INVESTING INSIGHTS:
YOUR ESSENTIAL GUIDE

CONSORTIUM
PRIVATE WEALTH

CONTENTS

In this guide, we simplify investment concepts and provide a comprehensive overview of essential investment knowledge...

WHY THIS TOPIC?

Over the years, I have become frustrated by the complexity of our industry and the terminology used, which adds to the confusion of an already complex field. It is little wonder that people get confused to a point where it's easier to do nothing than to keep pushing through the jargon to increase their financial knowledge.

Over the last 25-plus years working as a financial advisor, I've seen the endless stream of information that is pedalled out to financial advisers. Even for those full-time advisers who are passionate about their industry, it is impossible to absorb all information received across all areas. This ebook is intended to cover the area I'm most passionate about - Investing.

Over my career, I've seen many changes in superannuation and tax rules and a constant flow of legislative changes that affect the finance industry. We're building to become a profession with increased education standards and regulations, ultimately aiming to protect the investor. One thing that I'm used to is constant change.

However, the rules ultimately do not change when it comes to investing. There will always be a constant flow of new investment products to purchase; these need to be clarified for retail investors and make their decisions substantially more difficult.

OUR TERMINOLOGY SUCKS. SHARES, EQUITIES, STOCKS!

Instead of talking about equities, shares, and the share market, I encourage clients to use the term "businesses", as this is what they are investing in to. The Share Market or Stock Exchange is nothing more than an auction house where investors purchase and sell small portions of businesses.

ABOUT THE AUTHOR

For the past 25+ years, I've been a Certified Financial Adviser helping superannuation investors, farmers, small business owners, and direct share enthusiasts make informed investment decisions.

Choosing the right asset class for your hard-earned $$ is the most critical first step. Get this right, and you're on your way to financial independence. As an SMSF Specialist Adviser, I work with Self-Managed Super Fund trustees and other motivated investors who love having control and input as to how their money is invested for their future.

In case you're wondering, no. There are no "get rich quick" schemes here; the advice I give is based on common sense that my clients understand that gets results. No fluff, no hype. My weapon of choice... is always common sense. If you don't get it, we don't move ahead until you do. AND investing directly by avoiding bank products reduces fees, saves tax and gives you control.

Robert Goudie
Senior Financial Adviser

UNDERSTAND YOUR INVESTMENT TIME HORIZON

WHY CREATE WEALTH?

Why create wealth in the first place? Here are 5 reasons why people should create financial wealth:

1. Financial security: Financial wealth can provide a sense of security and stability, especially during economic uncertainty or unexpected expenses
2. Flexibility: Financial wealth can give you the freedom and flexibility to make choices about your life, such as being able to retire early or pursue a new career opportunity.
3. Independence: Financial wealth can provide freedom and the ability to make decisions without financially relying on others.
4. Legacy: Building financial wealth can also allow you to leave a legacy for your family and future generations.
5. Personal fulfilment: Accumulating financial wealth can also be a personal goal and a source of accomplishment and fulfilment.

UNDERSTANDING YOUR INVESTMENT TIMEFRAME

To be a successful investor, you must understand your investment time horizon. As people retire in their mid-60s, there is the perception that they should become conservative investors and have more money allocated to conservative assets, like cash and fixed interest.

Given that life expectancy is expanding, investors need to understand that even at retirement age 65, there is every chance that either they or their partner will still be alive at age 95. This classifies these investors as long-term investors with a 30-year time horizon.

IS LIFE CYCLE INVESTING FLAWED?

Life cycle investing, also known as "target date investing", is a type of investment strategy that aims to adjust a portfolio's asset allocation based on the investor's age or the number of years until their retirement.

The idea behind this strategy is that as an investor approaches retirement, they should shift their investments from higher-risk, higher-return assets to lower-risk, lower-return assets in order to protect their savings. While this strategy may seem logical, it has several flaws.

One major flaw is that it assumes that all investors have the same risk tolerance and retirement goals, which is not the case. Some investors may be willing to take on more risk in order to achieve higher returns. In contrast, others may prefer a more conservative approach. Additionally, the timing of the market can have a significant impact on the success of this strategy. If an investor retires during a market downturn, they may not have the time to recover their losses before they need to start withdrawing from their retirement savings.

Another flaw is that life cycle investing relies on the assumption that the future will be like the past, which is not always the case. Economic conditions and market trends can change significantly over time, affecting the performance of different asset classes. This means that the asset allocation recommended by a life cycle investing strategy may not always be the most appropriate for an investor's individual circumstances.

While life cycle investing may be a useful starting point for some investors, it is essential to carefully consider your individual risk tolerance and retirement goals and periodically review and adjust your investment strategy as needed.

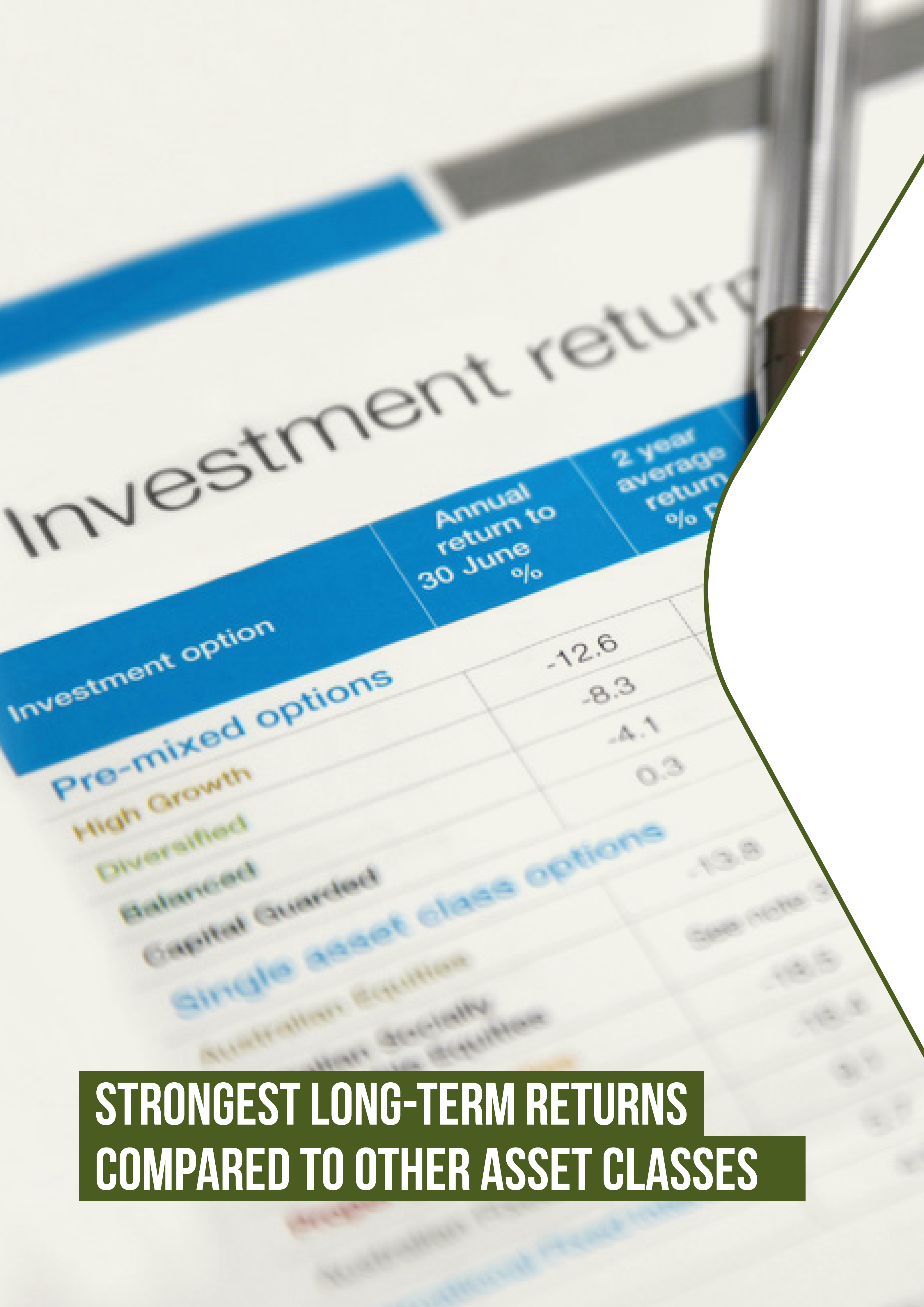
Overall, I believe life cycle investing is a poor substitute for education and building knowledge to help investors understand financial markets.

CUTTING THROUGH THE NOISE AND UNDERSTANDING YOUR INVESTMENT OPTIONS CLEARLY AND CONCISELY

Investing in the world's share markets can be a volatile and uncertain process, with prices fluctuating daily due to various factors. It can be tempting to try to time the market or make quick trades based on short-term news and events, but this approach is often unsuccessful and can lead to unnecessary stress and poor long-term results.

Instead, investors need to focus on the long-term progress and potential of the businesses they own rather than getting caught up in the noise of short-term market movements. This means taking a disciplined, long-term approach to investing and not letting emotions or short-term news influence decisions. By ignoring the short-term noise and focusing on the underlying strength and growth potential of the businesses they own, investors can increase their chances of success over the long term.

ASSET ALLOCATION IS BASED ON THE INVESTOR'S AGE



STRONGEST LONG-TERM RETURNS COMPARED TO OTHER ASSET CLASSES

UNDERSTANDING THE ASSET CLASS WILL GIVE YOU THE BEST RESULTS OVER YOUR LIFETIME

Businesses that trade within the world's stock markets have historically provided some of the strongest long-term returns compared to other asset classes. This is because investing in stocks allows individuals to own a piece of a company and participate in its growth. As the company grows and becomes more successful, the value of the stock is likely to increase, leading to potential profits for the investor.

While there is always some level of risk involved in stock market investing, stocks have consistently outperformed other asset classes, such as bonds, real estate, and commodities, over the long term. As a result, many investors choose to include stocks as a part of their long-term investment portfolio to take advantage of their potential for strong returns.

HAVE TERM DEPOSITS REALLY BEEN RISK-FREE?

A Term Deposit is a government-guaranteed investment vehicle of up to $250,000 per bank and entity, so it has been considered safe in the short term. Over the long term, however, it is far from safe.

Take the 2022-2023 post-COVID interest rate environment, for example, where inflation rose, and to combat this, the Reserve Bank increased interest rates. While some were happier with a 4% Term Deposit compared to the historic lows experienced during COVID, with inflation at close to 7%, your money was essentially going backwards.

THE INFLATION RISK?

Inflation is a term you may have heard in relation to the economy. It is an increase in the general price level of goods and services over time.

Inflation affects everyone, and understanding its risks and impact on the purchasing power of money is vital for making wise financial decisions.

Below are some of the risks of inflation:

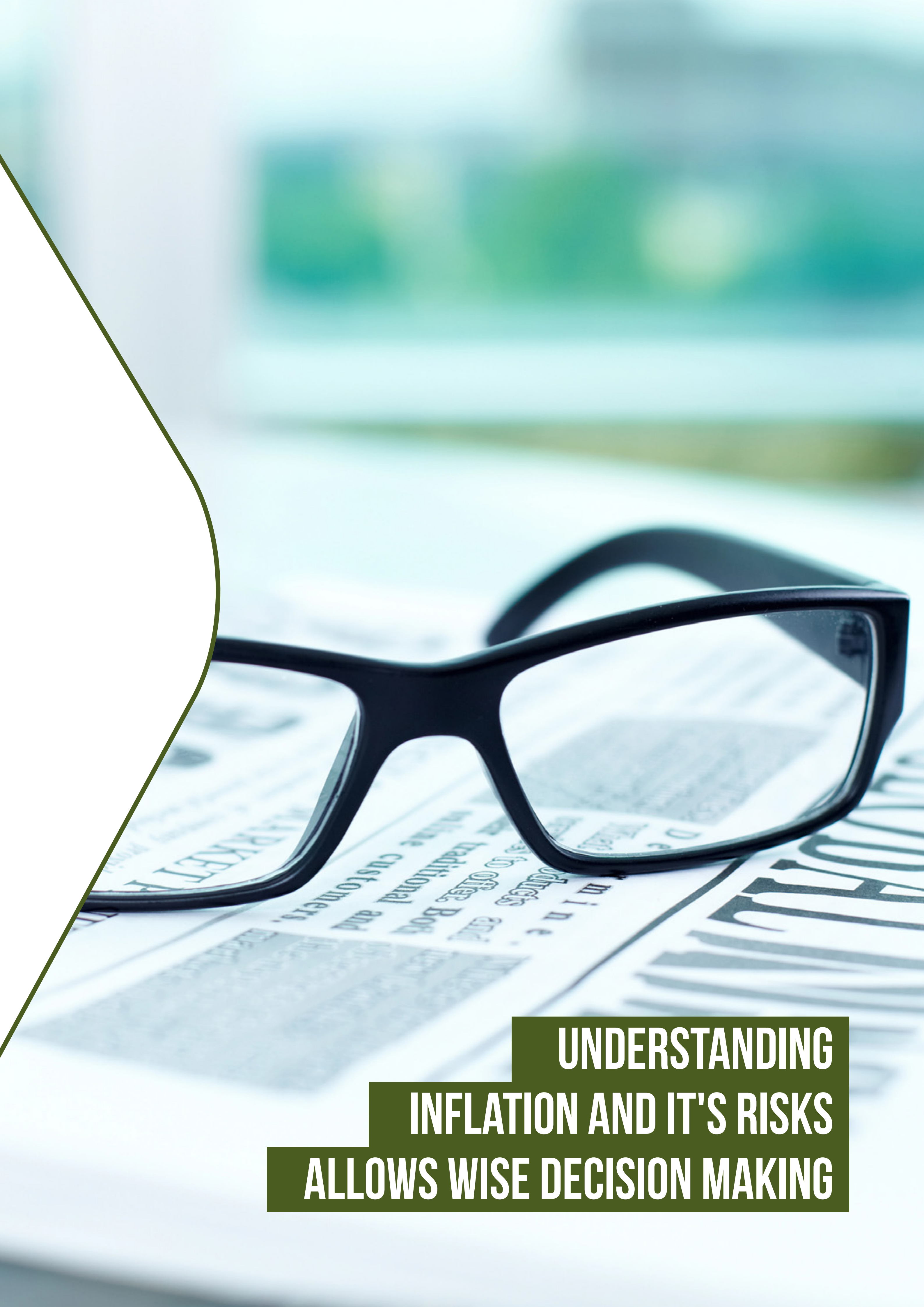
- Reduced purchasing power: As prices increase, the money you have can buy less. This means you might not be able to afford the same things you could in the past. In other words, your money loses its purchasing power.
- Uncertainty: Inflation can make it difficult to plan for the future. It is hard to predict how much things will cost, making saving and investing money wisely challenging.
- Income effects: If your income does not increase at the same rate as inflation, you will have less money to spend. This can be especially hard for people on fixed incomes, like retirees, who might struggle to keep up with rising prices.
- Increased borrowing costs: Inflation can lead to higher interest rates, which make borrowing money more expensive. This can affect individuals who want to buy a house or a car, as well as businesses that need loans for expansion.
- Reduced investment: When prices rise, people and businesses might be less willing to invest their money. This can slow down economic growth and result in fewer job opportunities.

So, how do you protect yourself from inflation?

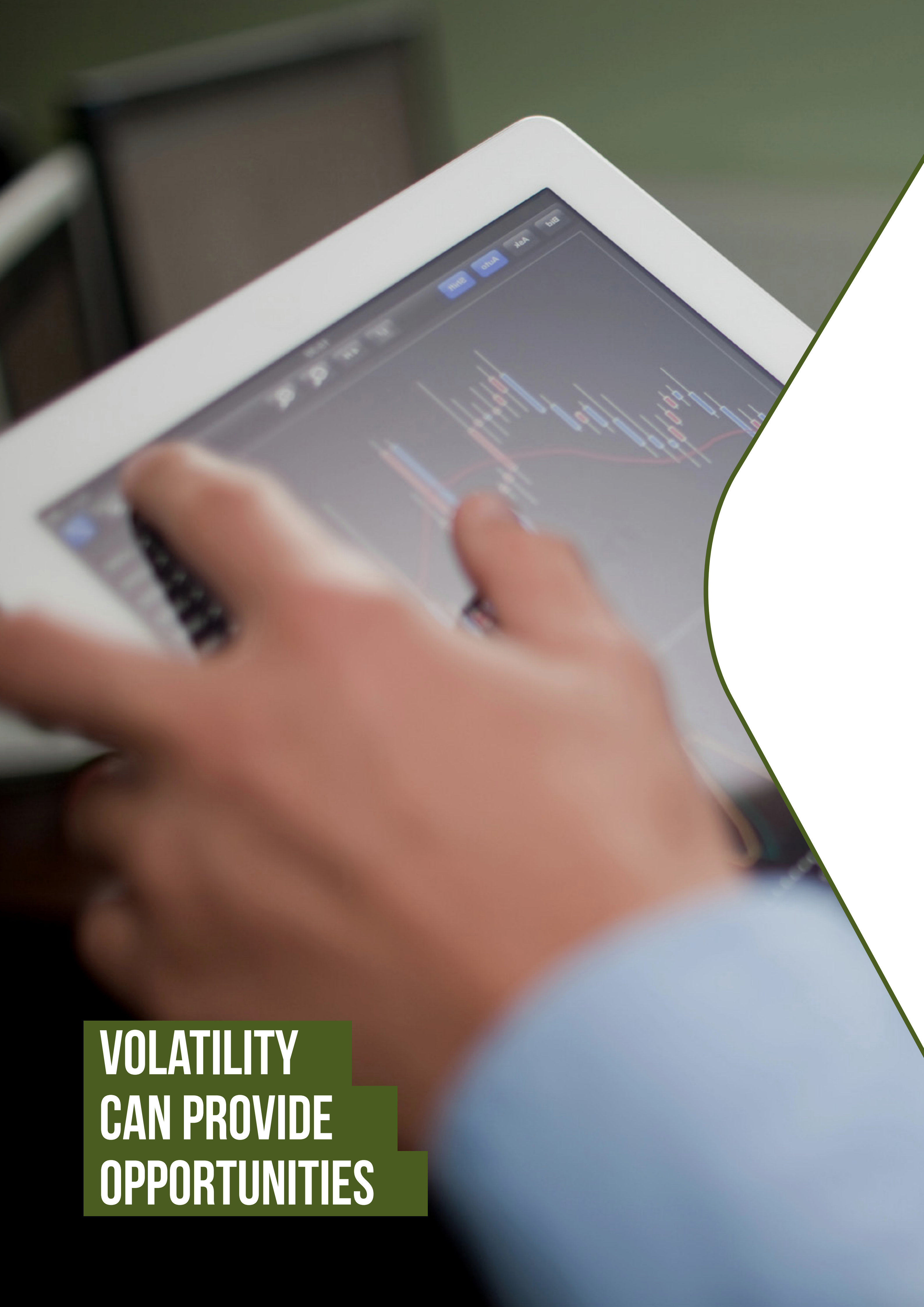
Invest in assets that provide a rate of return above the inflation rate, like businesses and real estate. Over the long term, these assets have helped protect investors' purchasing power. The downside to these assets is short-term volatility, which we cover below.

UNDERSTANDING SHORT-TERM VOLATILITY

Market volatility, or the fluctuation of prices in financial markets, is a normal and expected part of the investment process. Share markets worldwide trade daily, and with this ability



UNDERSTANDING INFLATION AND IT'S RISKS ALLOWS WISE DECISION MAKING



VOLATILITY CAN PROVIDE OPPORTUNITIES

to buy and sell every working day, these markets, and the underlying businesses, face substantial short-term volatility. Compare this to the sale and purchase of a residential property that may happen once every 10 or 20 years; this lack of liquidity provides the illusion that this asset's price does not change on an ongoing basis.

As we have seen recently, COVID-19 and the subsequent shutdowns and effects on global economies and businesses made investors extremely nervous. In uncertain times, when investors become nervous, they will tend to sell their businesses due to fear. These volatile times can provide substantial opportunities for investors willing to purchase businesses at discounted prices.

SHORT-TERM VOLATILITY AND THE MEDIA

In volatile times in the past, we have had a negative view of the media. Bad news sells, and when share markets plunge globally, the media focuses heavily on how much investors have lost.

In more recent times, we have seen the media's negative role as positive for our investors, looking for opportunities to purchase high-quality businesses at discounted prices. So, now I encourage the media to scare all investors so our clients can take advantage of market bargains!

HOW DO YOU NAVIGATE SHORT-TERM VOLATILITY?

Investing in financial markets often comes with ups and downs, creating short-term volatility in investment portfolios. This section will discuss how to navigate this volatility, including strategies such as keeping cash reserves for income needs and diversifying your investments.

One of the key ways to manage short-term volatility in your investment portfolio, particularly for retirees, is to have cash reserves set aside. These reserves can help you meet your income needs for a specific number of years ahead without needing to sell investments during a downturn. Doing this gives your investments time to recover and potentially grow in value, reducing the impact of short-term market fluctuations on your overall financial situation.

Another essential strategy for navigating short-term volatility is diversification. This means spreading your investments across different asset classes, industries, and regions. When your investments are diversified, they are less likely to be affected by a single event or market trend. This can help protect your portfolio from significant losses and provide a smoother investment experience.

A well-diversified portfolio should include a mix of stocks, bonds, and other assets, such as real estate or alternative investments. It should also include investments from different industries and countries, as this can help further reduce risk. Keep in mind that diversification does not guarantee against loss, but it can help you manage the risks associated with short-term volatility.

Navigating short-term volatility in investment portfolios can be challenging. Still, by having cash reserves set aside for income needs and diversifying your investments, you can better manage the ups and downs of the markets. Employing these strategies can maintain a more stable financial position for you and work towards achieving your long-term investment goals.

DIVERSIFICATION CAN HELP REDUCE RISK

DIVIDENDS PROVIDE THE INCOME WE SPEND TO LIVE AND HAVE FUN

REINVESTMENT OF PROFITS OR HIGH DIVIDEND?

DO YOU REALLY NEED HIGH DIVIDEND-PAYING COMPANIES?

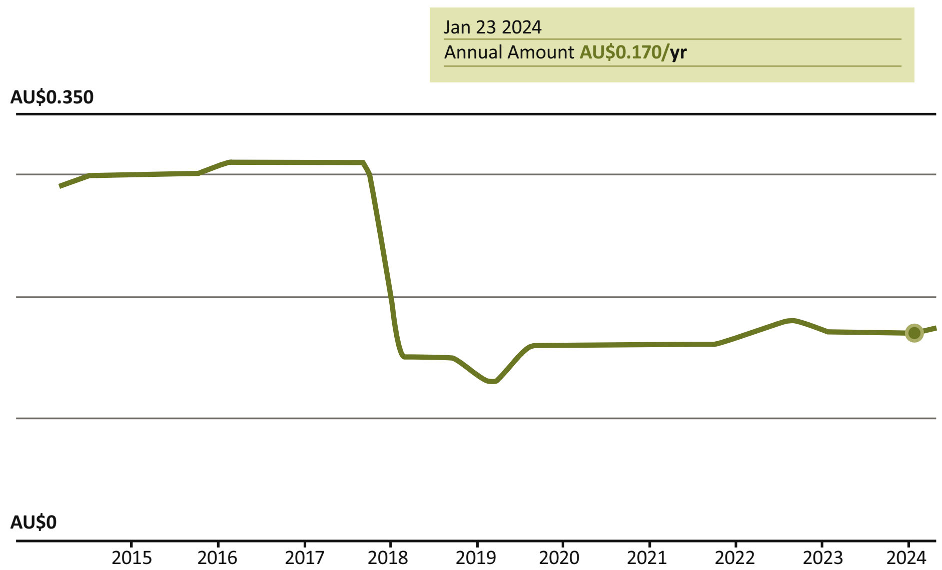
In my role as a financial adviser, retirees often have a strong focus on businesses that pay high dividend yields. This makes complete sense as dividends provide the income we spend to live and have fun.

In my view, an investors first focus should be on purchasing the highest quality businesses in the world. Businesses with products and services that give the business a competitive advantage, strong balances sheets, and ongoing reinvestment into improving the business via research and development. I believe these factors should be considered before dividend yields.

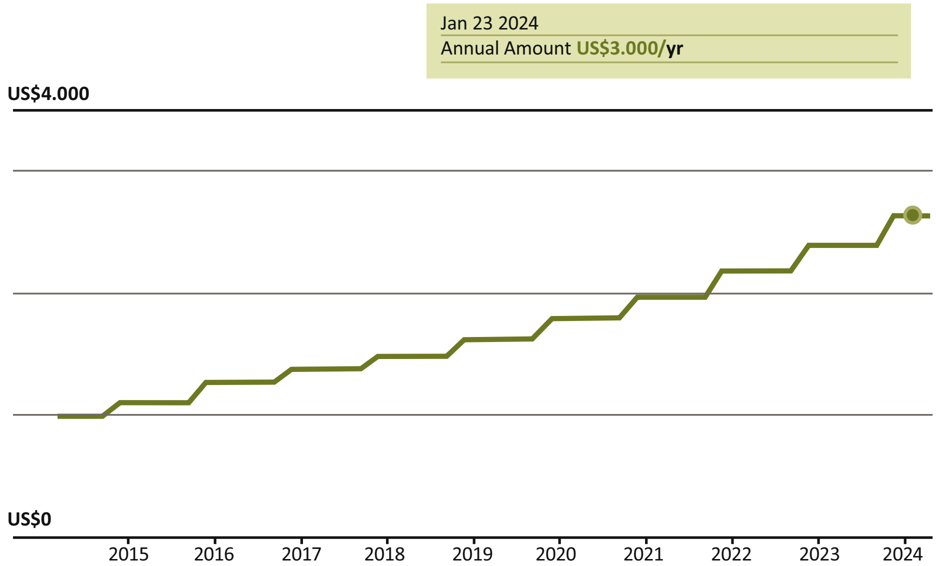
We need to remember that dividend yields are merely an arbitrary calculation which divides the income paid by the share price at the time. For example, a $6 dividend divided by a share price $100 provides a 6% dividend yield. But this tells us nothing with regards to dividends and profitability growing? Dividend yields can be high while the dividends that are paid are going down and of course the reverse can happen.

Below are two examples of this concept. The first is Telstra, which always has had historically high dividend yields. The second is Microsoft, which has historically had low dividend yields. The graphs below show the dividends paid on an annual basis over the last 10 years.

Telstra current yield 4.3%



Microsoft current yield 0.8%



COMPETITIVE ADVANTAGE

If a business can consistently innovate and improve its offerings, it may be able to differentiate itself from competitors and gain a competitive advantage in the market. This can translate into stronger sales and profitability over time.

Some investors may be willing to pay a premium for businesses that have the potential for long-term growth and are continuously improving their operations. This can lead to a higher valuation for the business, which is beneficial for investors.

INVEST IN HIGH-QUALITY BUSINESSES

Investing and finding high-quality businesses is not an exact science. Whilst every endeavour is made to provide recommendations that will ultimately grow your portfolio over the long term, inevitably, not all decisions will be correct, and we will select the wrong businesses from time to time. Furthermore, regardless of quality, all businesses are subject to expected normal daily share market volatility.

Investment selection is an extremely complex process and takes considerable research and investigation to ensure that we provide advice that protects and hopefully grows your capital.

When forming views on asset classes, or specific companies, it's not just one subscription or research house that influences our decision-making, but multiple sources of information that we review to ensure we form an unbiased and informed opinion regarding various investment opportunities.

Identifying businesses with structural tailwinds pushing their growth potential is key to our process. We prefer businesses that offer high-quality products and services that the general public value. Products that we use or consume daily are key indicators to help identify quality businesses. Further to this research, we analyse the quality of the balance sheet, for example, how much debt the business may have. We prefer businesses with no debt, cash in the bank, and growing earnings.

BETTING AGAINST HUMAN BEHAVIOUR

Human endeavour is the driving force behind progress and innovation in the world of business. People strive to create new products, enhance existing ones, and improve their businesses' services. Human endeavour, therefore, has positive effects on business, and these improvements can lead to increased revenue, profitability, and overall value.

The invention of new products is a significant aspect of human endeavour that can attract more customers and increase a business's market share. This can lead to higher sales and greater revenue. Furthermore, by constantly improving their products, businesses can stay ahead of the competition and keep their customers satisfied. Improved products are often better quality, have better performance, or added features, making them more appealing to consumers.

Enhanced services also play a critical role in business success. Companies that focus on improving their services can create a better customer experience, which helps build customer loyalty and leads to repeat business, boosting revenue in the long run.

Human endeavour can also lead to improvements in the way businesses operate. Businesses can reduce costs and increase their profitability by finding ways to work more efficiently.

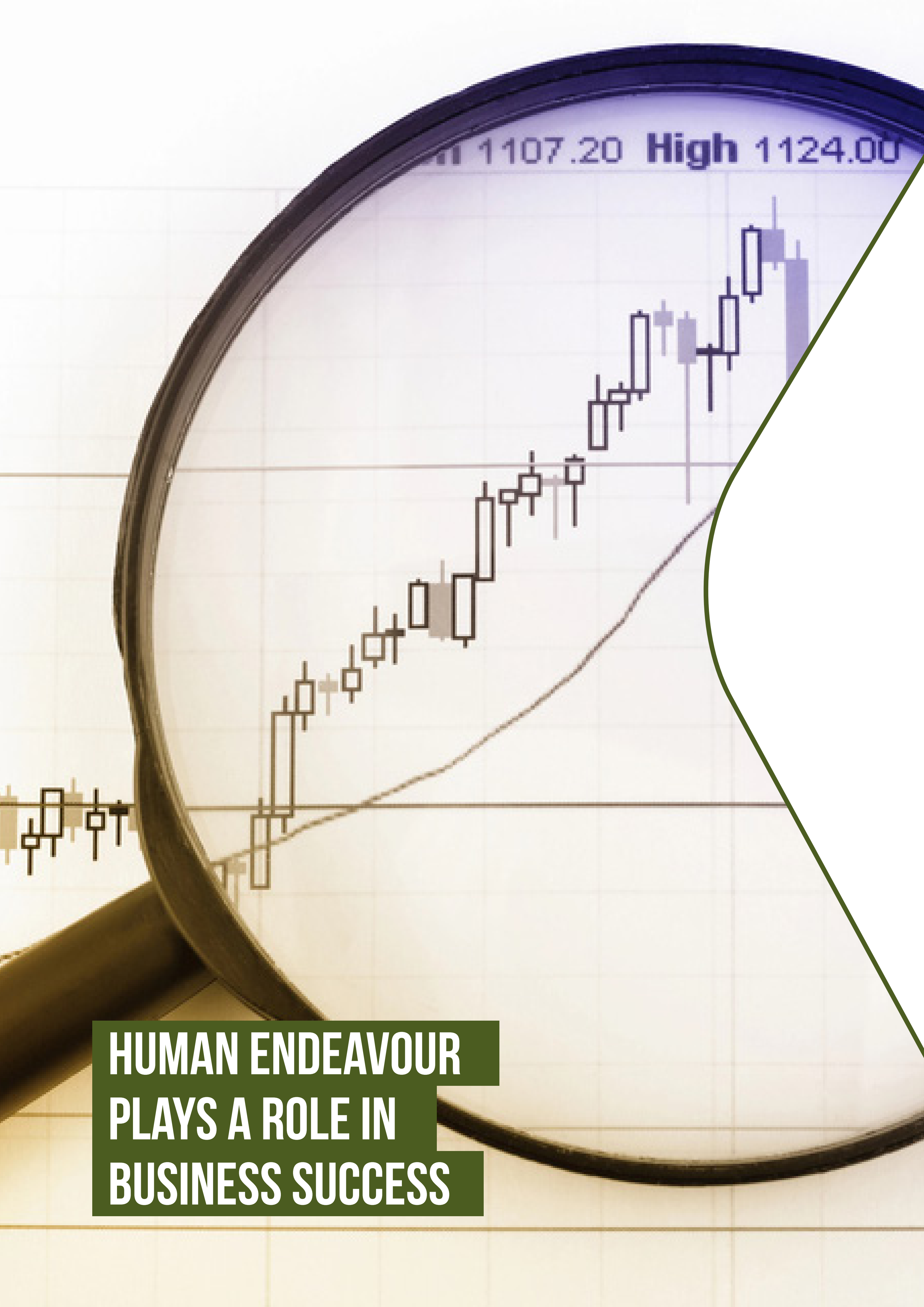
Innovation and continuous improvement can also positively impact a company's reputation. This enhanced reputation can lead to increased customer trust and brand loyalty, further contributing to revenue and profitability.

LONG-TERM BENEFITS

Over time, businesses that prioritise human endeavour and innovation often see increases in revenue and profitability. These improvements can directly impact the value of the business, making it more attractive to investors and potentially increasing its market value.

Human endeavour plays a crucial role in the success of businesses. By continually striving to invent new products, improve existing ones, and enhance services, companies can increase their revenue, profitability, and overall value. And fostering a culture of innovation and support for employee growth can help businesses harness the power of human endeavour to achieve long-term success.

INNOVATION AND CONTINUOUS IMPROVEMENT IMPACT A COMPANY'S REPUTATION



HUMAN ENDEAVOUR PLAYS A ROLE IN BUSINESS SUCCESS

BALANCE FUND, MEDIOCRE RESULT!

The investment industry introduced balanced funds to reduce short-term volatility. These balance funds consist of a mixture of asset classes, such as Australian and global shares (businesses), and property and conservative assets, such as cash and fixed interest. While the balance fund in the short term does reduce volatility, it also reduces the returns over the long term.

It is our view that short-term volatility should not be considered a risk but a natural movement that we will continue to see in markets. By investing in conservative assets to reduce short-term fluctuations, we believe that an opportunity cost arises whereby investors could have ignored short-term volatility by owning high-quality business over the long term.

RETURNS MATTER, A LOT!

When it comes to investing, minor differences in returns can significantly impact your investment's growth over the long term.

This section will compare two investment scenarios involving an initial investment of $100,000 and a monthly contribution of $500 over 30 years. We will examine the difference in the final value of these investments, with one projection at a 7% annual return and the other at a 9% annual return.

Comparing the two scenarios, the small extra return of 2% (from 7% to 9%) resulted in a significant difference in the future value of the investment. The higher return scenario led to a final value of $2,388,429, which is $966,794 more than the future value of the investment, with a 7% return at $1,421,635.

This comparison highlights the power of small extra returns when it comes to long-term investing. A seemingly minor difference of 2% in annual returns can lead to a substantial increase in the future value of an investment.

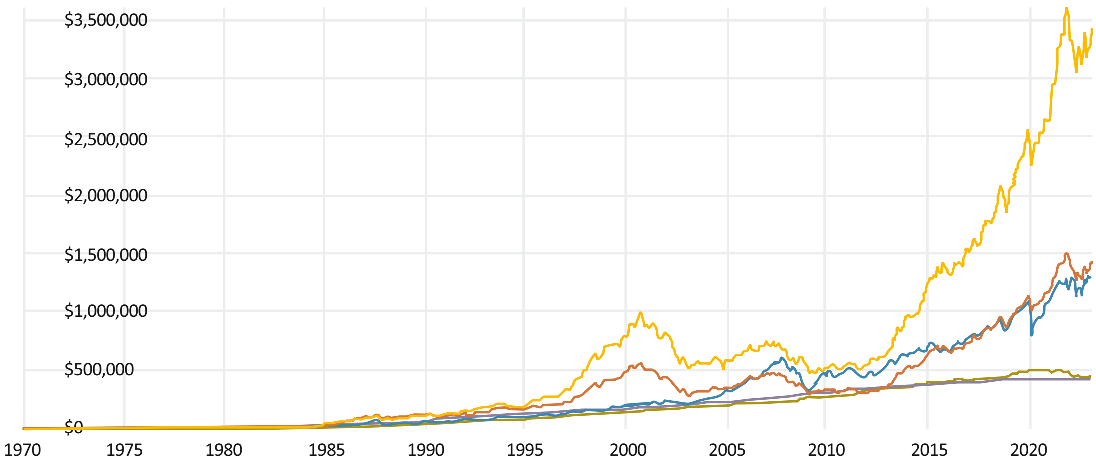
It's essential to consider the potential impact of small extra returns when making investment decisions and to strive for higher returns while managing risk appropriately.

The chart below from Vanguard Australia shows the average returns of several asset classes from 1970 through 2022. The figures on the left show the average returns for each asset class and include the minimum and maximum yearly returns for each. This last point highlights the share markets' volatility level compared to conservative assets such as Cash and Australian Bonds. These are the Min and Max figures on the right of the chart.

	Avg	Min	Max
Australian Shares	9.5	-40.4	66.8
International Shares	9.7	-28.9	70.8
US Shares (S&P500)	11.5	-29.2	62.6
Australian Property	7.9	-54	50.2
Australian Bonds	7.5	-10.1	34.3
Cash	7.4	0	18.4

MINOR DIFFERENCES CAN IMPACT INVESTMENT GROWTH

STRIVE FOR HIGHER RETURNS WHILE MANAGING RISK



Asset classes	Value at 31 Mar 2020	Return since 1 Jan 1970
Australian Shares	$1,296,407	9.6% p.a.
International Shares	$1,450,787	9.8% p.a.
US Shares	$3,450,205	11.6% p.a.
Australian Bonds	$472,039	7.5% p.a.
Cash	$440,256	7.4% p.a.

The chart above, again from Vanguard Australia, takes the same data from the above chart but with more up-to-date returns through to March 2023.

The tool allows you to compare the growth of $10,000 invested in January 1970 through to the present, with all income reinvested over time. Like my example above, with the initial $100,000, the performance differences are substantial. A picture, instead of figures, seems to say so much more.

CONCLUSION

This book has been written with the view to increase your knowledge of investing. I wanted to highlight that there are different types of risks with all asset classes. For example, Term Deposits in the short term are not risky, but if held for the long term, become very risky because of inflation and its negative effect on the purchasing power on our money.

At the other end of the spectrum is investing in businesses via the world's share markets. Currently, volatility is high, and we are still determining what markets will do, which increases the risk. However, if invested for the long-term, these risks reduce as businesses continue to improve their offerings and profitability, and increased valuations should follow.

RECOMMENDED READING

To continue your educational journey, I recommend reading Peter Thornhill's book "Motivated Money". I was first introduced to Peter at a conference in 2002 and have been a fan ever since.

Peter Thornhill is an Australian financial educator, speaker, and author known for his practical and straightforward approach to personal finance and investing. He has over 50 years of experience in the financial services industry, which has given him a deep understanding of financial markets, investments, and wealth creation strategies.

Peter's book "Motivated Money" has been praised for its accessible and straightforward approach to personal finance, providing readers with valuable insights and practical advice on creating and maintaining wealth. www.motivatedmoney.com.au

I also recommend seeking out some of Berkshire Hathaway's "Letters to shareholders", which include famous investor Warren Buffett's writings. As a shareholder, chairman and CEO of Berkshire Hathaway, a multinational conglomerate holding company, Buffett has amassed a fortune of over $100 billion, earning him a spot among the wealthiest individuals globally.

His investing skills and insights have been written about for decades for good reason. Warren Buffett and his business partner Charlie Munger have provided shareholders with an average return of 19.8% from 1965-2022 compared to the market benchmark S&P 500 of 9.9%. You can find these letters online. Enjoy. www.berkshirehathaway.com

WANT TO KNOW MORE?

To find out how we can help you begin the planning process, and check out all of our free educational resources, visit: https://www.consortiumpw.com.au/elearning/.

If you're keen to learn more about the way we invest, check out our YouTube channel by visiting https://www.youtube.com/@ConsortiumPW.

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