Ready, Aim, Insight

Catapult Wealth Newsletter | Autumn 2015

Welcome to Ready, Aim, Insight.

The markets have had an excellent three month period since Christmas which seem to have been spurred on by three main factors:

1. Interest rates falling
2. $A falling
3. Energy prices collapsing

All three of these are medium to long term positives for the Australian economy although I still expect there will be some bumps along the way!

There is some need to remain cautious in times like this and make sure that investors don't forget about risk when seeking higher income returns. Exuberant yield chasing behaviour was primarily what caused the Global Financial Crisis.

The world continues to be an interesting place.

Cheers,

Tony Catt
Director - Catapult Wealth
Authorised representative of Lonsdale Financial Group Limited

Contents:

FINANCIAL ARTICLES:

Set crazy goals and dare to dream! P:1

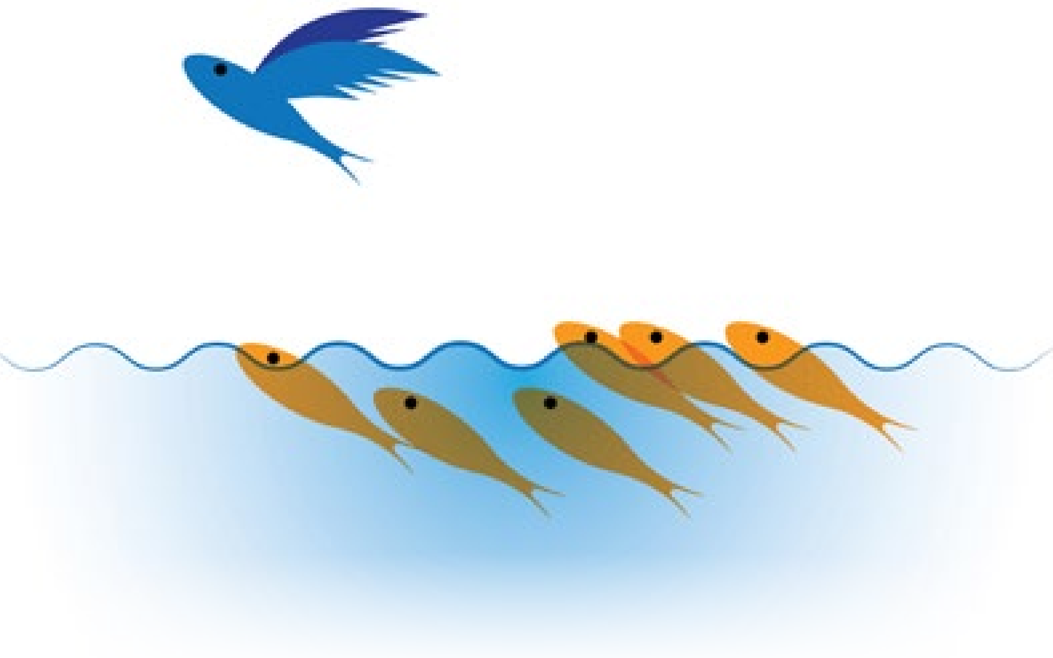
Plummeting oil prices and quantitative easing have global significance P:2

Global technology wars P:3

Getting to know: Liliya Sterns P:3

Have you considered exchange traded funds? P:4

Words of wisdom P:4



Set crazy goals and dare to dream!

Have you ever dreamed of achieving something incredible? Did that dream become a reality?

There will be a point in your life that you will go after something big. A dream that you crave above all others but at the time feels light years away. Something that at the time seems so unlikely, that if you were to tell a friend, they would probably laugh.

Now remember back to the last time that you made a major dream come true. What did you do differently to the times that you failed?

Chances are, you set goals. You set long term goals and short term goals along the way to get you there. Use small markers as something to reach for and to keep track of where you're at in your pursuit of the greater goal.

Goal setting is an incredible motivator and turns what may seem like a Mt. Everest like challenge into a process of smaller parts.

You will enjoy the journey more as you feel as though you are constantly achieving and it will drive you towards bigger and better things.

Goals should be Specific, Measurable, Achievable, Results-focused and Time-bound—S.M.A.R.T. So reach high, live your dreams and before you know it, success will be a part of your make up.

Now it's up to you. Get planning and get to work.

LONSDALE

Catapult Wealth Pty Ltd is an Authorised Representative of Lonsdale Financial Group Ltd
ABN: 76 006 637 225 AFS License No. 246934
Lonsdale is part of the IOOF group

CatapultWealth

Catapult Wealth Pty Ltd
39 Charles Street, Norwood SA 5067

Ph: (08) 8172 9111
Fax: (08) 8333 1932
Tony Catt: 0412 244 327
advice@catapultwealth.com.au
www.catapultwealth.com.au

Plummeting oil prices and quantitative easing have global significance

While the US ceased quantitative easing (QE) in October 201 Europe commenced QE and in Japan it continues. China is seeking to stabilise growth, as seen in the recent cut in inte rates, while on 3 February 2015, Australian cash rates were lowered from 2.5 per cent to a record low of 2.25 per cent.

Global share markets have been generally supported by declining interest rates and while this support is likely to continue, markets have clearly already derived the benefit of ultra-low rates.

Oil

Weak oil prices could have geopolitical consequences. For consumers in oil importing nations such as the US, China and India, current prices are cash flow positive as less is paid at the fuel pump. However, for oil exporters including Russia, the consequences are significantly negative. Lower prices, coupled with sanctions, are placing strain on the Russian banking sector to the extent that a debt default is possible if current prices are maintained in the longer term. Given its reliance on oil, Venezuela could default on its debt as early as March.

The Russian Ruble plunged in 2014 reflecting the challenging economic environment and, in 2015, there will continue to be major risks in the Russian financial system if current oil prices are sustained.

US

The US is enjoying sound economic growth, a share market trading at record levels and low long-term interest rates (all at the same time). This doesn't appear sustainable, even though the Federal Reserve has flagged higher rates, leaving the bond market susceptible and share markets possibly challenged.

US corporate earnings growth revisions have recently been scaled back, hence the expanding price earnings ratio. US shares are trading on a forward multiple of 16, which is above historical averages. At these levels, the market is factoring in strong earnings growth due largely to the strength of the US economy. This year may well be a case of a strong US economy already being priced in.

Europe

European GDP growth has been anaemic, however the introduction of QE is expected to benefit in the medium term and low inflation remains a near term concern. As Germany is the economic export engine of Europe, they will likely experience some relief from the weaker Euro. While QE is a positive step, political risks in countries such as Greece are likely to remain elevated.

To date, European Central Bank (ECB) actions have failed to lift growth as banks have been reluctant to lend. With negative interest rates in Europe, banks are increasingly likely to lend however this will take time.

China

While there is no doubt the economy is slowing, the Chinese share market staged a significant rally in the latter half of 2014 from the undervalued levels earlier in the year.

The China rally is one that has been influenced by recent Chinese policy initiatives. Official interest rates were unexpectedly cut during the quarter and the government has now allowed foreigners to purchase mainland China shares. Further, with house prices having weakened in China, there may be new funds directed toward non housing related growth assets in China and abroad.

Although China is expected to be a beneficiary of lower oil prices, the end of the residential construction boom is being felt across the economy. As a result, and in anticipation of the slowing growth rate, China's official borrowing rates were reduced in November 2014.

Australia

The outlook for Australia is more challenges given falling commodity prices. The price of iron ore (our largest export) averaged around $US90 in 2014 but towards the end of December was trading at around $US70 - the lowest since 2009. Price weakness is also impacting the federal budget. In fact, the government recently slashed its price forecast for iron ore in 2015 by a third - from $US94 in September to $US63 a tonne in January. Unemployment was at 6.1 per cent in December and the Reserve Bank of Australia (RBA) is concerned that the unemployment rate may rise more than previously expected. This is a contributing factor to the RBA reducing interest rates to a record low of 2.25 per cent.

All these factors have been major contributors to the decline in the Australian dollar. While a weak dollar should make Australia more competitive, especially in relation to exports, this will not make up for lower commodity prices which means the dollar is likely to experience further weakness.

Source: IOOF

Speak to your financial planner to discuss your investment options for 2015.

Global technology wars

Every day, we are bombarded with news about incredible breakthroughs in the technology sphere. What was once a long way into the future, maybe in a different world, is coming closer and at a faster pace.

Self-driving cars, drones with shopping parcels, big data and 3D printing are just a few of the recent innovations to grace our lives. Start-ups that were in their infancy less than a generation ago, now bestride the global economy, battling each other for supremacy. The market value of the 'big 4' - Google, Amazon, Facebook and Apple - alone totals well over $1 trillion and employs around a quarter of a million people, more than Ford or GM individually, and generating far higher profit per employee.

But it is not just about these headline grabbing firms. As technological advances permeate, we're seeing a world where companies that are able to obtain an information edge are increasingly moving ahead of their rivals. Sometimes, the speed of change and technological advances not only give these companies an edge but create binary outcomes - creative destruction at warp speed.

For Australian investors, this does raise more than a few issues. In 1992 the big four banks were valued at between 5.0 per cent or 6.0 per cent of GDP. Today, they now trade at a collective valuation of around 25 per cent of GDP. That is a tremendous expression of faith in the value and sustainability of profits in the face of change.

Whilst the fully franked bank dividend is a beloved icon, especially amongst the DIY investor set, so was the Holden. The banks are at the vanguard of the franking frenzy. Barclays recently reported that about 36 per cent of household assets are tied up in our national banking system, a record high. High dividend payers like Woolworths, Wesfarmers and Telstra aren't far behind in the heart and mind of the SMSF trustee. But, if China's financial wobbles aren't enough to give domestically entranced investors pause, they need also to consider the big new shift towards digital wallets and 'P2P' (person to person) financial services.

Apple recently signed a deal with the major credit card providers for their new Apple Pay system, potentially cutting the big financial services firms off from their clients. Richard Goyder, CEO of Wesfarmers, has said he doesn't worry about Woolworths so much anymore as he does Amazon. Global high-tech business, especially those based in the US, are penetrating deep into the heart of formerly impregnable business models around the world and delivering bumper profits to its shareholders with their smart phones, e-commerce platforms and ecosystems. As the Australian dollar stubbornly holds onto levels well above where it should be, this may be a great time for investors to think globally.

Source: Zurich Global Thematic Fund

Speak to your financial planner for more information on investments.

Getting to know the people of Catapult Wealth.

Liliya Sterns Client Services Assistant

1: My job at Catapult Wealth involves:
Client contact, preparing client paperwork, database entry and assisting the team.

2: My dream holiday destination is:
New York at Christmas.

3: The person that I admire most is:
My Grandmother, she's an inspiration.

4: I can't live without my:
My Phone, my life is in the palm of my hand!

5: I am scared of: Snakes, creepy crawlies and heights.

6: I get mad when: People aren't on time.

7: The thing that I enjoy the most about working at Catapult Wealth is:
The close knit staff environment. We have fun but also know when to knuckle down. Tony is a great boss.

Have you considered exchange traded funds?

While you may have purchased shares on the ASX, have you considered purchasing an exchange traded fund (ETF)? ETFs are managed funds that can be bought and sold in the same way as listed shares. They blend the benefits of both managed funds and shares.

Managed Fund + Share = iShares ETF

These types of investments have been around for more than two decades and are increasingly becoming a larger component of the overall investment universe.

By buying just one ETF, you can own a whole portfolio of international and/or local securities, providing a diversified exposure to an entire asset class in an efficient, simple and low-cost manner.

Essentially, the ETF is a structure designed to track a specific index by packaging up securities and making them available on the stock exchange as a single stock. ETFs reduce complexity as they provide diversification though one trade on the ASX.

An ETF also offers the benefit of liquidity; you can buy and sell units in the investment on the ASX during normal trading hours whether through your investment adviser, a broker or online. Like shares, pricing is daily and there is no minimum investment amount.

ETFs can provide exposures to stocks in individual countries, (eg Australian, US, Japanese or Chinese shares), asset classes (eg bonds, commodities, shares) or sectors (eg healthcare, consumer staples or telecommunications) or broad global investment themes (Europe, Asia or emerging markets).

One key advantage of ETFs is that they can provide access to markets that were otherwise hard to access for individual investors. For example, in the bond market, the minimum investment size for some bonds is up to $500,000 and the market is not always very liquid. There are 11 fixed income ETFs listed on the ASX that provide access to these markets, with no minimum investment level and daily pricing so you can trade through the normal trading day.

The simplicity and ease of use of ETFs has led to them being used in a number of ways by Australian investors. Whilst they have been used to target specific exposures or play out particular investment themes, they have also been used as building blocks in portfolio construction. They offer an efficient way to build a portfolio of Australian shares or to build an entire portfolio because they provide diversification across asset classes and international markets. Some investors have taken a blended approach and combined them with actively managed funds in their portfolios.

In Australia and overseas, investor adoption of ETFs has grown strongly. Over the past 20 years, exchange traded products (of which ETFs are the largest part) have grown into a $2.8 trillion investment industry globally. In Australia, the industry grew by 50 per cent and represented just over $15 billion in funds under management by the end of 2014, with 104 products listed on the ASX.

Source: BlackRock

CHART A: Growth in ETPs

Words of wisdom:

"You don't learn to walk by following rules. You learn by doing, and falling over."

- Sir Richard Branson

"If everyone is moving forward together, then success takes care of itself."

- Henry Ford