's spending $105;
  - 25-34 year old's spending $120;
  - 35-44 year old's spending $102;
  - 45-54 year old's spending $77;
  - 55-64 year old's spending $74; and
  - 65+ year old's spending $52.
- 21% of Australians providing goods and services in the sharing economy earn at least $50 per month with:
  - 18-24 year old's earning $122;
  - 25-34 year old's earning $120;
  - 35-44 year old's earning $93;
  - 45-54 year old's earning $74;
  - 55-64 year old's earning $115; and
  - 65+ year old's earning $55.

The recent bi-annual report by RateSetter has seen an increasing number of pre-retirees participating in the sharing economy as providers and suggests that the reason behind this in an attempt to boost their wealth and income because finding traditional jobs is proving to be challenging for that age group in the contemporary work space.

If you are considering getting involved in the sharing economy as a provider, it pays to seek professional advice to understand your potential upfront and ongoing tax obligations, and Estate planning considerations.

In addition, how this new participation fits into your financial goals and objectives.

Here are a few important things you may need to consider discussing with your:

Accountant

1. Are you carrying on an enterprise or simply selling goods or performing a service as a spare-time activity or pastime:
2. What GST credits and income tax deductions can you claim for your expenses related to earning your income?
3. How may be an appropriate way to record your income and expenses so that you can keep track of your activities, provide accurate tax invoices for your sales, as well as assist with tax obligations when they arise?
4. Do you qualify to make tax deductible contributions to superannuation under the 10% income test rule?
5. Potential Capital Gains implications on using a main residence for income-producing purposes.

Solicitor

1. Making sure that you are aware of regulatory frameworks governing the provision of goods and/or services such as Australian Consumer Law and its jurisdictional implementation (e.g. the *Competition and Consumer Act 2010*).
2. If you are renting out a room, thoughts towards potential implications this may have on the Capital Gains of your main residence or investment property when you choose to pass this asset from you to your beneficiaries via your Estate plan.

Financial Adviser

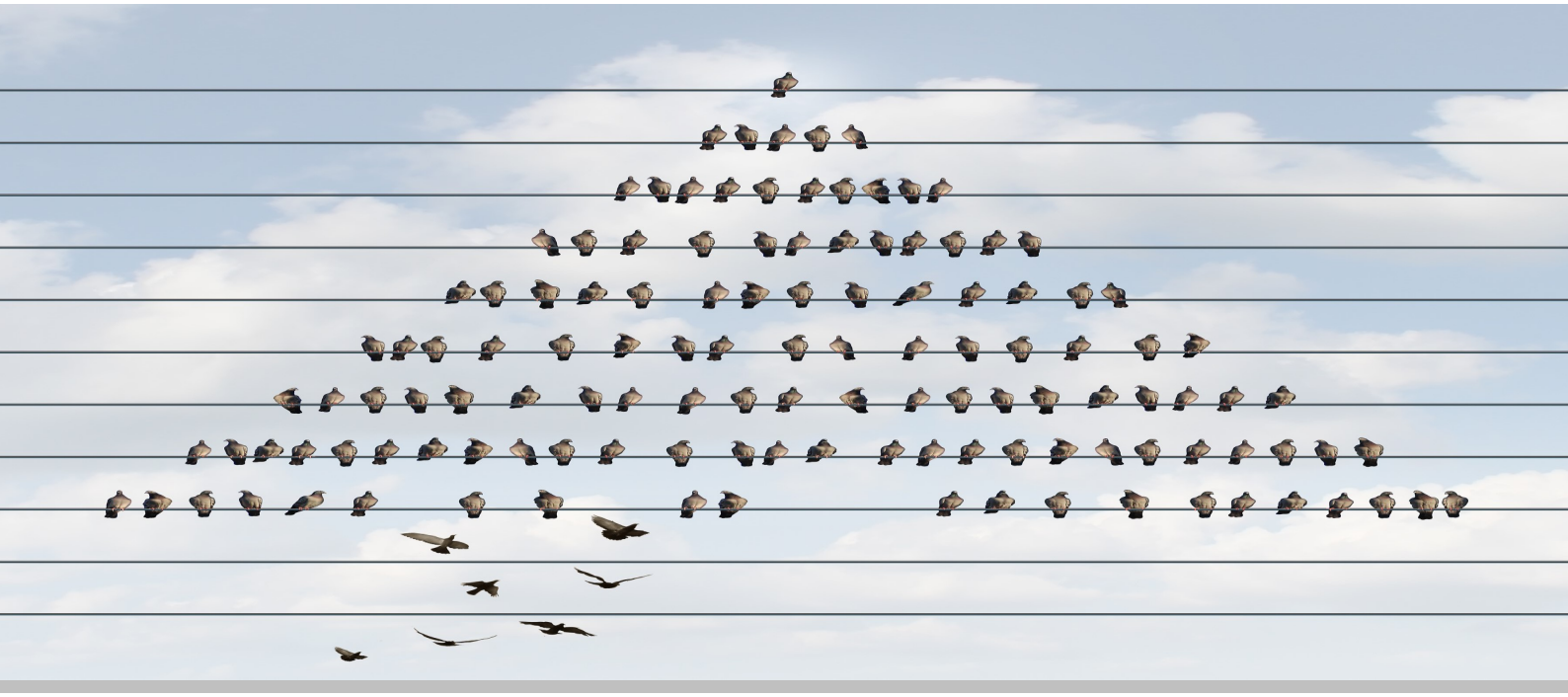
1. How to grow your retirement nest egg with the income earned from providing goods and services.

   For example, if you do not need the extra income to help cover your day-to-day living costs, it may make sense to establish a regular savings plan and/or ad-hoc contributions directed towards investing inside or outside of superannuation (concessional and non-concessional contribution limits apply) or paying off any outstanding debts.
2. If you are struggling to make ends meet or want to take a slight step back from work prior to full retirement, whether a transition to retirement strategy may suit your particular situation.
3. And, depending on your situation, making sure you have a Plan B in place, a personal insurance plan, just in case something happens between now and your retirement date that may disrupt the hard work you are putting in towards making your financial goals and objectives a reality.

Regardless of your age, it is easy to see that the tides are changing in the goods and services industry as we become more and more connected with each other.

Yet one of the most common factors still affecting trust in the sharing economy continues to be a lack of understanding of how it all works.

So before riding the sharing economy wave as a user and/or provider, it may be a good idea to educate yourself so you can get the most out of it.



Helpful Tips in Identifying Pyramid Schemes

It pays to beware of cold callers, hoax emails and other marketing paraphernalia encouraging you to join an investment opportunity of a lifetime. What are the tell-tale signs of a pyramid scheme?

Have you ever sat around the dinner table with a friend or family member or attended an 'investment' conference or seminar and repeatedly heard someone say, "Now, this is not a pyramid scheme" when talking about an investment opportunity followed by the utterance of these phrases, "a one-off participation payment to join" and "an ongoing recruitment payment, when you recruit others to join"?

Be careful, as this investment opportunity may have the hallmarks of a pyramid scheme.

Pyramid schemes are illegal schemes* under the Australian Consumer Law. In a nut shell, they rely on the recruitment of new members so that the people at higher levels of the pyramid earn money. In some instances, there are products or services that are sold to make the scheme look legitimate, but these tend to be grossly overpriced compared to equivalents at an ordinary retailer and are not necessarily related to the returns that you are being promised – **the main source of income is the recruitment of members, rather than the sale of products or services themselves** and most pyramid schemes typically suggest you sell to, and recruit, people you know well.

The reality of pyramid schemes is that they tend to be heavily geared towards rewarding the very top of the pyramid at the expense of everyone below.

Part of the reason for this is that there needs to be an endless supply of members for the scheme to keep operating, which can sometimes be unrealistic the further down the pyramid you go.

In 2015 alone, 259 complaints were lodged with the Australian Competition and Consumer Commission (ACCC) regarding pyramid schemes, with a total of $951,721 reportedly lost.

Although a small piece of the 'scam pie' according to the ACCC statistics' ($83,770,733 reportedly lost in 2015 to all scam types including unexpected money, unexpected winnings, fake charities, dating and romance, identity theft, threats and extortion), it still pays to be informed about the dangers of pyramid schemes.

So, what are some warning signs to look out for if you come across an investment opportunity that just looks too good to be true?

Here is a list of a few considerations that we have put together to help you assess the legitimacy of an investment opportunity:

Watch out for these indicators:

- You are told the promotor is at pains to tell you, "This is not a pyramid scheme".
- You are promised instant wealth or a new type of earning that is different to traditional ways of earning money.
- You have to pay a large up-front fee to join the group.
- Training costs can disguise income from recruiting.
- Distributors may be expected to buy costly sales aids or attend expensive training seminars (and documents leave out or gloss over legal issues and wrongly assert that the scheme is legal or has been approved by the authorities). There may be a commission for selling training down the line.
- There might be some goods or services to make it look legitimate but consider their real value, whether they are being sold at a reasonable price and if they are something that there is actually consumer demand for.
- You are discouraged from asking questions.

Do your homework:

- If it simply seems too good to be true, it probably is.
- Search the internet to see if you can find any complaints about the business and consult your state or territory fair trading or consumer affairs agency as they often have a list of businesses that have had a complaint made against them and/or had a court ruling identifying them as pyramid schemes.
- Ask your friends and family for their opinion (except if they are already involved as they may be already swayed towards the need to recruit new members).
- Seek independent professional legal and financial advice.

If you think you have been asked to join a pyramid scheme, you should contact the ACCC's Scamwatch or your State or Territory fair trading or consumer affairs agency.

*Participating in or promoting a pyramid scheme is illegal. Individuals face fines of up to $220,000 and corporations face fines of up to $1.1 million.

The "Rear View"

Behind the Scenes

We give you an insight into some of the activities we do as to maintain your portfolios.

Last November, I took the opportunity to spend a couple of days in Sydney to meet with some fund managers and clients.

Upon returning home to Adelaide and speaking to a friend about my trip, I was reminded that what we do behind the scenes can often appear quite elusive for someone not working in our industry.

So, I thought it may be of interest to some you to provide a little insight into this part of our investment process.

Many of you are aware that we meet with various analysts, investment specialists and portfolio managers as a key part of our investment process.

Some objectives from this part of the process include:

- Ensuring that any fund managers we allocate your money to, continue to stay true to their stated objectives and investment styles.
- Seek out new investment opportunities that may offer a compelling risk vs reward proposition, or simply be a good fit for your portfolio based on market conditions or your needs.
- Hear and take note of unique views on economic and investment market trends, to complement our own research and views.

We regularly have investment specialists and fund managers visiting our office.

For new investment opportunities, it can sometimes take a year or more for us to feel comfortable in adding a good opportunity to our Approved Product List.

The reasons we sometime wait this long are many, and can include:

- How long the fund has been operating for.
- Fund Manager and investment team experience.
- Size of the funds under management and split between institutional and retail client funds
- The net inflows/outflows.
- The current market conditions relevant to the given strategy.

Whilst there is some unavoidable overlap, we do not try and `re-invent the wheel' and replace what quality research houses and analysts already do.

However, we see it as important to verify the research ourselves, and no matter how attractive an investment proposition may be according to a specific research house or analyst, we believe it is imperative to ensure that individual investments are appropriate to meet our clients' specific needs.

One of the existing fund managers we use that I met with in Sydney, was Schroders.

Along with several other advisers and investment professionals we spoke with Simon Doyle, Head of Fixed Income, and Multi Asset. Simon has direct portfolio management responsibility for the Schroder Real Return Fund, a fund which we have

used to varying degrees in client portfolios over the last 5 years.

I do not wish to bore you with all the technical details and information we went over. Instead, what is important to highlight, is that I walked away comfortable that they continue to have conviction in their approach, there are no major organisational or portfolio team issues to be concerned about, and that their underlying investment positions remain appropriate to market conditions and objectives.

One of the biggest mistakes clients can make, or advisers for that matter, in assessing this strategy and its ongoing performance, is by comparing it to the wrong benchmarks and using it in the wrong way.

For us, there are clients for whom we have utilised the Schroder Real Return Fund as one exposure within the core part of their portfolio.

For other clients, we have used the fund as a small `Alternative' asset class exposure, and there are clients that it has not been appropriate for at all.

By its very nature, it is not a fund that is likely to shoot the lights out and for this reason is less likely to be used in `High Growth' investor portfolio. It is also not a fund we choose to use as a replacement or comparison to a traditional diversified balanced fund that has a fixed allocation to growth assets over the long term.

In short, the Schroder Real Return Fund continues to be well suited as just one of the investment options us as advisers will continue to use in your portfolios, but only where appropriate.

To summarise, it is important to point out that we seek to hold exposures to underlying investments and fund managers through an entire investment cycle (5 - 7 years) at a minimum, and not replace them unless there is good reason to do so.

As a result of this approach, aside from changes in your portfolio that result from a rebalance to take profits, topping up cash or investing new money, there can be long periods of time where there is very little change in your underlying portfolio exposures.

In such times, it is worth remembering that from an investment perspective we are not sitting idle. In fact, are constantly working through our processes to target great client outcomes, and remain true to our investment philosophy of capital preservation first, and return second.

AND ANOTHER THING...

By way of agreement to extend of our lease at 148 Greenhill Road for another 3 years until June 2020, our landlord has been ever so generous with our want to update the office at his expense. Specifically over the course of the Christmas / New Year break, the Palladium Wealth Partners office had a makeover of sorts with the laying of new carpets, new blinds, installation of new kitchen amenities and the soon to be re-lamination of office doors coupled with new handles.

We also hope to progressively update our furniture over the next 12 to 18 months (at our expense mind you) noting that the front meeting room already has been updated.

So please feel free to comment when you next come in so that we may continue to make your advice experience at Palladium Wealth Partners one to always look forward to.

Congratulations to John Brolese winner of our Spring newsletter competition in guessing the correct location of the Spring newsletter front cover picture which for everyone's curiosity was that of the Cape Du Couedic Lighthouse located on Kangaroo Island.

How would you like to have another chance to win 2 Gold Class Movie tickets on us?

All you need to do is guess the exact location of the picture on the front cover of the Summer newsletter.

Simply email us at **enquire@palladiumwealth.com.au by Sunday 5 February 2017** with the correct answer along with your full name and contact number and you will go into the draw to win.

The draw of all the correct entrants will be conducted on Monday 6 February 2017 and the winner will be contacted by telephone.

We will post out the tickets to the winner and announce to you all who that winner was in our Autumn newsletter. **Good Luck!!**

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