



September Newsletter 2018

Welcome to the September edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss share markets and provide you with information on how the share market works and what to do if the market drops.

If you would like to discuss any of the issues raised in this newsletter further, please don't hesitate to contact us.

In the meantime we hope you enjoy the read.

Office Closures

Our office will be closed on the following dates:

Wednesday October 31 - Bendigo Cup

From Friday 21 December for the Christmas Break. We will re-open on Monday 7 January.

All the best,

George Flack & staff at Flack Advisory

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5 ways to keep a cool head in a falling share market

Despite concern, falling share prices are not necessarily a sign of a mild or major bear market situation, according to Dr Shane Oliver.

The share market correction many people are talking about at the moment is causing concern for a number of investors, including those accumulating super and drawing money from their super savings, which is understandable given the rapid falls we've seen in recent days.

From share market highs to the lows witnessed recently, we saw United States and Japanese shares fall 10%, Eurozone shares fall 8%, Chinese shares fall 9%, while Australian shares fell 5%.

Sharp falls, with talk of billions of dollars being wiped off the share market, are stressful for investors as no one likes to see the value of their investments decline.

However, it's worth noting that periodic corrections in share markets in the order of 5% to 15% are actually normal.

We believe these market movements are indeed corrections, and not a sign of what market watchers would call a mild or major 'bear market' situation.

A mild bear market would be a share market decline of say 20% that turns around relatively quickly, like we saw in 2015-2016. A major bear market would

be a decline of more than 20% in market valuation, like what we saw during the 2008 global financial crisis (GFC).

Our assessment remains that this recent volatility is a correction, not a bear market, and we're not seeing signs of a recession.

5 insights to help you keep a cool head

1. Selling shares or switching to a more conservative investment strategy or super option after a major fall just locks in a loss. With all the talk of billions of dollars being wiped off the share market, it may be tempting to sell, but this just turns a paper loss into a real loss with no hope of recovery. The best way to guard against making a decision to sell, on the basis of emotion after a sharp fall in markets, is to adopt a well thought out long-term investment strategy and stick to it.
2. Shares have a tendency to literally climb a wall of worry over many years with numerous events dragging them down periodically, but with the long-term trend ultimately rising and providing higher returns than other more stable assets. Keep in mind, bouts of volatility are the price we pay for typically higher, longer-term returns from shares.
3. When shares and growth assets fall they are cheaper and offer higher long-term return prospects. So, the key is to look for opportunities that the pullback provides.
4. While shares may have fallen in value, the dividends from the market haven't. So, the income flow you are receiving from a well-diversified portfolio of shares continues to remain attractive, particularly against bank deposits.
5. The economic environment globally and in Australia is still quite stimulatory, meaning interest rates remain at historically low levels (for the time being at least) making debt relatively cheap, which encourages investment. Monetary conditions in the US might be tightening, but they are still what we would consider easy, and they are still very easy globally, with monetary tightening still a fair way off in Europe, Japan and Australia. We are a long way from the sort of monetary tightening that leads into recession.

Dr Shane Oliver

Head of Investment Strategy and Chief Economist, AMP Capital