The first is that sharemarkets look forward. They are more interested and act upon what they expect to happen in the future, not what's happening now. This is the main reason why amateurs get it wrong, they react to what's happening now.

Secondly, it is likely that some of the events that will change the direction of sharemarkets are largely unforeseeable until they actually happen. We hadn't heard the words "Sub prime" until the GFC was well underway.

Markets are not perfectly logical. Logically our Australian housing market should have fallen years ago, taking bank stocks with them, but to quote from the article "Offshore hedge funds have predicted nine of the last zero Australian housing busts and lost bundles shorting the Australian Banks in the process".

So if the feared offshore hedge funds can't get it right, then I'm not going to try, and suggest my clients do the same.

TAKE IT EASY

There does seem to be an inexorable drift towards lower returns – not necessarily negative, just lower. It may be a while before we can expect annual average returns of 7% or more.

Can I issue a warning, as I've done before, that now is not a great time to splash out on expensive holidays, cars and helping the kids, unless you have more than enough. Centrelink is getting meaner and will get meaner still as our national deficit and debt grows, and it will be a mistake to rely on the pension alone for a comfortable existence without help from the kids, who might have their own problems.

I'm not political as a professional adviser, but I do worry that neither party is particularly keen to spell out how they intend to repay our National debt. It's not going to simply go away like a mirage as we get closer. It isn't going to be simply forgiven like a parent's loan. It has to be repaid by the government **which is actually us, our kids and grandkids.**

I'm not enough of an economist to really understand all the ramifications, but an understanding that the National debt will not be repaid by the tooth fairy, but by more tax and/or lower services and payments such as pensions, leads one to think that self sufficiency becomes more important in the future.

WHICH ARE YOU?

A long long time ago in a country far far away, I was a volunteer Lifeline counsellor. I was useful to them as I was single and prepared to do all-nighters and, in retrospect, it was useful to me as it taught me to listen carefully and not rush in with a readymade solution. Probably more use in financial planning than my accounting degree.

One of the most interesting of the many psychology seminars they provided was one where the presenter proposed that people operate best in one of three mediums – Auditory, Tactile and Visual.

That means that some people (the auditories) learn best when hearing information such as a conversation or listening to a lecturer or radio. They enjoy music, talking and listening, are not shy, can deal with the public such as a service person or retailer or sales.

The second group (the tactiles) prefer to do things. They are active, always on the go, can fix and make things. Will often be good supervisors and get the job done.

The third group (visuals) learn best by seeing things done. They enjoy TV and movies and a good book. They can be good managers as they can see the whole picture without getting distracted by the details. They obviously make good artists, architects and interior designers as they can see the end result before it starts.

I'm sure we all have bits of all three to varying degrees. An interior decorator who loves music. An engineer who loves reading.

What's this got to do with your money? Nothing really. I had time to remember it on my recent camping holiday and wanted to share with my clients.

There is also a lesson that we should not be impatient with someone who might be a lovely person but just have a different style to you. They prefer to read a book than climb a mountain. Prefer opera to ballet. Have grand visions but rely on you to make them happen. They're not wrong, just different.

Kind Regards,
GOLDSCHMIDT & CO PTY LTD

David Goldschmidt.

DAVID GOLDSCHMIDT A.C.A.
Director

GOLDSCHMIDT & CO

Chartered Accountant
Financial Planning Specialist

NEWSLETTER JUNE 2016

NO MORE NEW CLIENTS

You would be aware that there are major changes coming to superannuation and Centrelink asset testing.

We will need to look at every single existing client and make sure that they are set up as best we can for the changes.

We love new clients, but the compliance requirements mean that they are extremely time consuming and we have decided that our existing clients deserve priority, so for the foreseeable future we are not taking on any new clients.

We will refer on any referrals to an honest adviser from another well-known company, as there have been too many shark attacks in Perth already without letting our clients' friends and family run the risk of encountering a financial shark.

We regret needing to do this as we value our client referrals, but we believe it is in our existing clients' best interests if we concentrate on them.

DIFFERENT INVESTMENT MODELS

There is an industry making a living teaching the punters how to invest like Warren Buffett. The problem is we can't invest like Warren Buffett. He buys whole companies, and we can't.

His real "secret" is that he is fanatically counter cyclical. He buys into industries that are totally on the nose, when no sane person would touch them. Then he waits until the cycle for that industry turns, as it does, and everyone marvels at how clever he was, while really he was just brave and patient.

It's not easy though. A year ago I put some clients into Smaller Australian companies funds and into Developing Countries funds, both of which had previously done poorly. The Smaller Australian companies have done really well while Developing Countries have sunk further since we started (but have recently started going up again). There is a saying "markets can stay illogical for longer than you can stay solvent".

Another interesting model that we can't use is the "Yale University Endowment Fund" model which a lot of very large pension/endowment funds use, as it has a long track record of outperformance. Apparently the Australian Future Fund uses some aspects as well.

Since these funds don't have owners who might want their money back at any stage, they can take a higher risk than we can take. Since they have billions of dollars they can invest in thousands of high-risk investments, knowing that there will be some losers, but in the long term there will be more winners and those wins will be **big** wins.

So their outperformance is not magic or that they're cleverer than us (probably are anyway) but they have a longer time horizon than we as individual investors have, and billions of dollars to allow them to buy many high risk investments, which we can't.

I'm still happy with my model of low cost index funds.

SUPER CONTRIBUTION REDUCTION

There has been some confusion as to when the concessional super contribution for those 50 and older reduces from \$35 000 to \$25 000.

For this financial year AND next financial year to 30 June 2017, the old limit of \$35 000 applies.

ANALYSIS FUTILITY

I've just read an article (too long to repeat) written by a respected fund manager entitled "Don't sweat the Big Stuff".

His point is that there is usually little reward in trying to decide what will happen to Sharemarkets based upon macro movements in the World economy, in other words, just because the World economy appears to be struggling, it doesn't mean sharemarkets will go down, and vice versa. There are many reasons for this.

Suite Three 336 Churchill Avenue Subiaco PO Box 1309 Subiaco WA 6904
Tel: (08) 9388 3456 Fax: (08) 9388 3457 Email: david@bowgold.com.au
Goldschmidt & Co Pty Ltd ABN 17 009349240. Australian Financial Services Licencee 237991