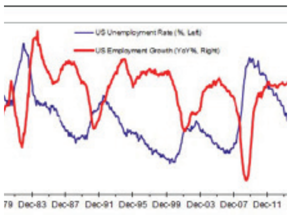
Personal Wealth

Summer 2014 A Quarterly Newsletter for **Lifespan Clients**

What's inside...

New Website

Investment Markets



Super allocations leave 'investors at risk'

Lifespan launches new website

Lifespan is inviting clients and visitors to explore our new website.

The new website has been designed to provide a user-friendly experience with improved navigation and functionality throughout, allowing clients and the general public to access detailed information and materials regardless of their stage in life or investment concerns.

The website boasts a modern, colourful design and is divided into three sections: "For Clients", "For Accountants" and "For Advisers". Underlying pages provide detailed information on all three aspects of the Lifespan's functioning.

The website's user-friendly nature provides users with more efficient access to Lifespan's resources with the client specific areas making up the bulk of the site.

Lifespan has put considerable effort into analysing what people want from the website. As a result we have added new features such as the "Money + Life" section with its expanded detail on the many concerns individuals have at different stages in life and to help customers better understand the range and value of advice that they can access through a qualified Lifespan Authorised Representative.

Through the "For Clients" areas potential customers are able to locate their local adviser, subscribe to future Newsletters, or even request an Insurance quote.

Created with the user experience firmly in mind, the website has been designed using the latest technology so the site is compatible with today's browsers and mobile devices - without the need for Adobe® Flash to view it.

The new website can be found at www.lifespanfp.com.au

Investment Markets

Recent History

After a period of sustained low volatility the situation certainly changed in September. The Australian Equity market (ASX200) fell over 9% before quickly rebounding to trade over 5,500 again. Global equity markets also took a dip before rebounding as well. The Australian dollar took a major tumble, falling from 92.8 cents in our last note to trade below 86 cents and is currently at 86.8 cents versus the US dollar.

After all this, the Australian share market returned -0.6% for 3 months to the end of October July while Australian Small Cap Equities underperformed again with a return of -3.8%. Developed market global equities were helped by the fall in the Australian dollar returning 5.2% over the period while Emerging market equities returned 1.4%.

The Australian 10 year government bond yield finished October at 3.28% which was down about 0.1% from our previous note. Australian fixed interest returned 1.66% over the period. Falling bond yields translated into good returns for Australian listed property with the index returning 2.8% over 3 months and 16.7% over one year.

Australian headline inflation came in at an annual rate of 2.3%, down from 3.0% per year previously. The first estimate of US third quarter GDP growth came in at 3.5% which was stronger than the expected 3.0%. The US unemployment rate fell to 5.9%, the lowest since July 2008.

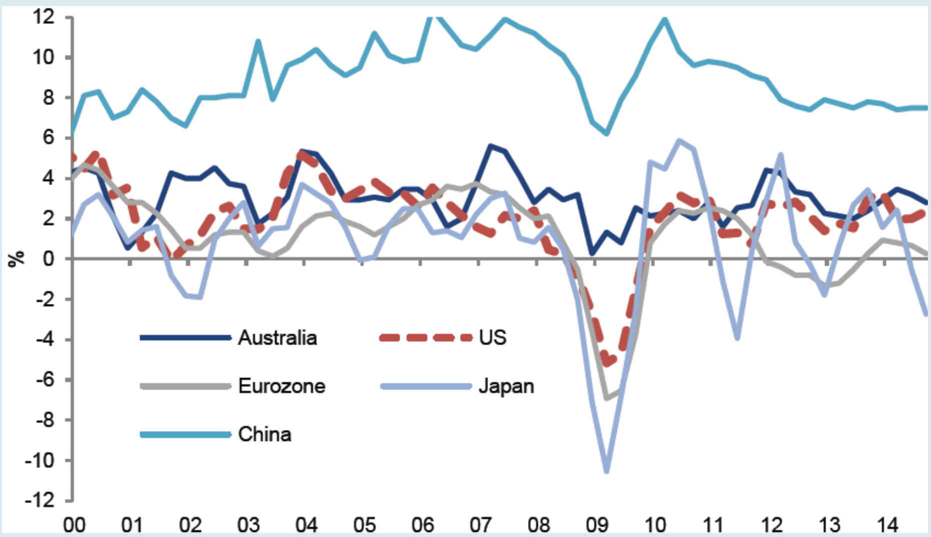
Markets and Economy

Equity markets pulled back in September on concerns that global growth may be slowing. While the US is doing relatively well, Europe, Japan, Emerging Markets and Australia have slowed (Morgan Stanley). That is, global growth is coming from a shrinking base of economies (chart 1).

The markets were also spooked by Chinese data which has been weaker than expected with the Manufacturing PMI essentially flatlining. Also Chinese industrial output rose just 6.9% from a year earlier in August. This was down from over 9% in July and was the slowest pace (outside the Lunar New Year holiday period of January and February) since December 2008.

The data has also been weak in Germany, Europe's biggest economy. The Eurozone recorded no growth in the second quarter while the German and Italian economies shrank 0.2%. Germany is likely being hurt by sanctions against Russia over the Ukraine situation. Another indication of Eurozone weakness is the very low inflation rates. Inflation was just 0.3% in the year to September with deflation having taken hold in a number of countries.

Chart 1: Global Growth is Coming from a Narrowing Base of Economies (Real GDP %)



Source: Morgan Stanley Wealth Management Research, 10 Oct, 2014.

Outlook

The Australian cash rate remains at 2.5% with the Reserve Bank of Australia (RBA) likely to maintain this rate well into 2015. The RBA has stated that that there is likely to be "a period of stability in interest rates", it has now left interest rates on hold at 2.5% since August 2013.

Probably just as important is the very weak European economy and the worrisome low inflation rate in the Eurozone of just 0.3%. The worry is that if deflation sets in, there is not much central banks can do to reverse this. We said in a previous note that most markets have had a good run lately and we would not be aggressively allocating to shares right now. We would also be cautious in allocating to fixed interest as we believe there is not much value post the recent rally.

Bond yields are a little lower than when we wrote that note. Low inflation has certainly contributed to very low bond yields. 10 year government bond yields in Germany are less than 1%, about 2.3% in the US and about 3.3% in Australia. While it is possible these may go lower in the short term, we still do not see any long term investment value in these securities. Given this we would still maintain an underweight to fixed interest, particularly global bonds which have further to rise to get back to more normal levels.

Australian equities pulled back from a PE multiple of over 15 times to under 14 times recently. They are now back trading at about 14.7 forward earnings which is a little above the long term average PE in the low 14 times. Also estimated earnings growth is in the 5% to 6% range which is low by historical standards. However it is possible this could get a boost if the Australian dollar continues to fall.

Our view has not really changed, we continue to prefer equities to fixed interest on valuation grounds. We think Australian listed property is fully priced and will underperform if bond yields rise. While we would still have an overweight to global shares, the large fall in the Australian dollar makes them less attractive than they were. Given average valuation levels in equities and low forecast growth, they are best accumulated on pullbacks.

Chart 2: Investment Returns to 31 October 2014 (% p.a.)

Asset Class	1 month	3 months	1 Year	3 Years	5 Years
Australian Shares	4.43	-0.57	6.39	13.76	8.20
Global Shares	0.25	5.23	16.10	20.30	11.18
Listed Property	6.78	2.78	16.71	20.08	12.17
Fixed Interest	0.97	1.66	7.11	6.30	6.95

Source: Mercer

Super allocations leave ‘investors at risk’

Australian super funds are falling behind global best practice on asset allocation strategy, leaving many pre-retirees at risk, argues a newly released academic paper.

The Centre for International Finance and Regulation (CIFR) has released the results of a study conducted by Macquarie University professors Geoffrey Kingston and Lance Fisher, which has raised a number of concerns about the investment philosophy of some Australian superannuation managers.

The researchers identified an “aggressive constant mix” as the most common investment strategy of Australian superannuation portfolios, defining this as portfolios in which between 70 per cent and 90 per cent of assets are allocations to growth investments, arguing this approach is not optimal for many consumers.

Current strategies leave retirees particularly exposed due to high allocations to growth assets,” said co-author Professor Geoffrey Kingston, commenting on the findings of the study.

“If the share of growth assets is progressively scaled back to about half, the risk experienced around retirement can be managed.”

In addition, the report states that “United States trends suggest that Australia is falling behind best practice” in its maintenance of focus on “constant-mix asset allocations”, calling on the superannuation industry, as well as regulators ASIC and APRA and “individual households” to take responsibility for altering the dominant investment philosophy.

Reflecting on a point made by former Treasury secretary Ken Henry, the report drew attention to the suggestion that “Australian super funds allocate only slightly more than a tenth of assets to fixed income while the OECD average allocation is approximately half”.

The report also suggests a long-term fiscal benefit in altering course when it comes to superannuation asset allocation strategy.

“By ensuring superannuation assets are less risky around the point of retirement, we can positively impact Australia’s pension liabilities,” Professor Kingston concluded, adding that seven out of 10 households rely primarily on pension for retirement income.

Source: Aleks Vickovich, Investor Daily, www.investordaily.com.au

For further information, please consult your Lifespan adviser.

Seasonal Message

The silly season has once again drawn upon us and we become ever more involved and distracted by the commotion that it associates with. It is a time that can be so frantic and involved in its commercialism that we tend to lose sight of the essence that is at the core of the season.

We should all just take pause, and invest some time if even just a moment to reflect and take stock of what it is that really matters. The contributions of events and people that have influenced the shaping of who and where we are today surely deserve at the very least an acknowledgement.

Here at Lifespan we are astutely aware and grateful for the time and prosperity we have been afforded. Be it through the bad or good times, we acknowledge the contributions that our colleagues and you, our clients, have endowed us with.

As we make our way through this seasonal silliness allow the precious to disturb and make our memories with camera in hand remembering to focus on what’s important and capture the good times, develop from the negatives and if things don’t turn out just take another shot.

Season’s greetings and a prosperous new year.

Lifespan FINANCIAL PLANNING

CELEBRATING 20 YEARS

ABN 23 065 921 735 Australian Financial Services Licence Number 229892
Level 1, 20 Loftus Street Sydney NSW 2000, PO Box R686 Royal Exchange Sydney NSW 1225
Tel: 02 9252 2000 Fax: 02 9252 2330 Email: info@lifespanfp.com.au Website: www.lifespanfp.com.au