A good year for investors

For the third year in a row, all major asset classes produced positive returns.

THE year so far has been characterised by a litany of bad news. Terrorism is in the headlines, commodity prices are falling, and governments all over the world are having increasing trouble balancing their budgets.

Depressing as that may be, it's still important to keep your own goals in mind and not let yourself be side-tracked by extraneous matters over which you have little control.

For starters, keep in mind that, despite the bad news, 2014 was another good year for investors.

All the major asset classes generated positive returns and beat inflation and cash, just like they did in 2012 and 2013. That's three winning years in a row.

There have been negative headlines about the performance of the Australian stock market for 2014, but it did manage to return 5 per cent per annum when dividends are taken into account. This is far better than leaving your money in the bank, especially when you consider the value of franking credits.

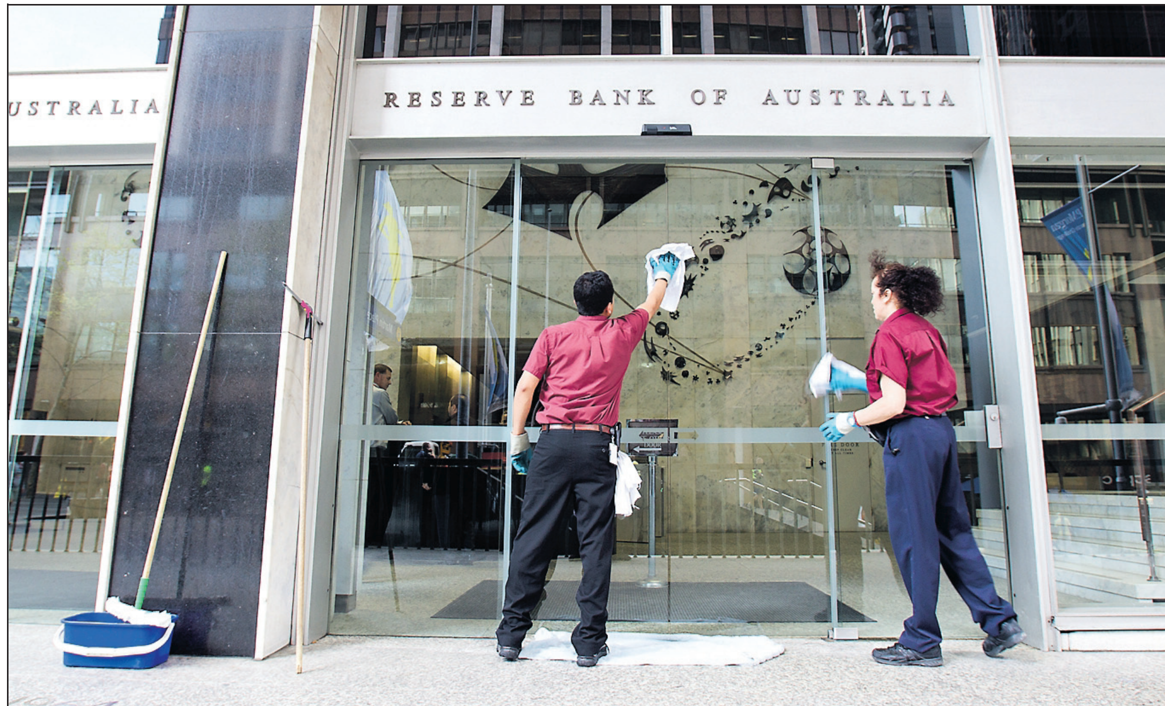
Global shares produced 9 per cent for 2014, in spite of the slow economies in the US and stagnation in Europe and Japan.

If you were invested in an unhedged international fund, you would have enjoyed even higher gains due to the fall in the Australian dollar.

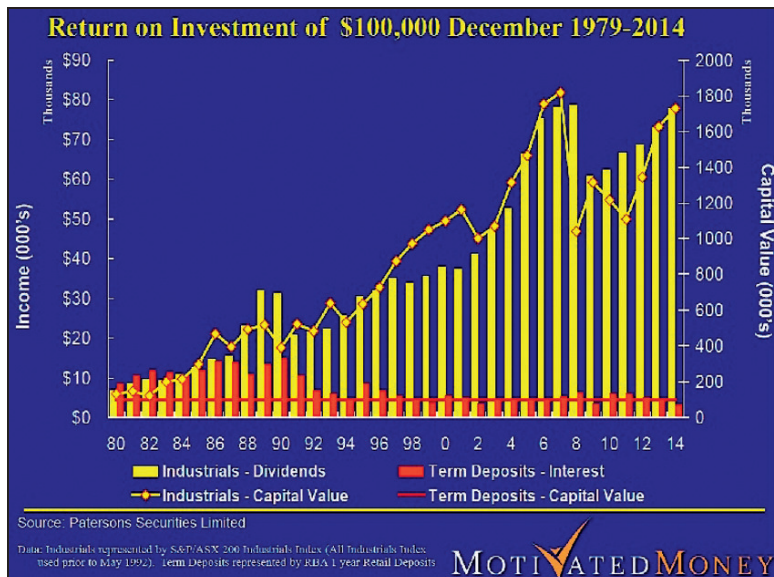
Interest rates in most countries are at record lows, and in Europe are even negative. Investors there find themselves in the ludicrous situation of having to pay the bank to hold their money on deposit.

Given the sad state of the Eurozone, it's hard to see the situation changing in the short to medium term.

Falling interest rates are great for bonds. The Australian Composite Bond Index returned 10 per cent for the year including interest, and the Global Government Bond Index



SEARCHING FOR YIELD: The more interest rates fall, the more attractive shares and property become.



(hedged in Australian dollars) was up every month in 2014 – this has not happened since 2000.

Consequently, it produced total returns of 11 per cent for the year. Bonds have had a great few years, but I find it hard to be optimistic about them in 2015.

International interest rates are close to rock bottom.

Looking ahead, interest rates in Australia are likely to stay where they are, or even drop further. The more rates fall, the more attractive shares and property become as investors search desperately for yield. Also, further falls in our interest rates would make our dollar even less attractive to overseas investors and put further downward pressure on the Australian dollar.

This is good news for exporters, as a falling currency cushions the impact of lower commodity prices.

It's also great news for people in tourism, because it's becoming less and less attractive to holiday overseas, and much cheaper for overseas visitors to come here.

As we move into 2015, remember that becoming wealthy is not a matter of how much you earn but how well you use the money you do earn. Your New Year's resolution should be to make 2015 a year when you structure your finances to make the most out of every dollar you earn.

Ways to do this include paying off your credit card bill, and then paying it in full each month, and getting ahead of your home loan repayments to give yourself a safety buffer in case interest rates eventually rise.

Make sure that your investment portfolio is well diversified, with interests in both local and overseas shares, and that you have an asset mix that fits your goals and your risk profile. Even if you are 50 now, it's highly likely you've got at least 40 years of investment ahead of you. A long-term view is the only way to go.

Q I am 19, a full-time university student, earning $30,000 a year from part-time work and I save 50 per cent of my weekly pay. I have $10,000 in shares and $20,000 in a high interest savings account. Is this the best mix, or should I be looking at other options?

A First, let me congratulate you on what you've achieved to date. You've obviously cultivated the skill of money management at an early age, and this will stand you in good stead for the rest of your life. You have a good asset mix now, because you have some exposure to growth assets, but also have adequate cash on hand if you need it.

Q I am 29, earn $75,000 a year gross and have been working full-time for two years since completing my studies. I have a mortgage with my partner of $280,000 on a home worth $400,000, which we should pay off in eight years at our current rate. I also have a HECS debt of $20,000. If I start salary sacrificing to reduce my salary to the new HECS earning limit, I will no longer be reducing my HECS debt but I will be getting a good tax break. I realise the funds will be unavailable until I retire, but apart from that, is this a good strategy?

A Unfortunately there is a major flaw in your strategy. The HECS calculations are based on adjusted taxable income, which includes salary sacrificed superannuation contributions.

Noel Whittaker is the author of *Making Money Made Simple* and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noelwhit@gmail.com.

Take stock and learn from previous year

By **MARCUS PADLEY**

HINDSIGHT is a wonderful thing.

Every year there are a handful of things we needed to know, things that cut through all the financial theory, the waffle, the media noise, the analyst prognostications, the research and all the other ridiculous distractions and complications.

A few key pieces of knowledge that would have transformed our lives. A few themes and events that, had we stopped the noise for a moment back in December 2013 and taken the time to lie undisturbed on a sunny day by a pool with a gin and tonic, we just might have guessed right and taken a punt on.

So here we are, the beginning of 2015 and it is time to think about what will happen this year: what events and themes will cut through the chatter and make us money in the year ahead.

The standard formula for commentators is to predict that what happened last year will happen again and that what is happening right now will continue.

On that basis here are some of the most predictable stock themes for 2015:

■ Safe stocks will perform. The GFC turned the equity market into a backwater asset class and, despite it being seven years since our Baby Boomer nest-eggs were decimated, the focus on safety persists. Stocks that offer certainty of earnings will continue to be held at a premium.

■ With interest rates more likely to fall than rise, the obsession with income stocks and hybrids as bond proxies will persist. Telstra, Woolworths, utilities and infrastructure are all likely to continue to outperform.The interest in safe income will mean the banks remain one of the most popular investments. Buy on weakness, don't sell on strength.

■ Domestic Australian investors will continue to move more money into international stocks, ETFs and managed funds, a strategy to hedge against a long-term collapse in the Australian dollar. Think 50-60¢. A lot of you will find yourself buying individual US equities for the first time by the end of the year. It is the "New Black". Fail to do that and in 10 years' time you won't be able to afford to travel overseas, buy a European car or shop on the internet.

■ Wealth management as a sector continues to be underwritten by the Superannuation Guarantee and, if the market behaves, this sector will continue to outperform.

■ As the Australian dollar falls or fails to bounce, the focus will remain on overseas earners. There is a long list of these including Dominos Pizza, Amcor, Brambles, Westfield Corp and Resmed to name a few.

■ Some sectors have better drivers than others and will outperform. Technology, internet, the cloud, healthcare, retirement and housing. Technology stocks are heavily under-represented in Australia but a huge growth sector in the US.

■ Some sectors have volatile, unpredictable drivers. Resources, for instance. There will be some spectacular rallies for the traders but investors need not bother.

■ Property. The housing market will remain supported as interest rates stay down and investors continue to prefer property to equities. But as the property market plateaus as the economy wilts and unemployment rises, making money in property will mean buying the worst house in the best street and adding value.

On that basis renovating/DIY/home improvement suppliers to the housing market will continue to be a strong sector.

Marcus Padley is the author of the stock market newsletter *Marcus Today*.