The Financial LINX

December 2015

Summer Newsletter

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From the Desk..

Welcome to the Summer Edition of our Financial Linx Newsletter.

Well another year has almost come to an end, and I don't know if it's just me but it seems to have flown by even faster than last year.

Most clients will by now be aware that during the year we moved business premises to 56 Gordon Street after being in Wellington House for about nineteen years. The move has not only afforded us more space but has allowed us to use the area much more efficiently. The lift is a bonus.

From a staff perspective we would like to congratulate Nick Cunningham from our office for completing his Bachelor of Business this year. Nick was presented with his degree majoring in Business Management in a ceremony held at the CQUniversity campus in Rockhampton recently.

We would also like to formerly welcome Alex Beckmann to our team at Financial Linx. Alex brings with her a vast amount of experience as she has been involved in the financial profession for over 25 years. During that time Alex has been an adviser with Westpac, Suncorp and the ANZ. Alex is employed in a client service position and mainly co-ordinates our ongoing client reviews.

Finally we would like to extend to you our best wishes for the festive season and we look forward to seeing you again in 2016.

From all the team at Financial Linx we wish you and your family a Merry Christmas and a safe and prosperous New Year.

Please note that our office will be closed from 3.00pm Wednesday the 23rd of December and will re open on Monday the 4th January.

The Silly Season

By Jim Parker
Outside the Flags
Vice President - Dimensional Fund Advisors

Aside from reports on shark attacks and cricket, the onset of the festive season and summer in Australia and New Zealand are traditionally lean times in the news business. So the forecasters come out to play.

Thinly staffed newsrooms and the prospect of lots of blank space to fill over the holidays prompt hard-pressed editors to assign reporters to crank out "Year Ahead" features before they go on leave.
For readers of the finance pages, this means lots of surveys about the outlook for the economy and markets in the coming 12 months. These can be diverting at the time, but they're much more entertaining a year later.

In its 'Top 100 Picks for Investing in 2015', published between Christmas and New Year, 'The Weekend Australian' newspaper canvassed staff and contributors for their recommendations on stocks to buy.
In its heavyweights list ("energised to move"), the paper selected BHP Billiton. It was energised all right, but the movement was all down. By early December, BHP had delivered a negative return of more than 30%.

The other chosen heavyweight was Alumina, which was picked because of expectations of improved prices and returns. Unfortunately not, as it turned out. Alumina was down nearly 27% over the year.
In the oil and gas sector, the newspaper asked "have prices hit bottom?" Clearly not, because four of its five favoured picks (AWE, Otto Energy, Origin Energy and Carnarvon Petroleum) were 30-55% lower. The fifth, Woodside Petroleum was a mere 6% lower.

Never mind, the paper said. Lower petrol prices would leave people more to spend. So it favoured consumer stocks Thorn Group and Carsales.com. The latter managed a 3% gain for the year, but Thorn was down 27%.

In financials, the newspaper said Treasury Group (later Pacific Current Group) was "fuelled to fly". Its stock delivered a negative return of 33% year-to-date. Gold stocks were "ready to rise"—like Independence Group (-40%). And watch out for the "rising stars"—like Colorpak (-18%), Nearmap (-44%) and Retail Food Group (-16%).

To be fair, there were also a few successful picks in the top 100, like food maker Bellamy's, whose 12-month total return was more than 600% thanks to Chinese panic buying of its organic baby formula.
But the real issue is that building portfolios around bottom-up analysis of the prospects for individual stocks or sectors is not a sustainable or systematic way of investing. You might get lucky. But then again, you might not.

In a concentrated portfolio, idiosyncratic influences can have an outsized effect. For instance, *The Australian* picked software developer Infomedia as an IT play. But the non-renewal of a key buyer agreement forced a profit downgrade and its stock was down around 40% for the year.
However, even in a well-diversified Australian portfolio, it can be hard to avoid the drag from heavyweight stocks like BHP Billiton. Facing plunging commodity prices and an environmental disaster in Brazil, its stock hit 10-year lows recently.

The Australian market is small by global standards and highly concentrated, the New Zealand market even more so. That's why it makes sense to diversify as much as possible across different countries, sectors and stocks.

The idea is not to think of your portfolio in terms of individual stocks, but in terms of the broad drivers, or dimensions, of returns. These are your exposure to the market itself, to low relative price stocks, to small company stocks and to profitable stocks.

These dimensions of return have been shown to be sensible, backed by evidence, persistent and pervasive across different markets. Most of all, they are cost-effective to capture in diversified portfolios.

Of course, there is still no guarantee you won't have a bad year in the market, but you can take comfort from knowing your portfolio is built around systematic differences in expected returns, not the whims of a newspaper.

Many happy returns!