



NEWSLETTER
February 2019



Introduction

Welcome to our first newsletter for 2019. We hope that this New Year will be a peaceful and happy one for you and your loved ones. We look forward to continuing to provide you with high-quality advice about all aspects of your financial management. Please do not ever hesitate to contact us if there is anything that you would like to discuss. We hope you enjoy our newsletter.

Famous People in Investing – RIP Jack Bogle

Sadly, in January this year a man named Jack Bogle passed away. Bogle was the founder of the Vanguard Group, one of the world's largest money managers. Vanguard rose to prominence on the back of a particular type of managed investment, which aimed to minimise costs while accepting the market average return. By accepting an average return, but incurring lower than average fees, the idea was that investors would actually achieve an above average return over the medium to long-term.

And that is pretty much how things have played out. But that is not all Bogle is famous for. He is perhaps most famous for taking the unusual step of incorporating Vanguard as a member-owned organisation. This allowed the company to further minimise fees. It also had the unusual effect of significantly reducing his own earnings - something that made him stand out on Wall Street!

Bogle was a man who took less than he could have. What a great example he set for the rest of us.



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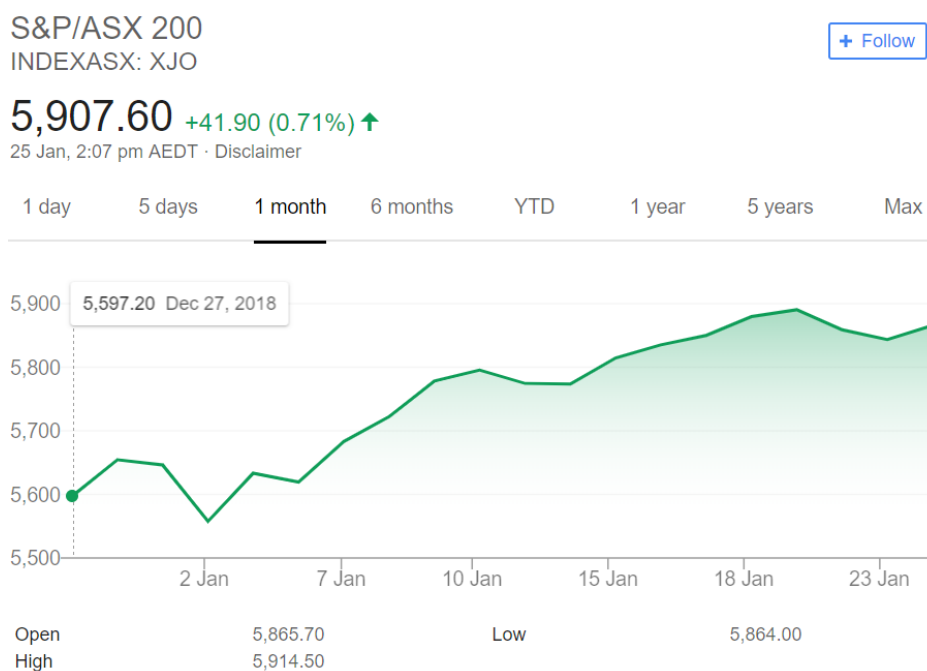
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The Share Market

What a bumpy ride for the Australian share market since our last market report in early December. As we reported to you then, the Australian market was falling in line with world markets - especially the US. The market bottomed out on December 21, reaching a low point of 5467 points (ASX 200 index).

Since then, something of a rebound has happened. As of January 25, 2019, the market has returned to a point just above 5900 points. That is a rise of almost 8%. Here is how January has looked for the ASX 200, thanks to Google:



The market is still around 7% below its longer-term high point of 6350 points in late August 2018. And it is more than 11% below its historical high point of 6700 points in October 2007.

If you've been following the press, you will have seen plenty of predictions that a crash is imminent - as well as plenty of comments that this is simply a normal correction and is nothing in particular to be worried about. Unfortunately, predicting a crash is quite easy - many pundits have been predicting a property market crash for each of the last 21 years. As has been the case in the property market, every now and then people who predict crashes get it right. It is like the old line about a broken watch: it will tell the right time twice a day. Prices fall from time to time because market prices are dictated by human behavior - and human behaviour can be volatile. Prices rise and prices fall. If prices fall fast enough we call it a 'crash.'

This is why short to medium term investing in a market such as the sharemarket is high risk. Short-term prices are volatile, meaning that a short to medium term investment has a good chance of falling in value during that relatively brief holding period. In plain English, if you make a sharemarket investment with a short-term timeframe, you might find prices are falling right when you need your money back.

The best sharemarket investments are long-term. That will always be our advice to you and that is always our approach when we look at the best way to preserve and grow your wealth.

Residential property

Residential property markets in many parts of Australia continue the correction that commenced in 2018. Recently, the Domain House Price Guide released its report for December 2018. Given that date, the report shows what happened to house prices in various capital cities during the 2018 calendar year. Here is what has been happening around the country (source: Domain House Price Guide, December 2018):

City	Median House Price	Change in 2018
Sydney	\$1,062,000	-9.9%
Melbourne	\$833,000	-8.4%
Brisbane	\$566,000	-0.1%
Perth	\$546,000	-3.3%
Adelaide	\$537,000	+1.7%
Canberra	\$739,000	no change
Hobart	\$479,000	8.8%
Darwin	\$515,000	-8.7%
National		-6.5%

As can be seen, some markets actually had good years, especially Hobart, which was 'catching up' on the rest of the country. Adelaide did slightly 'well,' although there was virtually no change in the fourth quarter of the year.

But for the most part, changes in the year 2018 were negative. The negative changes were most pronounced in Sydney, which is Australia's largest property market, and Melbourne, Australia's second-largest property market. While a 10% fall in a single year is substantial, it is still less than the rate of positive growth that was being experienced in Sydney and Melbourne in the years prior to 2018. Prices have fallen to around about 2016 levels in those markets.

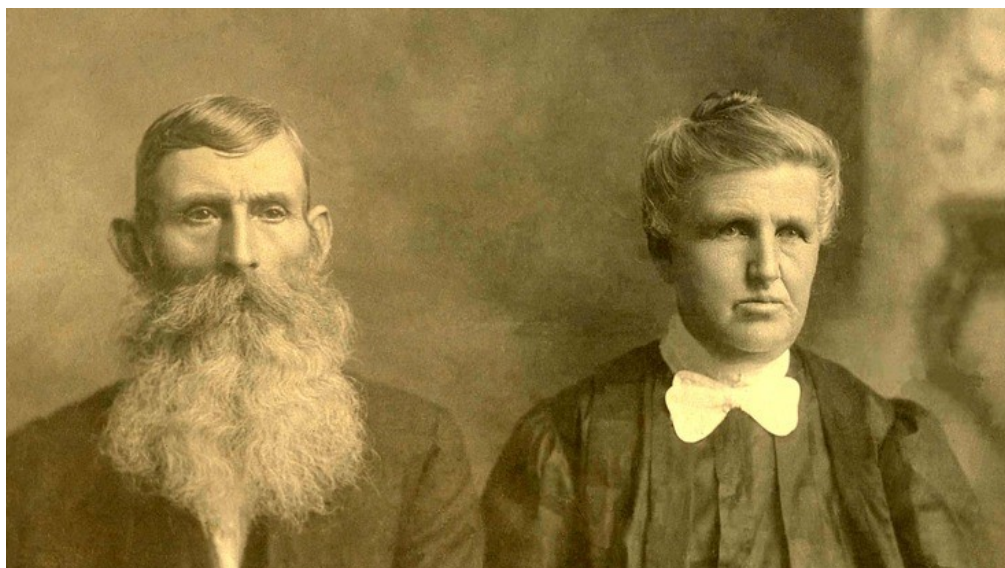


These changes are leading credence to the opinion that the next change in official interest rates will be downwards. Falling property prices have a tendency to spook the community, even though the only people who have really suffered of those who purchased property in 2017. Given the substantial growth that had occurred prior to 2018, some form of market correction was both inevitable and, indeed, welcome. We have discussed this previously when we have examined the issue of housing affordability - and made the obvious point that housing cannot remain unaffordable indefinitely. When anything becomes less affordable, fewer people wish to buy it. This suppresses demand and prices should fall.

Again, many people are saying that the property market has *crashed*. In the property market, however, we tend to define a crash as being when there is a substantial increase in supply to the market. That is, many people find holding a property untenable and there is a marked increase in the number of people trying to sell at a given point in time. We have not reached that point yet. For now, the fall in prices in Australia's major markets is more a response to the fact that prices had risen beyond what economists call the *equilibrium point*. There have not been substantial changes to supply and demand. But the nature of buyers has changed, with buyers during 2018 being less prepared to pay high prices.

As with the share market, property is no place for a short to medium term investment. Indeed, property is even less suitable for short-term investment, given the substantial transaction costs (up to 6% upon purchase and up to 3% upon sale of a property asset). It takes many years of growth to for these costs.

You could even say that the happiest property investors look like this (they were smiling this time last year):



So, please, think long-term when thinking about residential property. After all, in 1975, the median house price in Sydney was \$36,800 (source: Abelson and Chung, 2004). Over the next 43 years, prices have risen by almost 29 times. In 43 years from now, it will be 2062. We are too smart to make predictions, but if history repeats itself the median house price in Sydney will be almost \$31 million by that stage!

Interestingly, in 1975 the median house price in Canberra was almost as high as in Sydney - and Perth and Brisbane prices were slightly higher than those in Melbourne. One more reason why trying to pick specific markets is really a mug's game. It's time in the market that counts.

The Legal Stuff

General Advice Warning

The above suggestions may not be suitable to you. They contain general advice which does not take into consideration any of your personal circumstances. All strategies and information provided on this website are general advice only.

Please arrange an appointment to seek personal financial, legal, credit and/or taxation advice prior to acting on anything you see on this website.

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