



13th August 2009

**IN Your INTEREST
FINANCIAL PLANNING**

telephone: 1300 889 657

www.inyourinterest.com.au

What will happen over the next six months?

This is the question I am asked most commonly. At any get together, whenever somebody finds out I am a financial planner, I am usually asked for my opinion or advice about the future.

When I say 'I don't know', the response is often bafflement or anger, even contempt. After all, I should know, I make a living giving investment advice.

The funny thing is, investment advice is not about predicting the future. It is about accepting that a large part of your investment success is down to luck – good luck or bad luck, depending on the times but there is an enormous amount of things that you can do to take advantage of good luck and to protect yourself from bad luck. You just don't know in advance which of the two will happen and in what sequence.

For example, you can consider at any time what kind of investment is expensive and which investment is cheap. Expensive investments may go further up and genuinely cheap investments (not just low priced investments like shares of a company that is going under) may go further down but chances are bigger that they will go the other way.

At the time of writing (August 2009), government bonds of safe governments like Australia, Germany and the US are expensive and shares have moved from very cheap to quite cheap. Unlisted property trusts are very expensive, commercial property is expensive if you look at recent transactions and listed property trusts have probably moved from very cheap to cheap.

Australian residential property is relatively expensive and you need to be quite careful where you invest. The main driver of property prices has been the ability of residents to stop further developments in their area, i.e. Nimbys (Not In My BackYard). Buying a property in an area with no shortage like beachfront highrise Gold Coast units is more dangerous than buying a freestanding house in an area with powerful anti-development residents. Cheap houses are safer than expensive houses because more people can afford cheap houses – a deeper market (more participants) is a more liquid market. Houses are safer than units

because it is land that goes up and buildings that stay steady or go down in value and houses have a higher land component than units. And so on. There is a lot you can do with residential property without predicting the next boom or bust.

Over the last 100 years, having your money in cash (bank accounts, cash management trusts) meant that most of the time you didn't even keep up with inflation after taxes. Having your money in bonds meant that you roughly kept up with inflation, provided your taxes are low but no better than that. Having your money in property or shares meant that you did considerably better than inflation in the long run (10 years or more and, especially, 20 years or more and anybody under 60 has 20 years or more to invest).

However, buying property is a lot of work and may not be suitable for everybody. Shares sometimes have a stomach turning volatility and you can make massive gains and losses in a single year. There are even ways to magnify those gains and losses so that you double your money or lose everything in a single year. This is unbearable for most people.

Therefore most of us ask around for what the future will hold. Once we 'know' what the future will hold we invest accordingly. If we are right – great, if we are wrong, well, we can always ask again and invest again. The trouble with such a random buy-and-sell strategy is that your taxes and transaction fees will eat up any investment returns. Keeping your money in a bank account and seeing it gently go down in value after inflation is not a good long term strategy. It is however a better strategy than random buy and sell.

So what do I do? Well, it depends on you. For every person there are one or more right investment strategies and they tend to be quite different for each person. The right strategy is often to invest in a mixture of cash, bonds, shares and property, inside and outside of super. This can be done in a harmonious way that maximises your expected returns whilst letting you sleep soundly at night.



Christoph Schnelle

Adv. Dip.FS(FP) Appointed Representative 308223

'Providing clear and up-front financial knowledge -
so that the client is truly served by being completely informed.'