Results Financial Services Pty Ltd

Insights and investment solutions magazine

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Welcome

In this edition of Insights and Investment Solutions magazine, read the latest market update based on the highlights across the Australian market over the past month.

We look at understanding your risk appetite and steps to help you protect your income.

Until next time – happy reading.

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Market update

April saw life in Europe, the UK and the United States slowly return back to what could be described as the new Covid-19 normal. Unfortunately, the perfect storm unravelled towards the end of the month with India facing rising daily Covid-19 case numbers and insufficient medical supplies.

COVID-19 Vaccinations

Governments around the world continue to inoculate citizens in the fight against further waves of the Covid-19 pandemic. While less than 4% of the worlds 8 billon population have been fully vaccinated, just under 10% of the population have received one dose of the vaccine. This is a staggering number given where we were twelve months ago. The key standouts continue to be Israel, Chile, the UK and the US with at least 40% of their population receiving one dose and more than 20% of their respective populations fully vaccinated.

As we mentioned in last months commentary, Australia continues to lag the pack. Facing further headwinds earlier this month with the recommendation by the Therapeutic Goods Authority (TGA) that the Astra Zeneca vaccine would not be administered to Australians under the age of 50 because of the increased risk of blood clots. This set back will inevitably delay the full reopening of the economy.

Globally, as mentioned above, saw the reopening of the UK and US while parts of Europe emerged from their March lockdowns. The focus now turns to India, as the daily 7-day rolling average case numbers were in excess of 364,000, hospitals exceeding capacity and reports the country was running out of oxygen and many turning to black market supplies. Given Covid-19 can have severe respiratory implications leaving both young and old on ventilators, limited to no hospital oxygen will reduce the recovery rate of the seriously ill.

To put the severity and speed of the current outbreak into perspective, the total global daily case count started the month at 388k and ended the month at 821k. India started the month at 15k and ended the month at 364k. The US, UK and Europe held fairly stead ending the month at 50k, 106k and 2k respectively. In response to this, many developed nations around the world, including Australia have dispatched charter flights with medical supplies.

Australia

At the 6th of April Reserve Bank of Australia (RBA) meeting, policymakers once again reiterated that the cash rate will remain at 0.10% “for as long as necessary”. Many have referred to the RBA as being in wait-and-see mode. The RBA noted that “while annual CPI inflation was expected to rise temporarily to about 3 per cent around the middle of the year as a result of the reversal of some pandemic-related price reductions, in underlying terms inflation was expected to remain below 2 per cent over both 2021 and 2022.”

Other key metrics over the month included the NAB Business Survey. In which it appears Australia’s economic recovery is intensifying as the survey showed business conditions measuring hiring, sales and profits hit a record high in March even as the government was withdrawing its JobKeeper wage subsidy. While business confidence eased from 11-year highs, it remained above its long-run average with the data providing a positive signal for higher business investment and hiring.

The job market continued its recovery, with more jobs created in the past six months than any similar period on record. Looking at March alone, the labour market results were significant, except for a drop in full-time positions. This was somewhat due to an outsized gain in February. Many feel they need to see a few more months of data to reveal the true state of the economy now JobKeepers has rolled off.

As for travel, April saw the opening of the long awaited two way NZ-Australia travel bubble. While this has offered Australians some more freedom, the complete re-opening of foreign borders is the aim to fully achieve economic normality. To put things into perspective, over the past six months, arrivals to Australia averaged around 30,000 a month while departures were just over 40,000 a month. Before the pandemic, arrivals and departures were closer to 1.8 million a month.

Four steps to help you protect your income

Many of us don't hesitate to insure physical assets such as our home, contents and vehicles. But what about our greatest asset of all – our ability to earn an income?

While we'd all like to picture a smooth road ahead, sometimes that's just not the case. Protecting your income along the way isn't a luxury: anyone with financial obligations could consider their back-up plan should job loss, business closure, sickness or injury strike.

Because of this, planning ahead for the unexpected may be something to think about for you and your family's financial security. Read on for some tips on protecting your income.

1. Save for a rainy day

Saving is a way to insure yourself against setbacks, such as losing your income or unforeseen emergencies. This may be a good back up for short-term or relatively minor setbacks and, the best part is, it's flexible. Get into the habit of saving on a monthly basis; you could keep these funds in an easily-accessible savings or cash account with the best interest rate you can find, so you can access your money if needs be.

2. Consider income protection insurance

Income Protection insurance is designed to replace a percentage of your monthly income if you're unable to work for a period of time due to sickness or injury. This may cover your day-to-day living expenses, giving you the financial peace of mind to focus on your recovery.

One thing to consider is the level of income protection cover you may already have through your employer or your super. If your employer or your super fund offers some form of income protection cover, you may still need to apply for additional income protection insurance or another type of insurance cover, so that in the unfortunate event of sickness or injury, you can protect your financial position.

3. Invest in yourself

Building up your skills could be a form of insurance. Developing more expertise and updating your skills in your chosen field makes you arguably a more valuable candidate, in case you need to find a new job due to redundancy. Even if you don't lose your job or get sick or injured, broadening your skills can give you more career options down the track, whether or not you choose to remain with your current employer.

4. Find ways to boost your earnings

Finding ways to increase your regular earnings may improve your current financial situation and make it easier to save. By doing so, you could be providing financial protection against loss of income or unforeseen emergencies. Sometimes it even lets you follow your passion as a secondary source of income. Some people make extra money by taking up part-time employment such as a part-time tutor or coach, while others create and sell arts or crafts at local markets or online. With all the opportunities out there, there's bound to be something to suit you.

What is risk appetite?

Risk is about tolerating the potential for losses. Understanding your risk appetite allows you to make well-informed decisions about your money.

For some people, risk means excitement and opportunity. For others, it invokes feelings of fear and discomfort. We all experience a degree of risk in our everyday lives – whether it's simply walking down the street or having investments in the share market. Everyone has a risk profile that defines their willingness to accept risk. It's usually shaped by age, lifestyle and goals and is likely to change over time.

Risk is about tolerating the potential for losses, the ability to withstand market movements and the inability to predict what's ahead1. In financial terms, risk is the chance that an outcome will differ from the expected outcome or return. It includes the possibility of losing some or all of your original investment2. Often you may not be aware of your risk appetite until you're facing a potential loss, so loss aversion becomes a significant factor when making decisions related to risk.

What is risk appetite and risk tolerance?

Risk appetite and risk tolerance are used interchangeably but are different.

Risk appetite is a broad description of the amount of risk an investor is willing to accept to achieve their objectives. It's a statement or series of statements that describes their attitude towards risk taking[3].

Risk tolerance is the practical application of risk appetite3 and considers the degree of variability in returns an investor is willing to bear.

As an investor, you should have a good understanding of your attitude towards risk. If you take on too much risk, you might panic and sell at a bad time. But if you don't expose yourself to enough risk, you may be disappointed with your returns and potentially unable achieve your objectives.

Risk and Return

The relationship between risk and return underpins all financial decisions. The more risk an investor is willing to take, the greater the potential return. However, investors expect to be compensated for taking on this additional risk and should realise that taking on more risk doesn't guarantee higher returns.

What type of investor are you?

High: willing to risk losing more money for the possibility of better returns.

Moderate: willing to endure short-term loss for the prospect of better long-term growth opportunities.

Conservative: willing to accept lower returns for a higher degree of liquidity or stability.

Whatever your risk appetite, you should always consider both risk and return before making decisions about what to do with your money. Although shares and property are generally considered to be higher-risk investments, even more conservative investments like bonds can experience short-term losses. No investment is completely risk free.

This explains why smart investors typically have a diversified portfolio that includes several different types of investments.

Risk and Diversification

Don’t think that just because your friends invest in shares you should too. If you don’t have a lot to invest or you’ll want to access your money in a few years, shares may not be the right type of investment for you.

By understanding your risk appetite and being honest about what you want to achieve, you’re more likely to be comfortable with your investment decisions. A financial adviser can help you understand your risk appetite, as well as create a portfolio that suits you.

The simplest way to minimise investment risk is through diversification. A well-diversified portfolio will usually include different asset classes, like shares, property, bonds and cash, with exposure across different industries, markets and countries. The idea is to reduce the correlation between the different types of investment and have a good balance of assets which move in different directions and at different times. So, if some of your assets perform poorly, others may be performing well, offsetting the poor performers.

Although diversification doesn’t guarantee you won’t suffer a loss, it’s an effective way to minimise risk and help investors realise their financial goals.

Make informed decisions

You should monitor both your risk appetite and your investment portfolio over time.

Your risk appetite is likely to change as you get older, and as your income or family situation changes.

Similarly, you should review your portfolio to ensure the risk level is still suited to your overall investment objectives. Financial markets are constantly changing, which means the underlying assets you’re invested in could change too.

If you’re a confident investor, you should check that it’s still on track to generate the level of return you want and importantly, at a comfortable level of risk. If you prefer to speak with a financial adviser, they too can help you undertake regular reviews and rebalance your portfolio, as necessary.

By understanding your risk appetite, you’re in a better position to make well-informed and transparent financial decisions. It will help you identify opportunities to take on more risk where appropriate or see where you’re exposed to unnecessary risk and adjust accordingly. You’ll also avoid being caught up in the emotion of market activity, where panic can lead to a poorly timed and costly decision.

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