Building wealth: Making sure every dollar counts

Building Wealth: Making sure every dollar counts

Jonathan Bayes was used to trades that lasted hours, now he takes a longer view.

By Barney Awartz.

The United States will drive global growth this year, though the so-called Trump effect is as likely to heighten volatility as it is to boost confidence given the new US President's unpredictability.

That is the view of Jonathan Bayes, and as he is the Chief Investment Officer of ASX-listed Prime Financial Group and a key strategist in its wealth creation policies, he will guide over $1 billion of investor funds in 2017.

The US economy is in its best shape for a decade, Bayes believes, with consumer and business confidence at 10-year highs, high employment, wages improving, record stock markets and a generally strong dollar.

"Although people claim the Trump election has driven confidence, the reality is that it's the cream on the top of an already improving global economy. At the end of the day, growth cures everything, and US growth is in very good shape," Bayes says.

Australian waters may not be so smooth, he fears:

> *Household debt is at historically high levels while wage growth is at record lows.*

Australia has had an Indian summer in foreign trade, and commodities have done better than anyone could have expected, but China's infrastructure building will slow, and that will dampen demand and prices.

Bayes regrets that short-term politics in Australia have impeded a visionary view of infrastructure spending. "There's a lot of government debt globally, but Australia doesn't have much at all. If we'd gone down that path I would have been much more optimistic because the government can afford to spend it, and it will repay them down the track in productivity gains and tax revenue. Effectively, that is what Trump has said he will do."

Bayes' role at Prime Financial is a sharp change in direction for the former hedge fund portfolio manager. Once accustomed to buying and selling in a day, he now takes the long view, acutely aware that all his clients have different priorities.

"Most of our clients are heading towards their retirement, or at least planning for it. You want to generate good returns, but don't want to lose money that people have spent a long time making.

Our mantra is building wealth and protecting assets, we don't do anything remotely speculative," he says.

But it's still about making judgments, then backing them. As chief investment officer, one of his duties is to calm clients if an investment hasn't met their expectations.

"I've learnt that people have short memories, and you are only as good as your last trade. People are critical and rightly so. It is their money. But that's a good thing because it means you are constantly self-evaluating," says the self-confessed control freak.

> *"You want to generate good returns, but don't want to lose money that people have spent a long time making. Our mantra is building wealth and protecting assets …"*

He tells clients there is no point in having lazy money – it should be working every day. There are always good companies, but they are not always good investments.

Bayes' task is to pick the point in the business cycle to buy – and sell.

The psychology of the market fascinates him. For example, Australians have a huge confidence in the big four banks. "In March 2015 when Commonwealth Bank was at close to $100, trying to suggest people sell was met with remarks like 'I'm taking this one to the grave'.

Fast-forward to March 2016 and it was at $70 and people are happy to sell, even though it's $30 lower. People feel better doing something, even if it is wrong, if others are doing it."

As billionaire Warren Buffet said, it's all about fear and greed. The sharemarket mirrors life, and how people react depends on personality, Bayes says.

> *"I'm a confident and opinionated person, so when I've got a position I like to commit to it."*

The key is, however, not to be too stubborn.

Mark Twain was right. It's not what you don't know that gets you into trouble; it's what you know for certain that isn't so."

International Equity Asset

Allocation – A timely reminder

A timely reminder for International Equity Asset Allocation

Last Tuesday PRIME were fortunate to host a presentation to 60 clients by Damian Craven from **Magellan Asset Management** in Melbourne.

The event was a tremendous success and involved an engaging presentation and subsequent interactive discussion as to both Magellan’s in-house investment views, and their advocacy for international equity assets within Australian portfolio’s.

It is a view we concur with, and for that reason we felt it timely to re-cap our simple philosophy on international asset allocation.

Why PRIME advocate for International Equity holdings?

There are two simple reasons why we continue to believe there is a place for foreign equity positions in most long-term Australian investment portfolios, and they centre around the need for **GROWTH** and **DIVERSITY**.

From a **GROWTH** standpoint, it’s important to acknowledge that the single most valuable reason long-term investors hold equity positions in portfolios is the prospect of earnings growth.

Unlike bonds or cash, equities do not offer investors any guarantee on the return of capital. This clearly makes equities a significantly higher risk asset class, and so to compensate for this acceptance of greater risk, an equity investor demands a higher return.

A large component of this return is the prospect that the income stream provided by any given equity can grow alongside the economy and inflation.

Sadly, Australia's share-market is dominated by banks, miners, utilities and retailers – all 'old-economy' sectors. It is difficult for Australian investors to gain access in sufficient size and within appropriate levels of risk to the emergent economic and business themes of today such as the internet-of-things, social media platforms, new-energy, e-gaming, autonomous vehicles and the like.

Put simply, Australia's economy and share-market offer scant prospect of exciting earnings growth in the coming 2-3 years at least.

To gain access to these new and increasingly substantial industries of growth, Australian investors need to look at markets beyond our shores.

Similarly, **DIVERSIFICATION** is another motivating factor behind holding international equity assets.

Again, with such a concentrated share-market, local investors are arguably locked into an inherently risky leverage to Australia's rampant housing market by virtue of the banks substantial market weights and the related issuance by the banks of hybrid income-securities.

The big-4 banks alone comprise 25%+ of the ASX300 index and many portfolios would hold significantly more than this.

When coupled with the large bank hybrid-securities positions held by many investors, Australian investment portfolios have a particularly large exposure to the underlying health of Australian house prices, since banks, after all, make the vast majority of their high quality income from mortgage lending.

In Australia it seems, we are all tied to the one trade: housing.

Our Recommendation

> *In September 2015 we sent out a similar note advocating for clients to strongly consider a place for international equities within a well-diversified investment portfolio.*

We accept and acknowledge that all investors have individual portfolio needs and characteristics, however we would encourage all investors to discuss the appropriateness of international equities to their personal situation with their advisor.

Our **PRIME International Equity Separately Managed Account (SMA)** has been up and running now since mid-February 2016 and is currently up ~7% since inception.

The **Magellan Global Fund** forms the anchor position in the portfolio, and is our obvious 'go-to' international option for those clients considering a simple international exposure.

Alongside the **Magellan Global Fund**, PRIME have positions in funds from other well-known global funds management groups such as **MFS, Platinum and Vanguard**.

Related Post: [Why international equities is a must for Australian investors?]

Disclaimer:

How to remain a confident investor in turbulent market conditions

How to remain a CONFIDENT INVESTOR in turbulent market conditions.

Investment conditions wax and wane, and navigating across both bull and bear markets is decidedly tricky.

Even so, **investment markets tend to be a little like sports in that everyone has an opinion on players and teams and invariably people often think they can do a better job than the professionals.**

Having seen **4-years of strong performance from riskier assets such as equities and property**, **conditions during 2015 turned for the worse** and the outlook for 2016 and beyond seems equally less confident.

For amateurs and professionals alike, we are all set to be tested more sternly in the months and years to come.

With that in mind, I was asked to knock together a few broader thoughts for investors.

> ***The reality is like anything in life, words are just words, and its actions that really dictate the success or failure of any particular strategy.***

Walking the walk trumps talking the talk every time, however with that in mind a few broader suggestions for investors as we face these trickier market conditions.

1. Be disciplined & vigilant with your strategy – rising markets can make anyone look good, but in less certain conditions the threat of absolute loss is magnified.

2. Don't fall in love – assess and reassess the prospects of your portfolio with a critical eye. Remember, investments don't owe you the price you paid for them, and they certainly won't love you back. The price you paid for something is simply that, and it matters only to you.

3. Be pro-active and forward looking – the saying forewarned is forearmed is apt. *By looking ahead, investors reduce the risk of surprise*. Even more so, **by being forward looking you reduce the risk that emotion drives you to make a rash or ill-considered decision.**

4. Acknowledge relative value – the worth of an investment is determined in large part by the value of alternate assets around it. Assets do not exist in isolation.

5. Be a cynic – since the degree of difficulty in making money in so-called ‘bear’ markets is elevated, investors should apply more scrutiny in their choices. This is really just another way of saying investors should be more cautious with the price they pay for an asset to ensure an adequate return for the elevated risk taken.

> ***The reality folks is that investment ‘best practice’ should be much the same irrespective of market conditions. However, in uncertain market conditions the risk of absolute loss is more pronounced.***

When the threat of loss occurs, **emotion becomes a dangerous influence on portfolio management,** and rarely are good decisions made when under duress.

> ***Keep a calm head, look forward, be critical, and most important of all ask questions!***

We’re here to provide context and perspective, to coach and reassure, and ideally to help you make the best decisions you can.

Related Video: What are the principles of portfolio management?

Like to talk to an Adviser?

We are here to help you!
CONTACT US on 1800 064 959
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Is it Time to Expand our Investment Horizons?

Diversity and International Equity Asset Allocation

Broadly speaking, I feel investors are increasingly willing and comfortable with the idea of investing portions of their capital overseas, both **to capture opportunities unavailable locally and also to defray risks of being overly concentrated in the Australian sharemarket.**

Recent months have provided ample demonstration to local investors of the significant concentration of portfolios in Australian interest-rate sensitive stocks like banks, and the inherent tie that stocks like banks have to household wealth by way of residential property prices.

My video below explains **why we see international equity and in particular asset allocation diversification an important discussion** to have with clients regarding their investment options.

Why Prime sees international equity and asset class diversification an important part of a client's portfolio? from Prime Financial Group on Vimeo.

How do you balance offshore asset allocation against a natural bias for local exposure?

How do you balance offshore asset allocation against a natural bias for local exposure? from Prime Financial Group on Vimeo.

To put international investments in a context, **there will always be a home bias**

for investors. Comfort and familiarity are an important factor in why people tend to invest close to home, as is the simple common sense of matching one's assets with liabilities.

> *Arguably the home bias in Australia is an even greater one than in many other countries because of the inherent tax advantages for local investors embedded in our tax and superannuation system.*

But for **reasons of both diversity and the potential for greater returns,**it makes complete sense for investors to allocate a growing portion of their funds to international investment markets.

Australia contributes a shade over 2% of global economic output, and comprises a little under 2% of total share-market value. Yet we hold the 4th largest pool of superannuation funds.

> *I tend to think of superannuation and savings here as a man-made resource, and one that should be exported globally.*

Investing all these funds in such a narrow and concentrated market such as Australia carries with it added risks, and reduces the potential for greater returns from industries, countries and opportunities that are absent locally.

> *Investing beyond Australian asset markets provides a portfolio with geographic and economic diversity and access to growth opportunities and business models not available locally.*

In simple terms, **EQUITY** is the predominant **GROWTH** asset in most portfolios. Exposing one's portfolio to more diversified sources of growth means portfolios really should include an international equity element.

Please feel free to **VIEW** or **DOWNLOAD** a recent presentation made summarising our position on diversity and international asset allocation:

Time to Expand our Horizons by Jonathan Bayes from **Prime Financial Group Ltd**

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If you would like to discuss **Diversification & International Equity Asset Allocation with me**:

Jonathan

[International Diversity]: Time to Expand our Horizons

Last Thursday (10th September), **Jonathan Bayes**, **Chief Investment Officer of Prime Financial Group**, presented at our **Client Investment Evening** titled: '***Time to Expand our Horizons***', looking at **Diversity** and the reasons for **International Assets** playing a bigger role in an investment portfolio.

Please **VIEW** & **DOWNLOAD**: ***Time to Expand our Horizons*** presentation.

Time to Expand our Horizons by Jonathan Bayes from **Prime Financial Group Ltd**

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If you would like to discuss any matters with **Jonathan**:

Jonathan

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