

ADVISORS & CLIENTS  
ARE 'BATTLE-WEARY'

"I've been in this business for over 30 years. For most of the first 20, I looked forward to meetings with clients – they were making money and I felt I was adding value. **By contrast, most of the last 10 years have been brutal – in meeting after meeting, I've found myself apologising for performance.**"

**...Comments from a Veteran Financial Advisor**

See article published by Dan Richards on 11th September 2012 (*Ten Ways to Recapture Your Passion This Fall*) by Advisor Perspectives, Inc.

AUSTRALIAN  
SUPERANNUATION  
OVER-EXPOSED

"One of the world's most revered investors, Howard Marks, has challenged Australia's superannuation industry to rethink its love affair with shares and warned that a "day of reckoning" for stocks is inevitable.

...Australia's heavy allocation to equities has been lucrative given the resilient economy and share market. But it "may not work forever", he warned. "The mere fact an aggressive strategy wins in a winning period doesn't prove it is the right strategy for all periods," he said.

**Mr Marks said the rise of shares "can't go on forever, and some day there is a day of reckoning. That's why we have crises – they serve to remind people that risk awareness and risk limitation are important virtues.**

"If the tide hasn't gone out for many years, people may not understand the need for risk control and may engage in risky behaviour – which will bite them when a correction occurs."

**...By James Eyers, The Sydney Morning Herald**

16<sup>th</sup> May 2014, 'Day of Reckoning' for shares inevitable says Oaktree's Howard Marks

THE NEED FOR  
ABSOLUTE RETURN  
PORTFOLIOS

"So, what defines an absolute return fund in terms of required size of return and desirable timeframe? My personal belief based on discussions with advisers and investors suggests the required return is "equity-like" and the measured timeframe is one year. So, **each year, investors expect and want to see a positive return that is in the ballpark of cash plus 3% to 4%...** Today, that means an annual return of around 7% to 10% each year - again, much more easily said than done...

**When you consider that a very high proportion of investors (and advisers) has an "absolute return" investment objective, you have to wonder why there are so few investments designed to achieve it.** The bottom line is that absolute return investing is incredibly difficult and achieved by very few."

**...Michael Furey, Managing Director of Delta Research & Advisory**

29<sup>th</sup> April 2014, "Absolute Return Investing... a nice goal" (Portfolio Construction Forum)

➤ **TARGETED Portfolio Returns:**

- ✓ To be **UNCORRELATED** to Share market or Economy (i.e. no equity market related 'roller-coaster' rides)
- ✓ To have **LESS VOLATILITY** than the Share Market or other 'risk assets' (i.e. a more consistent/reliable return stream)
- ✓ To have **NO DEBT**, leverage or margin-loans driving returns
- ✓ To produce **POSITIVE RETURNS** over any 2 year period whilst **CONSISTENTLY OUTPERFORMING** by several percentage points (net of costs) the cash-rate or inflation-rate (whatever's higher) without exposing the portfolio to excessive undue risks (*undue risk may be defined as the 'permanent impairment of capital'*)
- ✓ **DAILY LIQUIDITY**

**SIMPLE, BIG, BORING,**  
easy to understand, long-only, liquid,  
direct, exchange-traded **investments**  
(to increase confidence and  
minimise negative 'surprises')

- ✗ **No Derivatives**
- ✗ **No Short-selling**
- ✗ **No Inverse ETFs**
- ✗ **No Leveraged ETFs (i.e. No Debt!)**
- ✗ **No Illiquid Securities or Investments**
- ✗ **No Opaque/Expensive/Complicated Hedge Funds or Managed Funds**  
(only index funds, ETFs and direct securities)

➤ **From a Client's Perspective:**

Unless otherwise indicated:

✓ = usually  
✗ = rarely

	Financial Planning Industry	Stockbroking Industry	Funds Management Industry	Prerequisite CAPITAL MANAGEMENT
<b>'All-weather'</b> (Absolute Return) Focused (i.e. dynamically managed portfolios where it is reasonable to expect rolling 24 month positive returns irrespective of whether the share market went up or down)	✗	✗	(occasionally)	✓✓
<b>'Buy &amp; Hold'</b> (Relative Return) Focused (i.e. where you buy the share market (or an asset class) and simply 'hold' it throughout its ups and downs – so if the share market goes up, your portfolio will probably go up, if it goes down your portfolio will go down – in other words, a roller coaster ride)	✓	✓	✓	Never
<b>Diversification</b> in portfolios utilises <b>'All-weather'</b> first-principles (i.e. where it is reasonable to expect that the default portfolio settings would hold up throughout 'all-weather' economic & financial market conditions. To likely maintain the portfolio's purchasing power <u>irrespective</u> of the combination of growth, recession, inflation, deflation, or stage of the economic cycle, etc that the world should go through)	✗	✗	✗	✓
<b>Investment Transparency</b> (i.e. an investor can always see in real-time what securities or risks he/she is exposed to)	(occasionally)	✓	✗	✓✓
<b>Client holds segregated <u>direct-assets</u> in their OWN account using an independent Custodian</b> (a Custodian is a specialised financial institution that is responsible for safeguarding an individual's financial assets)	(occasionally)	✓	✗	✓✓
<b>Clients have <u>easy &amp; direct access to their money</u> – LIQUIDITY</b> (i.e. if a client desired to, they could convert all of their investment portfolio assets back into cash within a few days under most normal market conditions)	✗	✓	✗	✓
<b>'Gates' on client money</b> (i.e. client money can be 'locked-up' for predetermined or indefinite periods of time – this means that a client who invests might not be able to withdraw their investment when they want to or in a timely manner)	(occasionally)	✗	✓ (often)	Never
<b>Paid when transactions occur</b> (i.e. advisor/manager gets some sort of transaction or brokerage type remuneration/kick-back... which means there is an incentive for the advisor/manager to turn over a portfolio purely to create revenues for him/herself at the client's expense)	✓ (often)	✓✓	(occasionally)	Never
<b>Performance fees <u>increase 'incentive-alignment'</u> with actual performance outcomes</b> (i.e. have you ever had an advisor who was paid in part according to the actual outcomes you experienced?)	✗	✗	(occasionally)	✓
<b>External Risk Manager</b> (an independent & experienced investment professional oversight utilised above & beyond AFS Licensing requirements)	✗	✗	(occasionally)	✓
<b>The Investment Team (&amp;/or Advisor) manage their own family's money in the same way as they do their Client's</b>	✗	✗	✗	✓