

## OUTLOOK FOR FINANCIAL MARKETS as at 2/9/2016

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It would appear that the time honoured tradition of "investing for the medium to long term" has died for a lot of people. The clamour for instant gratification is ever present. Fuelled by the 24/7 news cycle and constant churn of social media, the world operates on ever shorter cycles. Politicians promise what will see them re-elected, instead of doing what's best for multi-decade economic and social benefit. Companies focus on looking their best for the next reporting season, often at the expense of future growth. Public outrage flares, dissipates and moves on to the next issue within hours with social media fanning the flames. In short – short-termism seems rife!

Markets are more volatile with prices going up one day and down the next. It is obvious medium to long term fundamental investors have far less influence on the prices paid for securities over shorter time periods. A much larger percentage of market trading now comes from high frequency traders, momentum traders, chartists, index funds (*including ETF's*), pseudo index funds and uneducated people who believe everything they read from the financial media. Much of this short term focused buying or selling makes no attempt to work out the true worth of what they are buying or selling.

### Investment Principle 1

Despite all of these things I have not changed my basic investment tenet, that if you buy intrinsically sound assets (*that have a good future*) for good prices then eventually you will be well rewarded, even if some times you need to be patient.

### Investment Principle 2

Investment Principle 1 does not stand alone. Because any investment decision we make today inescapably involves making some predictions about the future, it is usually not possible to get all our predictions right. So therefore it is important to have your investment choices "genuinely" diversified across different investment sectors and within each of these sectors. The aim is that when some sectors are struggling, others are doing well, and any downturn in portfolio valuations is mitigated to an extent. Working on the notion that we will get more of our calls right than wrong and the investment managers we select will do likewise, it should be possible to achieve above average investment returns over the medium and long term.

### Evidence

In support of our contentions (*above*), we have included performance graphs for some of the investments we use in our client's portfolios. Results can be summarised as follows:

#### Perpetual Wholesale Concentrated Equity Fund (Australian Shares – Large Companies)

If you invested \$10,000 ten years ago (*includes the GFC period from November 2007 to March 2009*) it would now be worth \$20,858 despite the fact that its value would have fallen to \$7,688 by March 2009.

#### Ausbil Microcap Fund (Australian Shares – Smaller Companies)

If you invested \$10,000 at inception in February 2010 it would now be worth \$55,664. However note that between April and December 2011 its value fell by 26% and it fell 14% between September and December 2014.

## OUTLOOK FOR FINANCIAL MARKETS (Cont'd) as at 2/9/2016

### Magellan Global Fund (Global Shares – Large Companies)

If you invested \$10,000 at inception in July 2007 it would have fallen to \$8,321 by March 2009, taken till September 2011 to get back to where it started and now be worth \$25,847. Note the recovery from its low point was initially hampered by a rising \$A.

### AMP Capital Core Property Fund (75% Australian Direct & Listed Property / 25% Global Listed Property)

If you invested \$10,000 ten years ago it would have risen to \$12,052 by October 2007, then fallen to \$6,969 at the depths of the GFC, but now be worth \$17,694.

### PIMCO Diversified Fixed Interest Fund (Australian & Global Fixed Interest)

An actively managed, low volatility investment, with no material declines in valuation and \$10,000 invested 10 years ago now worth \$20,891.

### Winton Global Alpha Fund (Managed Futures)

This investment has the capacity to perform in both rising and falling markets and has a low correlation to other investments which means it is great for diversification. An investment of \$10,000 at inception in May 2007 would now be worth \$24,297 and over the duration of the GFC (i.e. November 2007 to March 2009) it actually increased in value by 33%.

## Current View on Investment Markets

|   |   |
|---|---|
| Australian Shares (Large Companies)     | Fair value  |
| Australian Shares (Smaller Companies)   | Some expensive but plenty of attractive options (over 2,000 companies to choose from).  |
| Global Shares - Developed Countries     | Some good opportunities, but on average the USA appears a bit expensive, Europe is a mixed bag, as is Japan.  |
| Global Shares - Emerging Markets        | Good opportunities here.  |
| Property - Listed Australian & Global   | Fair value while ever interest rates remain low.  |
| Property - Direct Australian Commercial | Reasonable value, probably a bit cheaper than Listed Property.  |
| Fixed Interest - Australian & Global    | Avoid long term Government Bonds issued by the developed countries (USA, Europe, Japan, & Australia). Some Emerging Market Government Bonds are attractively priced. There is some fair value in carefully selected corporate bonds/credit and hybrids. |
| Other Alternate Investments             | Opportunities for decent returns exist in Managed Futures, Private Equity, Infrastructure, Market Neutral Hedge Funds and Special Situation/Event Drive Funds.  |
| Currencies \$A                          | Difficult to judge its direction at its current level. It might rise against some currencies and fall against others. We think it might be best to remain unhedged for the time being.  |

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### Perpetual Wholesale Concentrated Equity PER0102AU

[Research Report](#) [Fund Profile](#)

Entry/Exit Price: \$1.49 | \$1.48 (31-Aug-2016)

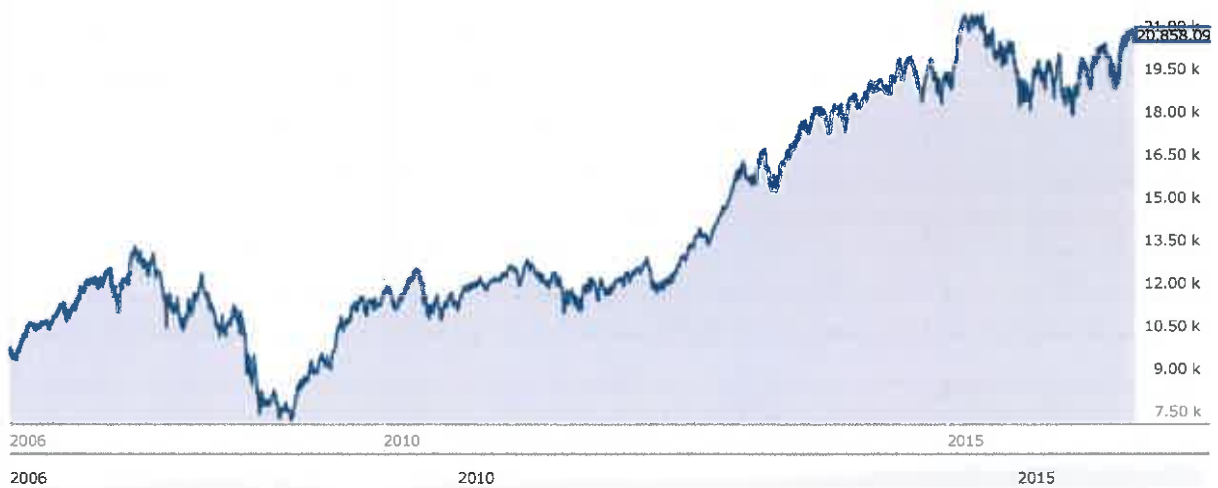
|   |                           |                               |                              |                       |                                       |
|---|---------------------------|-------------------------------|------------------------------|-----------------------|---------------------------------------|
| <b>Morningstar Analyst Rating™</b><br>(12-Nov-2015) | <b>Role</b><br>Supporting | <b>Product Type</b><br>Retail | <b>Fund Status</b><br>Open   | <b>ICR %</b><br>1.10% | <b>Net Assets Mil AUD</b><br>\$920.48 |
| <b>Morningstar Pillars</b>                          |                           | <b>Equity Style Box™</b>      | <b>Morningstar Category™</b> | <b>Legal Type</b>     | <b>Morningstar Rating™</b>            |
| <b>Process</b>                                      | Positive                  | Equity Australia Large Value  | Investment Trusts            | (Quantitative)        |                                       |
| <b>Performance</b>                                  | Positive                  |                               |                              |                       |                                       |
| <b>People</b>                                       | Positive                  |                               |                              |                       |                                       |
| <b>Price</b>  | Negative                  |                               |                              |                       |                                       |
| <b>Parent</b>                                       | Positive                  |                               |                              |                       |                                       |

[Overview](#) [Process](#) [Portfolio](#) [Performance](#) [Parent](#) [People](#) [Pears](#) [Price](#) [Charts](#)

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Sep 02, 2006 - Aug 31, 2016

Sep 02, 2006 - Aug 31, 2016 ● Perpetual Wholesale Concentrated Equity



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### Ausbil MicroCap AAP0007AU

[Research Report](#) [Fund Profile](#)

Entry/Exit Price: \$3.86 | \$3.84 (31-Aug-2016)

|   |                           |                               |                              |                       |                                       |
|---|---------------------------|-------------------------------|------------------------------|-----------------------|---------------------------------------|
| <b>Morningstar Analyst Rating™</b><br>(21-Sep-2015) | <b>Role</b><br>Supporting | <b>Product Type</b><br>Retail | <b>Fund Status</b><br>Open   | <b>ICR %</b><br>7.34% | <b>Net Assets Mil AUD</b><br>\$440.56 |
| <b>Morningstar Pillars</b>                          |                           | <b>Equity Style Box™</b>      | <b>Morningstar Category™</b> | <b>Legal Type</b>     | <b>Morningstar Rating™</b>            |
| <b>Process</b>                                      | Positive                  | Equity Australia              | Mid/Small Blend              | Investment Trusts     | (Quantitative)                        |
| <b>Performance</b>                                  | Positive                  |                               |                              |                       |                                       |
| <b>People</b>                                       | Positive                  |                               |                              |                       |                                       |
| <b>Price</b>  | Negative                  |                               |                              |                       |                                       |
| <b>Parent</b>                                       | Neutral                   |                               |                              |                       |                                       |

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Feb 15, 2010 - Aug 31, 2016

Feb 15, 2010 - Aug 31, 2016 ● Ausbil MicroCap



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### Magellan Global MGE0001AU

[Research Report](#)

[Fund Profile](#)

Entry/Exit Price: \$1.80 | \$1.80 (31-Aug-2016)

|   |                           |                               |                            |                            |   |
|---|---------------------------|-------------------------------|----------------------------|----------------------------|---|
| <b>Morningstar Analyst Rating™</b><br>(21-Mar-2016) | <b>Role</b><br>Supporting | <b>Product Type</b><br>Retail | <b>Fund Status</b><br>Open | <b>ICR %</b><br>1.77%      | <b>Net Assets Mil AUD</b><br>\$7,763.67 |
| <b>Morningstar Pillars</b>                          | <b>Equity Style Box™</b>  | <b>Morningstar Category™</b>  | <b>Legal Type</b>          | <b>Morningstar Rating™</b> |   |
| Process   |                           | Equity World Large Blend      | Investment Trusts          | (Quantitative)             |   |
| Performance   | Positive                  |                               |                            |                            |   |
| People  |                           |                               |                            |                            |   |
| Price   | Negative                  |                               |                            |                            |   |
| Parent  | Positive                  |                               |                            |                            |   |

Overview

Process

Portfolio

Performance

Parent

People

Peers

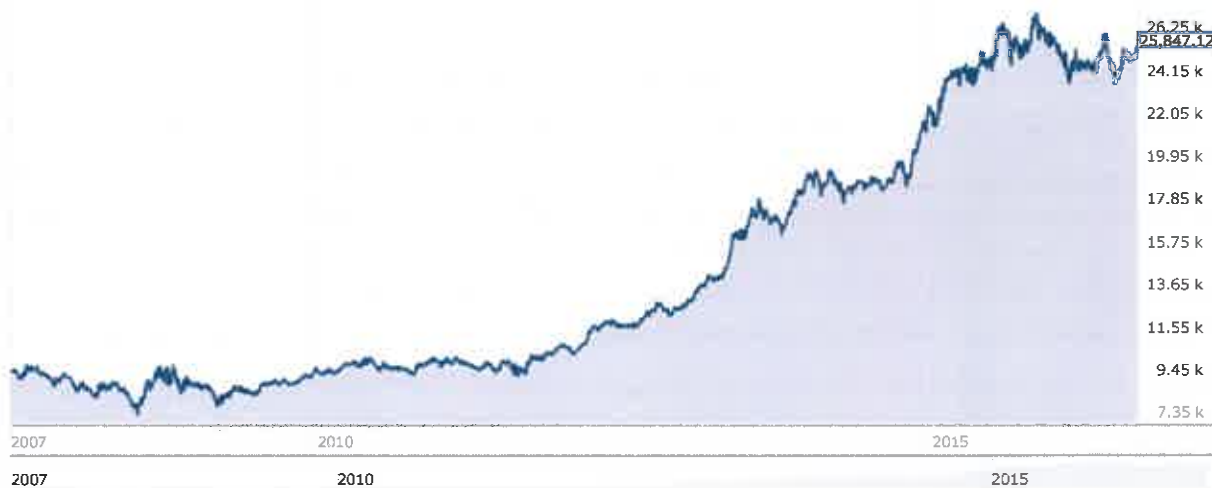
Price

Charts

Compare

Jul 01, 2007 - Aug 31, 2016 Daily 1 Mth 3 Mth YTD 1 Yr 3 Yr 5 Yr 10 Yr Max Reset

Jul 01, 2007 - Aug 31, 2016 • Magellan Global



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### AMP Capital Core Property A AMP1015AU

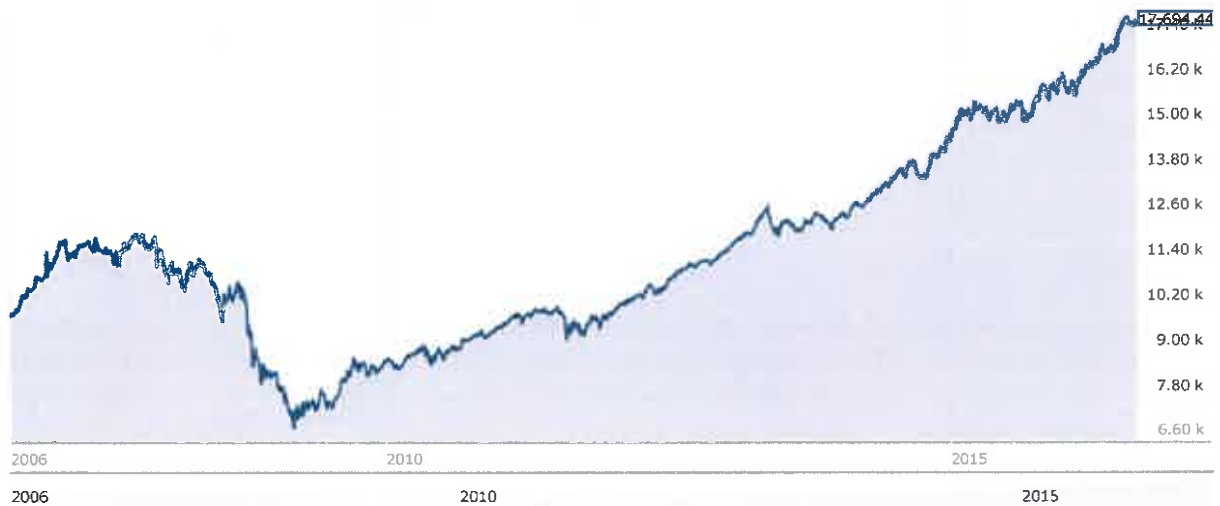
[Fund Profile](#)

Entry/Exit Price: \$1.26 | \$1.26 (31-Aug-2016)

|  |                               |                                |  |  |
|--|-------------------------------|--------------------------------|--|--|
| <b>Morningstar Analyst Rating™</b><br><b>NOT COVERED</b> | <b>Product Type</b><br>Retail | <b>Fund Status</b><br>Open     | <b>ICR</b><br>1.12%  | <b>Net Assets</b><br>\$522.72 M              |
|  | <b>Equity Style Box™</b>      | <b>Fixed Income Style Box™</b> | <b>Morningstar Category™</b><br>Unlisted and Direct Property | <b>Legal Type</b><br>Investment Trusts       |
|  |                               |                                |  | <b>Morningstar Rating™</b><br>(Quantitative) |

Sep 02, 2006 - Aug 31, 2016

Sep 02, 2006 - Aug 31, 2016 ● AMP Capital Core Property A



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### PIMCO Diversified Fixed Interest W ETL0016AU

[Research Report](#) [Fund Profile](#)

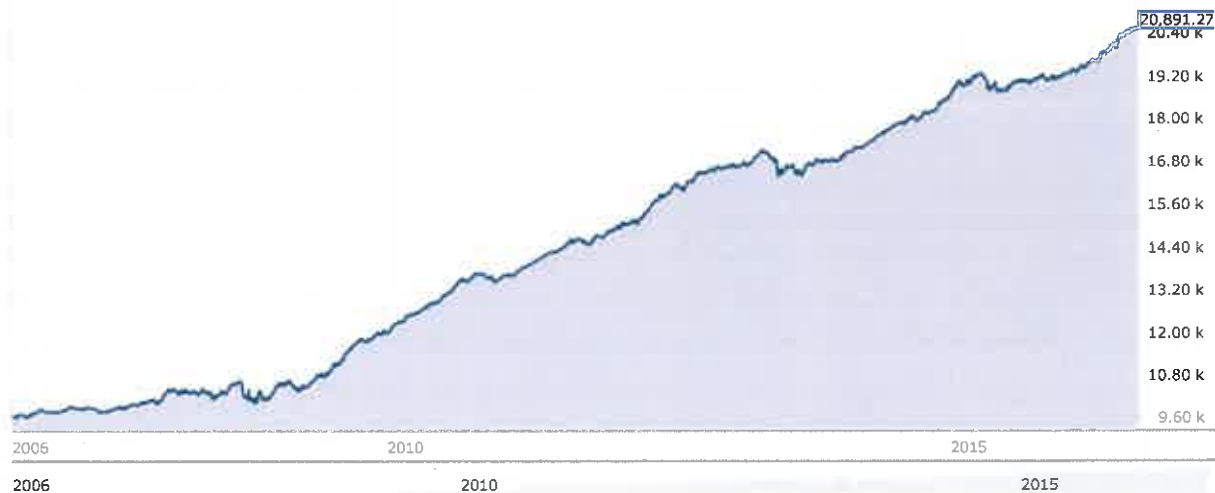
Entry/Exit Price: \$1.01 | \$1.00 (31-Aug-2016)

|   |                                |                               |                            |                            |   |
|---|--------------------------------|-------------------------------|----------------------------|----------------------------|---|
| <b>Morningstar Analyst Rating™</b><br>(11-Jan-2016) | <b>Role</b><br>Core            | <b>Product Type</b><br>Retail | <b>Fund Status</b><br>Open | <b>ICR %</b><br>0.50%      | <b>Net Assets Mil AUD</b><br>\$1,790.67 |
| <b>Morningstar Pillars</b>                          | <b>Fixed Income Style Box™</b> | <b>Morningstar Category™</b>  | <b>Legal Type</b>          | <b>Morningstar Rating™</b> |   |
| <b>Process</b>                                      | Positive                       | Bonds - Global / Australia    | Investment Trusts          | (Quantitative)             |   |
| <b>Performance</b>                                  | Positive                       |                               |                            |                            |   |
| <b>People</b>                                       | Positive                       |                               |                            |                            |   |
| <b>Price</b>  | Neutral                        |                               |                            |                            |   |
| <b>Parent</b>                                       | Neutral                        |                               |                            |                            |   |

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Sep 02, 2006 - Aug 31, 2016

Sep 02, 2006 - Aug 31, 2016 ● PIMCO Diversified Fixed Interest W



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### Winton Global Alpha MAQ0482AU

[Research Report](#) [Fund Profile](#)

Entry/Exit Price: \$1.22 | \$1.22 (30-Aug-2016)

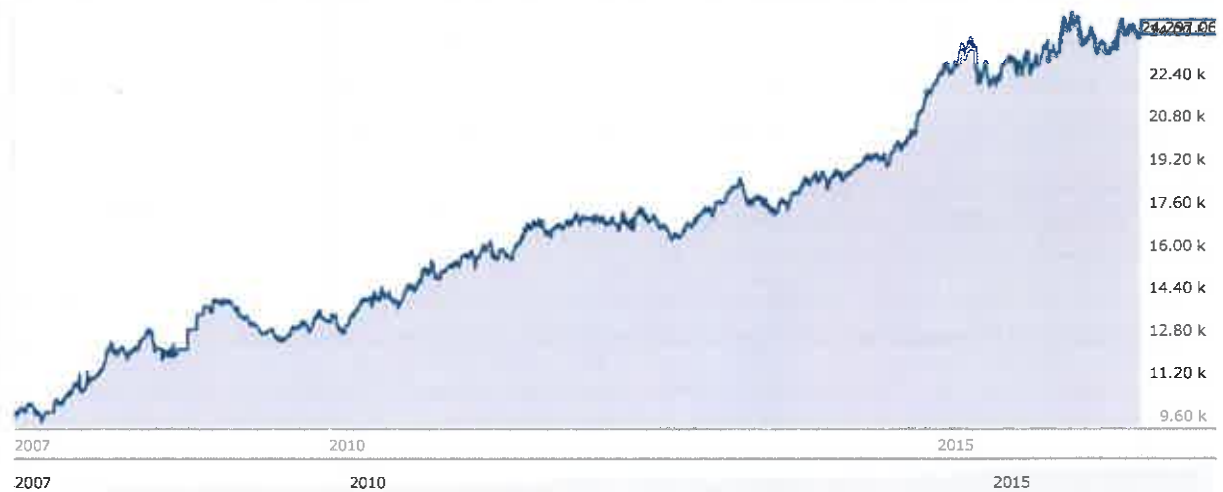
|   |                           |                                |  |  |  |
|---|---------------------------|--------------------------------|--|--|--|
| <b>Morningstar Analyst Rating™</b><br>(08-Mar-2016) | <b>Role</b><br>Supporting | <b>Product Type</b><br>Retail  | <b>Fund Status</b><br>Open   | <b>ICR %</b><br>6.23%                  | <b>Net Assets Mil AUD</b><br>\$1,803.34      |
| <b>Morningstar Pillars</b>                          | <b>Equity Style Box™</b>  | <b>Fixed Income Style Box™</b> | <b>Morningstar Category™</b><br>Alternative Strategies – Managed Futures | <b>Legal Type</b><br>Investment Trusts | <b>Morningstar Rating™</b><br>(Quantitative) |
| Process   | Positive                  |                                |  |  |  |
| Performance   | Positive                  |                                |  |  |  |
| People  | Positive                  |                                |  |  |  |
| Price   | Negative                  |                                |  |  |  |
| Parent  | Neutral                   |                                |  |  |  |

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Compare

May 28, 2007 - Aug 30, 2016 Daily 1 Mth 3 Mth YTD 1 Yr 3 Yr 5 Yr 10 Yr Max Reset

May 28, 2007 - Aug 30, 2016 ● Winton Global Alpha



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