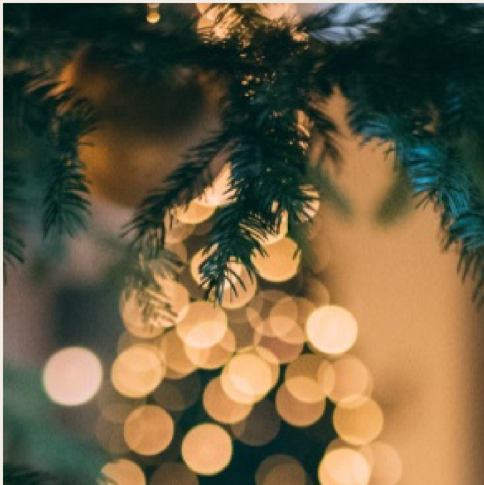
December Newsletter

Wishing you a Merry Christmas and Happy New Year! One of the real joys of the festive season is the opportunity to say thank you. From all of us at CFG may your holiday season be filled with joy and good cheer and the New Year bring you happiness.

A message from Kym Cotter



Welcome to our Christmas 2018 Client Newsletter.

The second half of this year has been a busy period for all at Cotter Financial Group (CFG) with the commencement of the business in July which included a move to new offices in North Adelaide and a change of Licensee.

With the festive season just around the corner, reflecting on events of 2018 presents an interesting read. Global events covering the US (Donald never disappoints), Brexit, China and other areas have all kept markets, and investors, "on their toes". The most significant impact has been over the past couple of months which has been driven by trigger point uncertainties. On the local front our market has not been immune from the recent volatility broadly reflecting the global activity. Another significant local contributor has been the fallout from the Financial Services Royal Commission which has had an impact across the financial services sector and will no doubt continue to do so as the final report is presented in February 2019. We have included an Economic Update which provides some further commentary for your information.

Also included is an additional article ''Staying the course versus timing the market'' – we trust you find them both of interest.

I would like to take this opportunity to let you know that our office closure times will be from midday on Friday 21 December until Monday, 14 January.

Please accept our very best wishes to you and yours for a safe, happy and enjoyable festive season and we look forward to catching-up with you in 2019.

Kym Cotter DFP
Director

Economic Update December 2018

Within this month's update, we share with you a snapshot of economic occurrences both nationally and from around the globe.

US Fed gives markets renewed hope!

- Fed chair changes his tune on rate hikes
- Brexit is getting messier
- Australian labour market strengthens further

We hope you find this month's Economic Update as informative as always. If you have any feedback or would like to discuss any aspect of this report, please contact us.

The Big Picture

For the last two months, stock markets having been reeling on a roller coaster ride. It's almost all been due to the evolving best guesses of what the US Fed might be thinking.
When the official interest rate is above the "neutral rate", monetary policy is tightening in an attempt to slow down the economy. High interest rates are usually the precursor to a recession.

At the start of October, Fed chair, Jay Powell, stated that rates were "a long way from neutral". That is, there were likely to be many more rate hikes in the pipeline and markets corrected sharply. Other Fed members started to soften this view and markets settled somewhat. At the end of November Jay Powell reversed his stance by stating rates were "just below neutral" even though the official rate hadn't changed in the intervening period! Wall Street jumped 2% on the news and 4.8% over the last week.

The Fed minutes (of the "FOMC") also supported this softer view but they are still pointing towards a hike on December 19th. That hike would take the official rate to be in the range 2.25% to 2.5%. With most experts thinking that the neutral rate is somewhere in the range 2.5% to 3.5% there is now a feeling that the Fed might slow down its hiking programme for 2019 – or even pause it for a while.

The so-called 'dot plots' that indicate Fed members' expectations of rates for the next year or two will be published at the December meeting. At that point markets will have a much clearer view of what may happen in 2019 and markets should settle down further. If those plots show a reduction from the three or four 2019 hikes that seemed to be in the Fed pipeline, markets should rally. It is hard to see any real downside from the December 19th meeting. The other current key market driver is the status of the US-China trade talks. The G-20 meeting in Buenos Aires, which ended on December 1, should start to clarify much – particularly as Trump had dinner with President Xi that evening. It appears that the tariff war is now on hold for 90 days with no new tariffs to follow after January 1st.

Early December is also the time that UK prime minister, Theresa May, will attempt to get her Brexit deal through the House of Commons. It is expected that there will be some rebellion from both sides of the House. However, the spill-over of any outcome on the rest of the world is thought to be minimal.

The British government's recent official analysis of Brexit is stated to be a 4% reduction in UK GDP – but spread over 15 years! That doesn't seem to be a big issue for Australian trade or our economy.

The Australian economy again posted some strong data during November. The unemployment rate stayed at an acceptably low 5.0% and jobs growth was very strong. Even wage inflation at last showed some strength with a 2.3% gain over 12 months.

Of course, there are always some patches of gloom in the media to navigate. UBS has a forecast out that Australian house prices could fall by up to 30% and Goldman Sachs is predicting no gains on Wall Street in the next 12 months.

We see Australian house prices being largely flat for a few years – as is customary after a strong growth spurt. We see further growth in our stock market and on Wall Street. However, we have noted that earnings expectations having been slowing a little over the past two months. A lot of attention will be paid to upcoming reports of US earnings from early January and Australia in February.

Earnings have been performing quite well in 2018 but outlook statements of late have been a little soft. By the start of next year, we will have an opportunity to assess whether companies over-reacted to the Trump trade war chatter!

Our office will be closed from 12.00pm Friday 21 December and reopen Monday 14 January.
Should you have an urgent query during this time, please call the office on 08 7918 7850.
Wishing all of you Merry Christmas and a happy and safe New Year.

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Staying the course versus timing the market

Key Takeaways

- As the old saying goes, time in the market is generally superior to timing the market. Yet, investors tend to have a bad habit of buying winners too late and dumping losers too soon.

-Staying the course does not necessarily mean sitting still. It means avoiding bad behaviour, remembering your goal and ensuring you approach markets with discipline.

"Stay the course" is a nautical phrase that has been popularised by world leaders, primarily in the context of battle, according to Wikipedia. According to Stewart Alsop's 1973 memoirs of a conversation with Winston Churchill, the British prime minister contemplated towards the end of World War II: "America, it is a great and strong country, like a workhorse pulling the rest of the world out of despond and despair. But will it stay the course?"1

We ask the same question today of investors, after what has been an emotive period for financial markets. From trade wars to Brexit, North Korean tensions to Italian political turmoil, we've had plenty of noise to deal with. So, what do we mean by "staying the course"? It is not always about sitting still (even though this is often the easiest path to investing success), but rather, to focus on the goal that you set in the first place and ensure your behaviour aligns with it.

Let's face it, investors too often redirect their focus from the destination to the journey. Much like in other walks of life, we can lose focus, making us susceptible to capitulation or giving up at the exact moments when we require fortitude and resolve. That is, investors are hard-wired to be procyclical, chasing the winners and selling out of the losers because of a yearning to make money work harder for us.

Therefore, it is vital that as investors we remain vigilantly aware of how animal spirits can drive irrational decision-making, and that we adopt a reasoned framework for investing. Behavioural errors can wreak havoc on long-term portfolio returns due to excessive and unjustified turnover.

A Step-by-Step Guide to Staying the Course

The best thing an investor can do when contemplating change is to reflect on their goals. Would the investment change align with the original investment plan or strategy for reaching well-defined goals? The key question to ask is whether anything has fundamentally changed since setting the original strategy or whether it's just that the client is disappointed with the progress towards goals.

If something has fundamentally changed, the next question to ask is whether you can clearly identify what has changed. Write it down, then balance this by writing what it might mean if you're wrong. This should include any misjudgment risk as well as the added costs if you decided to change investments. You will often find that the change you desire is not necessarily going to increase the probability of reaching your goal/s. If it has "just" disappointed you, but nothing has fundamentally changed, the likely best option is to stay the course. By thinking probabilistically and remembering that investment markets never move in straight lines, you may avoid the perils of trying to time the market.

Furthermore, you may benefit by doing the opposite to your intuition (given the evidence against it) and teach yourself to be a contrarian.

How We Think about Staying the Course

As professional, multi-asset investors, we focus on the investment objective, always bearing in mind the opportunity costs and risks. We also write down a balanced thesis that ensures we remove any emotion rom our decision-making.

In this sense, staying the course is not idle or passive, but rather about staying aware. Some investors may look at a recent period of lean returns and, with a hindsight bias and the herd mentality at play, will fear for the future. Many will further justify to themselves that reward for risk is simply not sufficient and will consider a change in strategy. This thinking is usually well intentioned, but it is dangerous and must be thought through with a long-term perspective.

Staying the Course vs. Timing the Market
Investing, like many things, often involves taking the thorns with the roses. Over

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