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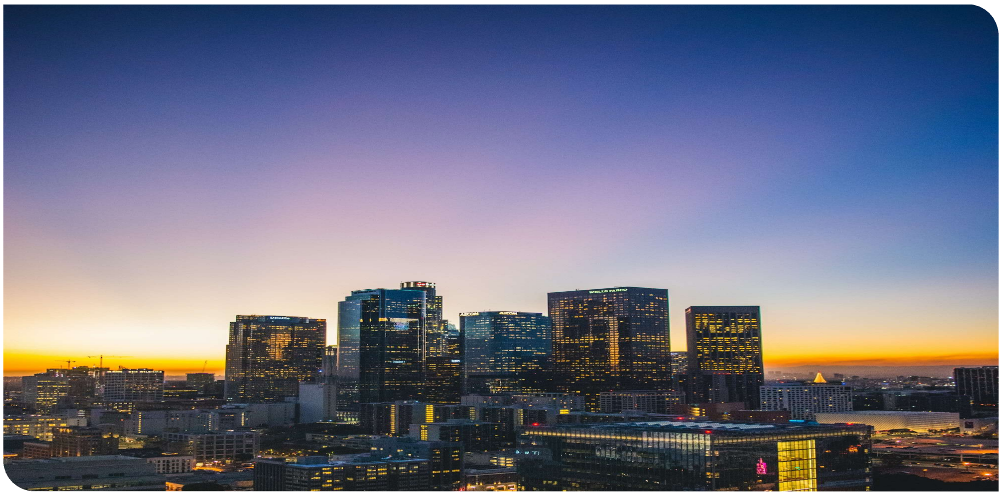

CFG Mid Year Newsletter

Welcome to our latest newsletter!

Recent Market Volatility

As you may be aware financial markets have been through a period of elevated volatility in the past couple of weeks, which has served to punctuate the regime change we have been experiencing in markets so far in 2022, in particular, this June quarter. This regime change is coming from the world 're-opening' post the Covid 19 lockdowns, which has led to both rising demand and ongoing disruption to the supply of manufactured products. This has in turn led to rising inflationary pressure and some outsized responses by central banks in the near term, with the expectation of more interest rate rises to come.

In relation to events of the past 2 weeks, share markets began softening from about Wednesday 8 June ahead of the US Inflation data release on Friday morning, 10 June. From a global perspective, the US inflation data for May was critical because its level would provide strong guidance to the US Federal Reserve's (Fed) interest rate policy setting. The US Consumer Price Inflation (CPI) came in at 1.0% for the month of May (8.6% p.a. for the year), while 'core' inflation (which excludes food and energy) came in at 6.0% p.a. The CPI data in particular, was much higher than anticipated by share and bond markets and this led to a heavy selloff both in the US and globally. Further, it was clear evidence that peak inflation and bond yields may still be yet to occur. This contrasted with the views of many market participants who believed this event had recently passed. In Australia, our markets were spooked by RBA Governor Philip Lowe raising our cash rate by 0.50% on 7 June 2022, a larger rise than anticipated by the markets and local shares and bonds responded by selling off.

With the higher inflation data for May, the US Fed determined to increase US cash rates by a very large 0.75% at its meeting on 15 June, to set rates in the range of 1.50% to 1.75%. Fed Chair, Jerome Powell, in his commentary indicated that another increase of 0.75% or 0.50% was anticipated from its meeting in early August. If this occurs, the US cash rate will rise to at least 2.0% and possibly as high as 2.5%. Similarly, in Australia, RBA Governor Lowe commented that inflation could rise to 7.0% by December, from which markets inferred a further 0.50% rate increase was likely here in early July.

While current economic data paints a reasonably positive backdrop (i.e. employment is strong, corporate earnings are holding up and the Chinese economy is turning on again after a 60-day Covid lockdown of major industrial and commercial centres), forward looking indicators are pointing to a slowdown of growth in the developed world. Of these indicators, softening US retail sales, very weak consumer sentiment and continued elevation of oil and energy prices are indicating the increased probability of a recession. This added fuel to the fire of market volatility last week when markets also had to factor in further increases to interest rates in the near term. This confluence of events is largely responsible for the elevated market volatility of the past two weeks.

Despite this, financial markets are forward looking and adjust quickly to new information, a good example being last week. While the risk of recession has risen, the prospect of this occurring in the near-term is not likely. We believe that the global economy can continue grow as the world re-opens from Covid, given demand remains resilient. Also, we are yet to see any broad slowdown in corporate earnings with many companies having beaten analysts' expectations recently, giving us some confidence in share market valuations.

We also consider inflation is likely to moderate over the remainder of the year. Assuming this occurs, it will reduce the need for the US Fed, the RBA and others to hike interest rates by as much as is now priced into markets. This is the economic 'soft landing' outcome we currently think is most probable but is contingent on consumption, corporate earnings and economic growth remaining positive.

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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Keep your energy bills under control this Winter

Rugging up indoors is not the only way to avoid an over-the-top energy bill this Winter.

There are plenty of things you can do to stay both warm and happy. Sometimes they just require small changes in behaviour and awareness.

On average about 40 per cent of the energy Australians use at home is related to heating and cooling – not including heating hot water. Going solar or adding insulation might not be an option. But giving some of these tips a try can help keep winter bill shock at bay.

- Open curtains or blinds to let the sun warm rooms during the day and close them at night;
- Keep doors shut and only heat rooms you are using. Switch off the heater when the room is warm;
- Use a door snake to prevent drafts;
- Pile on winter woolies and add an extra blanket before turning on the heater;
- Swap the electric blanket for a hot water bottle;
- Set your thermostat between 18 and 20 degrees. Every degree above 20 can add 10 per cent to your heating bill;
- Check your hot water habits. It accounts for another quarter of our energy bills. So make sure your thermostat is set at 60 degrees Celsius for storage hot water systems and no more than 50 degrees Celsius for instantaneous systems. Plus, wash clothes in cold water; keep showers short; and install a low-flow shower-head.
- Cooking winter comfort food can impact our energy costs. Choosing to cook in an electric frypan, pressure cooker, or microwave is more efficient than an electric oven, for instance.
- Appliances are a significant energy drain. Television is the fourth highest user of electricity in our homes and home entertainment products often use more than a washing machine, clothes dryer, and dishwasher combined. Switch off at the wall appliances that are sitting idle on standby power and practise pulling the plug on phone chargers, microwaves, sound systems, and video games.
- Use the eco cycles on appliances such as washing machines, dryers, dishwashers and air conditioners.
- The energy efficiency of your appliances plays a part, too. An old fridge or second-hand appliances are likely to drive up your bill. If you're replacing appliances aim to buy the most energy-efficient products you can afford. Fridges and televisions include a star-rating (the more stars the more energy efficient the appliance) and an estimate of how much electricity it uses each year. A television with ½ a star uses more than five times the electricity used by a television with 6 stars.
- Lighting represents about 10 per cent of energy bills. To keep a lid on lighting costs opt for LED or CFL lighting rather than incandescent and halogen bulbs. And – even easier – flick the switch on lights in rooms not in use.
- If you've already made a lot of these changes try reviewing your energy supplier, particularly if you've been on the same contract for years or your typical energy use might have changed.
- Using a smart meter is a great way to get clarity on your energy usage. An in-home display unit will let you see how much electricity you are using at that time and how much it will cost per hour.

Make sure you take note of when you start trying any of these tips so you can compare the energy consumption between bills!

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Why it's important for your entire family to be protected

You've saved hard to build your retirement nest egg. You should be able to spend the money on a well-earned relaxing lifestyle. But all this could be put at risk if your adult children don't have their own financial affairs well managed, particularly adequate insurance protection.

It's human nature to assume that bad things only happen to others. Unfortunately this approach means that many people are unprepared financially for their future if sickness, accident or injury strikes. This often results in other family members having to bear the costs of supporting them.

For those close to or in retirement who are placed in this position, the financial impact can be devastating.

Could this happen to you?

Let's consider the example of Gary and Roslyn, both 61, who have one child, a 30-year-old daughter Karen. Gary and Roslyn are retired with an investment portfolio valued at $700,000, paying them an annual income of around $48,000. They also own their home, valued at $650,000.

Gary and Roslyn were enjoying trips away and spending time with their extended family members overseas until their lives dramatically changed when Karen was badly injured in a car accident. Karen was in hospital for almost three months, requiring another nine months of rehabilitation before she was able to return to work.

Karen's sick leave ran out after the first fortnight, and as she had no insurance cover in place, she had no income to pay the mortgage on her apartment ($2,500 a month) or other essential costs, including her mounting medical expenses.

As they didn't want Karen to have to sell her apartment, Gary and Roslyn needed to draw on investment capital from their portfolio to pay Karen's mortgage and meet her expenses for the year she was off work. This ultimately reduced Gary and Roslyn's investment portfolio by almost $70,000 (or 10%).

While Karen fortunately made a full recovery, the cost to Gary and Roslyn of supporting their daughter in her time of need meant a dramatic change in their long-term retirement prospects; ultimately their income was reduced by $7,000 per year for the rest of their lives (a 15% reduction), plus their travel plans were significantly affected.

What can you do?

Believing that unfortunate events only happen to other people isn't a responsible solution and is a terrible way to jeopardise your retirement. As part of looking after your own financial future, make sure that others who could affect your plans, such as family members, have also taken the right steps for their own lives.

Talk openly to your adult children about their insurance cover and if they are putting themselves or you at risk, recommend they talk to a licensed adviser.

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Planning for aged care

The decision to enter aged care can be difficult, but a new range of tools and services helps to simplify the process. It's a major life change and can understandably be a highly emotional time for those entering care and their families.

The reality for many people is that aged care may be just around the corner, whether it's helping a partner or parent to enter aged care, or considering your own plans for the future.

Aged care can be an overwhelming and complex process to navigate, but early planning can help to take the stress and uncertainty out of it when the time comes to make the transition.

The best place to start is at the My Aged Care website www.myagedcare.gov.au. Here, you can learn about the different types of aged care, get assessed for aged care services, and find an aged care provider in your local area. There's even a handy fee estimator tool on the website, so you can find out what you may need to pay towards an aged care home or for a home care package.

The Department of Human Services' Financial Information Service can also help you to understand the financial aspects of aged care. You could speak to a Financial Information Service Officer or attend one of the Department's free seminars on aged care to learn more about aged care fees and charges, and different options to fund aged care depending on your circumstances.

If you or a family member are thinking of entering an aged care facility or getting help with living at home, the Department of Human Services may be able to help with the costs. The Department can offset some of the cost of care based on income, assets and type of care needed.

The Department will use financial details to assess if they have to pay a means-tested fee towards the cost of their care and what this fee will be.

Improvements made

The Department of Human Services has made vast improvements to the aged care forms this year. These forms have been significantly trimmed back in size and the front page now makes it clearer who needs to complete them. For instance, people entering residential care don't need to fill in a form if they get a means-tested income support payment from Centrelink or the Department of Veterans' Affairs (DVA), and don't own their own home.

People commencing a Home Care Package don't need to fill in a form if they get a means-tested income support payment from Centrelink or the DVA.

It is important those entering care make sure their income and assets are up to date when they enter into aged care to ensure their assessment can be completed automatically. They can do this by accessing their Centrelink online account or by calling Centrelink on 13 23 00 or DVA on 1800 555 254.

To find out more about your aged care options please don't hesitate to contact us.

Reference: Money and Life https://www.moneyandlife.com.au/prof for-aged-care/

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The impact of stress on your financial decisions

When you are facing a financial decision, big or small, how do you determine the right course of action?

Decisions about money are often abstract, require us to imagine our future, and can be typically driven by emotions.

Perhaps you have the support of a financial adviser or you like to spend hours conducting your own research. Either way the decision is ultimately in your hands.

It's easy to get caught up in the details of financial decisions and that can send our stress levels skyrocketing. When we are stressed it makes us more irrational. Making any kind of decision is easier when you feel relaxed and clear. So if you're feeling under the pump here are three ways to make good financial decisions in difficult times.

Remember your why

When we are stressed the fight or flight response kicks in. That has the effect of narrowing our focus. It becomes harder to see other possibilities and we can get stuck in the mire of the small details.

To zoom out again practice focussing on your big picture and considering how the decision lines up with your values. Whether you're buying something big or small take a moment to ask yourself does this reflect my values as a person and will it help me get to my end goal?

Forgive yourself

Is the pressure coming from a fear that you've been down this road before and it ended badly? Part of moving forward and making better financial decisions is to forgive yourself for the times when a choice hasn't worked out the way you hoped.

If you keep beating yourself up for a 'bad' financial decision you can end up feeling paralysed and unable to make another decision.

Ask yourself what you learned from the previous decision and focus on what you did well. Maybe you got good advice but at the last minute decided to listen to a hot investment tip from a friend. Did you do some great research but falter when it came to negotiating? Then consider what is different this time around. Do you have a better understanding of the situation? Have you sought advice? Have you learned more about the investments or financial decisions you are considering? Or improved your negotiating skills?

Check your stress levels

If you're on the verge of making a financial decision check your stress levels. Ask yourself whether you feel calm or anxious. Are your thoughts racing or clear? Is someone else's anxieties influencing how you feel?

If you're not in the right mindset and emotional state to make a financial decision, give yourself some breathing space. Do something that makes you feel calm – take some deep breaths, go for a walk, sit somewhere natural – and come back to the decision when you're ready.

Notice when you tend to feel calmer. Is it when you first wake up or towards the end of the day when you feel a sense of accomplishment? Choosing the right moment to make a decision will help keep stress from impacting your choices.

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