Autumn 2020

Economic update

Markets fall on oil price and coronavirus shocks

What happened?

- Global share markets have fallen recently driven by a collapsed oil deal and coronavirus impacts.
- The Australian share market fell 19.6% from its peak on 20 February to 9 March 2020.
- This means the gains of 2019 have been lost with the index back at December-18 levels.

Why have share markets fallen this much? A case of two shocks

1. Coronavirus fears for global economic growth

Share markets have fallen following growing concerns over a global Covid-19 (aka coronavirus outbreak). This virus is related to the SARS outbreak that affected Asia, notably China in 2003. It has proven to be difficult to control and sparked outbreaks outside of China, across much of the world with Italy, Iran and South Korea the most notable cases.

As the outbreaks outside of China escalated, investors retreated from shares and fled to safe assets such as bonds as they priced in a weaker economic scenario with expectations of ongoing business struggles.

2. Oil price collapse

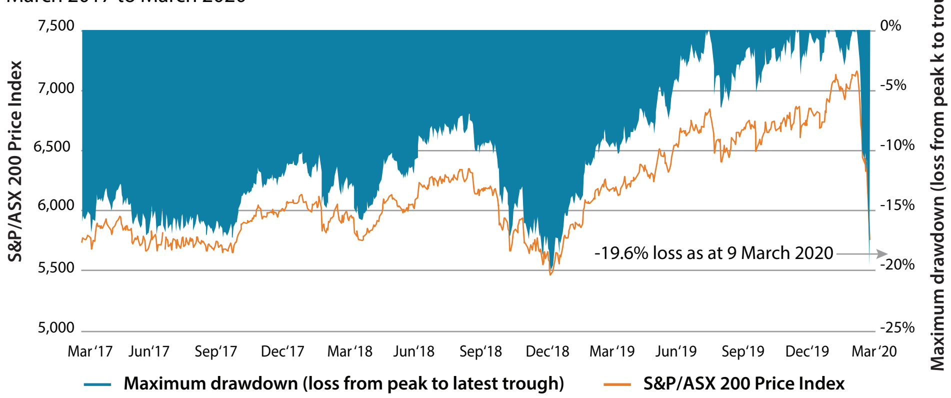
Over the weekend of 6 March we saw a new economic shock appear. Oil producers were expected to agree to cut production to support oil prices. However, Russia chose not to participate with the deal failing. This triggered a response by major producer Saudi Arabia to cut prices and hint at increasing production. The threat of lower prices and increased supply saw oil prices fall with WTI Crude oil down 9.7% in one day.

These moves sparked fears of:

- Collapse in the US shale gas industry (which needs higher prices to remain profitable),
- Economic weakness in oil producing countries, and
- A greater likelihood of global recession in a very short space of time.

S&P/ASX 200 Price Index vs Maximum Drawdown

March 2017 to March 2020



Source: Bloomberg, IOOF

Speak to your financial adviser to find out more about your investment options.

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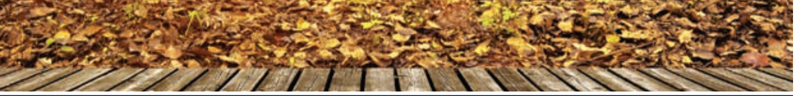


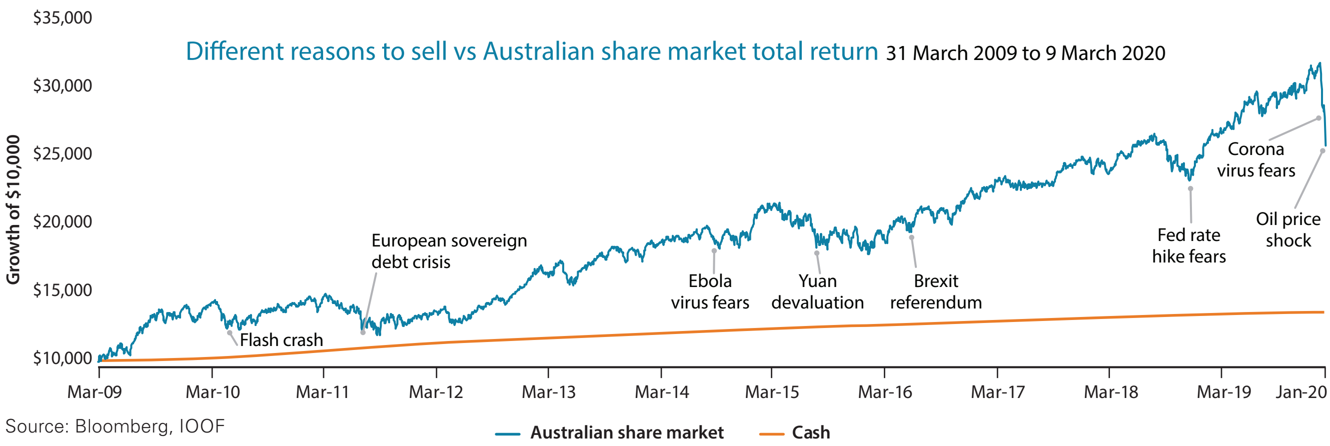
Staying the course

Client portfolios are set with risk in mind. They have gone through a detailed strategic asset allocation process to maximise the expected return subject to the ability to tolerate risk. This involves modelling different scenarios including times when the share market falls. Importantly it is expected to deliver, even after the sell off of week commencing 8 March, a long-term return that will meet financial objectives.

There are often reasons to sell out of shares. The chart below shows a few different reasons over the last 11 years. The important message to hold onto is that over time the market has recovered and allows you to earn strong long-term returns. Since the global financial crisis, even after the start to this year, investors have more than doubled their money. If you panicked and went to cash however, you would have only earned 36.5% over the last 11 years versus a potential 159.7% in Australian shares.

If you have any further questions, please speak with your adviser.

Source: IOOF



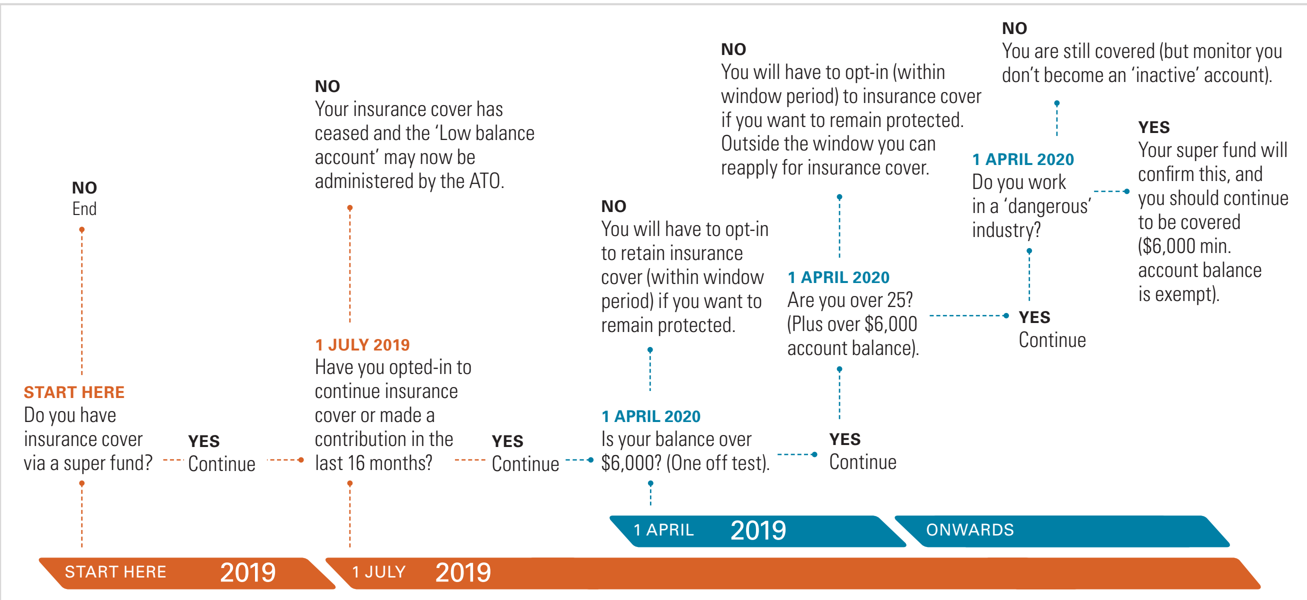
Source: Bloomberg, IOOF

Do you have insurance inside super?

Insurance inside super or 'Group Insurance' is the life insurance cover you may have through your employer or your super fund.

Did you know, that in the last financial year, the industry regulator APRA reported there were over 53,000 Group Insurance claims made in Australia?[1] However with the recent changes to Group Insurance, you may be wondering whether or not you still have Group Insurance through your employer or super fund.

Here is a guide that may help you determine if you are still covered, or if you might need to talk to your financial adviser or super fund.



Source: CommInsure

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1 Life Insurance Claims and Disputes Statistics June 2019 - https://www.apra.gov.au/life-insurance-claims-and-disputes-statistics

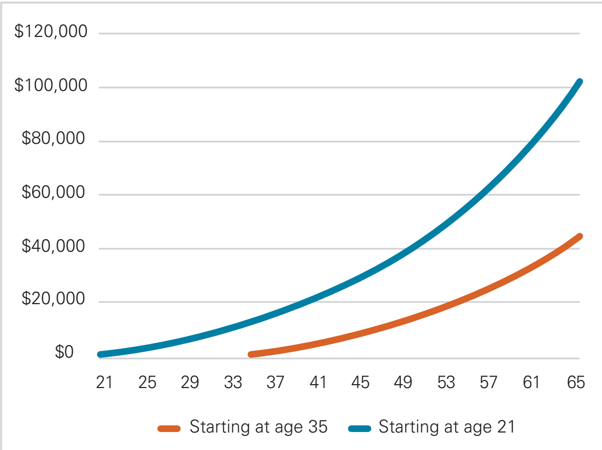
5 investing questions everyone should ask (and answer)

The thought of investing can be daunting to some. To help, we've compiled a series of questions every investor should ask themselves and be able to answer.

1. What age will you/did you start investing?

The earlier you start investing, the quicker your savings can grow.

Say, you're 35 and you're investing $50 a month over 30 years. Assuming your investments grow at 5% annually, you will have amassed savings of $44,541 by the time you are 65.



However, if you started investing at 21, your investment, based on the same logic as above, would be worth $101,744 by age 65. By starting earlier, your investment ends up being over 2.2 times larger (unadjusted for inflation).

2. Have you spread your money around?

Diversifying your investments means buying different types of investments, potentially across different countries and/or asset classes. Diversification doesn't guarantee you won't lose money but it can help to balance portfolio returns when a certain investment underperforms.

3. How much risk are you willing to take?

The risk spectrum, from low to high, generally moves from cash/savings; government bonds, corporate bonds, high-yield corporate bonds, developed market shares, to emerging market shares and alternatives. The higher on the spectrum, the greater the risk.

4. What is your time horizon?

Having a clear understanding of when you want to access your money could help you determine what type of investment is right for you. For instance, if you're saving for a short-term goal, like a holiday, you may not want your money tied up in an investment which can fluctuate dramatically. For longer-term goals, you may be able to take on more risk as you have more time to allow for potential losses to be recouped.

5. Will you reinvest your income?

Investments typically generate income: shares pay dividends, bonds pay coupons, savings accounts pay interest. You can elect to receive this income as cash or you can reinvest this income to increase your investment.

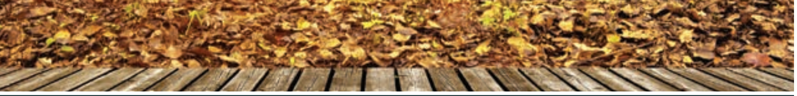
If you elect to reinvest your income, this can trigger the effect of compounding. Compounding is earning interest on interest and it can help an investment grow at a faster rate.

Say you invested AU$1,000, 10 years ago and decided to take the income from this investment as cash. Your investment would currently be worth AU$1,501 (equivalent to an average annual return of 4.1%). However, if you had opted to reinvest the dividends, buying more shares, your current shareholding would be worth AU$2,310 (an average annual return of 8.7%).

So, whether you are a seasoned investor or starting out on your journey, it's important to ensure you ask yourself these important questions and speak to your financial adviser who can help you decide what's right for you.

Remember, past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

Source: Schroders



Retirement income worry – who worries and why?

Two-thirds of retirees who have been retired for five years expect to spend their savings over the next 20 years.

The latest research from National Seniors Australia surveyed levels and causes of worry among Australian retirees. The survey found that most older Australians (53%) are worried about outliving their savings, with women (59%) more worried than men (47%).

People without any super reported the highest levels of worry, with 23% worrying frequently. Many of these people are likely to be on the full Age Pension, with one in three frequently worried about outliving their savings.

National Seniors CEO, Professor John McCallum, said these findings illustrate the extent of the worry felt by older Australians when it comes to their financial security.

"Australia has one of the best pension systems in the world, yet Australian retirees are still showing high levels of worry that they will outlive their savings," Professor McCallum said.

"This shows a need for better advice and education to help older Australians manage their savings so they can have the confidence to spend their money and enjoy retirement."

Why are women more worried than men?

Not only are retired women more worried than men, they are also more likely to be relying on the Age Pension as their main source of income. Women are also more likely to have less than $500,000 in retirement savings, which is below the ASFA comfortable standards. Divorced women are among the most worried about their financial situation in retirement.

Challenger's Chairman of Retirement Income, Jeremy Cooper, said disparities in earnings and working patterns have disadvantaged women and their potential to accumulate wealth over their lifetimes.

"Super not only provides a reliable source of income, but also reduces worry for older Australians. On average, women live three years longer than men, but our super system doesn't cater for this difference in longevity.

"What this and other National Seniors research clearly highlights is that people treat the age pension and their own savings differently. They fear running out of their own money, even though the safety net of the age pension will be there for them. This sends a strong signal that people worry about being solely reliant on the age pension. It's therefore important that super funds explore ways of providing more lifetime income to their members."

The research also found that having a reliable source income that will last for life is a key factor for worrying less, with those people with a defined benefit pension or a lifetime annuity reporting the lowest levels of worry. This is consistent with previous NSA research that found 84% of retirees said that regular and constant income in retirement was very important to them.

The full report is available at:
www.nationalseniors.com.au/retirementincomeworry

Source: Challenger