Acquira Wealth Partners: Our Investment Beliefs

The following summarises our fundamental beliefs about investing. It is important for our clients and prospective clients to understand these beliefs and be comfortable with them.

1. It is best to make investment decisions when we have a clear picture of our goals.

Our goals will determine **why we are investing** in the first place.

Are we saving for a deposit on a house, are we building a nest-egg for retirement, are we aiming to preserve the real value of our capital over our retirement, do we want to maximise our retirement income. There can be many goals and they will vary for each one of us.

Clearly articulated goals will give us focus to help make our investment decisions.
Goals are best to be created and maintained as part of a documented financial plan.

2. Speculating is not investing and saving is not investing.

Speculating is buying an asset in the hope that the price will go up and we will make a profit. The timeframe for a speculation could be anything from a couple of days to a few years. We do not advise on speculating. It is our experience that it is incredibly hard to do, while long term investing is incredibly easy to do and gets better results.

Saving is putting money aside that will eventually be withdrawn and spent on something. It has a finite time. Saving for short term goals is best done through high yielding bank accounts where you cannot lose any capital value

Investing is buying an asset to enjoy the income from that asset. If the investment is a good one, then the income will grow and the asset value will grow as well. Note that the asset grows in value because the income grows in value. Income can be reinvested when in the wealth building phase to increase compound returns.

3. Long term investing in good quality growth assets is the best way to passively build wealth and then preserve that wealth.

By long term we would generally mean 5 to 7 years plus. For most of us, we should be long term investors as our investment time frame is the rest of our life. To prove that Long term investing in good quality growth assets is the best way to passively build wealth we have supplied research on Australian Share market returns over the past 100 years which shows that on average - 8 out of every 10 years has been a positive growth year – see pages 7 & 8 of this document.

By passively we simply mean by just buying assets as opposed to operating or improving assets which we would call active investing.

An example of active investments is renovating a property or buying a business.
Active assets have the ability to produce much higher returns than passive assets, but come with much higher risk, including the risk of losing all your money. They will not be suitable for many or most people.

4. Growth assets are predominantly shares and property.

Both produce income, dividends for shares and rent from properties and both will generally grow if well selected. Both can be held directly or through managed investments.

5. Good quality professional management is a good thing.

Professionals have more time, more resources, more education and more experience in selecting and managing investments. A well-chosen professionally managed investment that fits our goals, our time frame and our risk profile, enlists the resources of a team of professionals to make the many and sometimes complicated decisions involved in investing.

What to buy, when to buy, how to value and when to sell are just some of the decisions that will need to be made on a regular basis. These decisions are best made based on deep research, not whims, tips or hunches or half-baked attempts at research.

6. Shares over the long run will generally perform better than any other passive investment. The trade-off is that they fluctuate in value.

That is they can go down in the short term. This is perfectly normal and if you own shares they will go down in value from time to time. However when held for the long run and if appropriately diversified, they will deliver outstanding returns. See pages 7 & 8 of this document which shows why taking a long-term view with shares rather than a short-term view is the best approach.

7. Timing of the share market is largely a futile exercise.

No one can predict the short term movements of the share market, although many will try (Refer speculation).

To correctly time the market, you have to make 2 correct decisions – when to get out and when to get back in again. It is hard enough to make one of these let alone 2 and let alone doing it on a regular basis.

Long term buy and hold, for our core, long term investments, will deliver good returns to investors that make timing of markets unnecessary. Market timing has costs (brokerage and taxes) and creates a short term focus rather than the long term achievement of our goals. See pages 7 & 8 of this document which highlights the importance of holding a long-term view.

For those with large amounts of cash to be invested it can be less stressful to place these investments over a period of time (dollar cost averaging). This means we will never invest our total lump sum at a market high but will rather receive an average over a period of time.

8. Occasionally bubbles will appear in financial markets. This is probably the only time whole market sectors should be avoided or exited.

A bubble is simply where the markets, in a speculative frenzy, push up prices to unsustainable levels. The technology boom for the late 90's, the nickel boom of the 60's, the Japanese share market in the 80's are all examples of bubbles where markets escalated to massive highs before plunging more than 50%.

Bubbles can be hard to spot, but will generally be evident by two things – firstly prices have escalated rapidly over a short period (1 – 5 years), returns over this period may be showing at upwards of 30 to 50% pa, which will not be sustainable. Secondly income from these investments will be extremely low when expressed as a percentage by historical standards or be non-existent.

9. Sometimes it is wise to take some profits and hold cash ready for future opportunities.

There may be times when some parts of our portfolio have delivered above average returns or have achieved our long term targets in a shorter timeframe. At these times it may be advisable to both sell and hold cash to reinvest in future opportunities or switch to a sector that has been underperforming.

10. Residential Property will go through long periods of no or slow growth, then short periods of rapid growth.

Generally property will go through cycles where the values will approximately double. These cycles are unpredictable but have lasted anywhere from 7 to 20 years.

Long term investors know that while one double is nice, holding for the long term to enjoy 3 or 4 doubles is spectacular (do the math).

11. Residential Property is great for building wealth, especially through leverage, but not so good for producing income in retirement.

Even though property will generally grow slightly less than shares , the fact that the banks will lend up to 90% to us, means that we can build wealth more rapidly (and with more risk) using leverage to buy property.

In retirement, when we will have generally paid off our debts, property will generally produce less income and have more costs to maintain it than other investments. A retirement strategy based on residential property alone will require significantly more assets than if diversified across other assets.

12. Residential Property always seems expensive at the time, but always seems cheap many years later.

Ask someone who has owned a property for 20 or 30 years what they paid for it. Ask them if it seemed expensive at the time.

The median price of a Brisbane residential property in 1974 was $21,500.

13. Diversification of investments lowers risks.

Diversification simply means not putting all your eggs in the one basket. This means holding a sufficient variety of investments across investment sectors, within investment sectors, across asset types, across countries and across investment managers.

Diversification helps you achieve the returns you need to achieve your long term goals with the least risk possible. This helps you avoid stress and the risk of making bad decisions when markets fluctuate (which they will).

14. Avoiding big mistakes is just as important (maybe more so) than investing well.

It is stating the obvious but it is hard to recover from losing 50-100% of your investment.

Big mistakes can come from:

- Chasing high returns (refer bubbles)
- Not getting good advice before investing
- Investments offering guaranteed returns that are significantly higher than bank accounts or bonds.
- Investing in products that you don't understand
- Investing in products where the risk is hidden (i.e. high yielding mortgage trusts) as the capital value doesn't fluctuate unless or until the investment goes bad, when it may drop to zero.
- Falling victim to scams or schemes. . . . .
- Excessive trading of investments looking for short term gain (refer speculation)
- Saving, but using investments that can, and might fluctuate in value.
- Selling perfectly good investments due to short term issues or focus. Nearly everyone regrets selling investments many years later.

15. You should always provide for the unexpected and allow for the normal movements and characteristics of markets.

For wealth builders this means:

- Having sufficient insurances
- Having access to spare cash and / or credit
- Investing into share markets using dollar cost averaging (see pages 7 & 8 regarding a long-term view on shares)
- Leveraging into residential property.

For retirees this means:

- Having sufficient cash reserves
- Keeping at least four years' worth of known expenditure in short term / lower risk investments, so that good quality growth investments never have to be sold to meet short term needs.

16. Good Investments is only part of the picture. Planning & Strategy are equally important.

As previously mentioned **planning** helps you understand your current position, defines your goals – or where you want to be and sets the action steps to get there. It provides a clear focus for the many decisions that will need to be made.

Strategy is simply doing things smartly. Simple things like who should own an investment – individually, jointly, company, trusts, superannuation. Or more complex issues like gearing, using superannuation smartly and other strategies can save you (and your estate) significant amounts of tax and help build your wealth to achieve your goals.

17. You don’t have to be wealthy to invest, but you do need to invest to become wealthy.

Many people don’t invest because they don’t think they have enough. The only way to achieve wealth (without it being won or inherited) is to invest. It is never too late to start investing and no amounts are too small. Long term investing of small amounts combined with good compound returns will successfully build wealth.

18. It is preferable to have an exciting and interesting life and relatively boring money, rather than the other way around.

That is our belief anyway and we are structured to provide advice to clients who share this and our other beliefs.

For those that want exciting money, speculative advice or who want short term market timing – we cannot provide suitable investment advice to you as it is inconsistent with our fundamental investment beliefs. We may however be able to advise on planning on strategy.

19. General rules of thumb to use when prospecting for a residential investment property.

There are many macro, micro and personal circumstance factors to consider when you look at buying a residential investment property, here are a few things to consider:

- To ensure a greater chance of rental income and tenant occupancy source an investment property in an area with a dense population. That is, choose an Australian Capital city that has not recently had a property boom.

- To maximise capital growth, the closer to an Australian capital city CBD you can buy, the better. Within 5-10kms of a CBD is ideal. Avoid property further than 100kms from a capital city CBD.
- Avoid property in small, remote and rural mining towns. When the mining project ends the fly-in, fly-out workers often fly-out for good.
- Consider holding your investment property for the long-term - 10+ years, never invest for the short or medium term. Invest for both income and capital growth, never invest for tax benefits. Use caution if rental guarantees are in play.
- New vs Old – A new property will have less maintenance costs, can attract higher rental yields and will enable higher depreciation and building amortisation deductions. An older property may be purchased at a lower cost and be value for money, however, be aware of maintenance costs if you are approaching retirement.
- In general, favor houses over units, units over studios as the land size is generally larger when it comes to capital growth and rental incomes are generally higher.
- Location of the property – Choose property that is close to the CBD, shopping centers, schools, public transport, restaurants, parks and gyms.

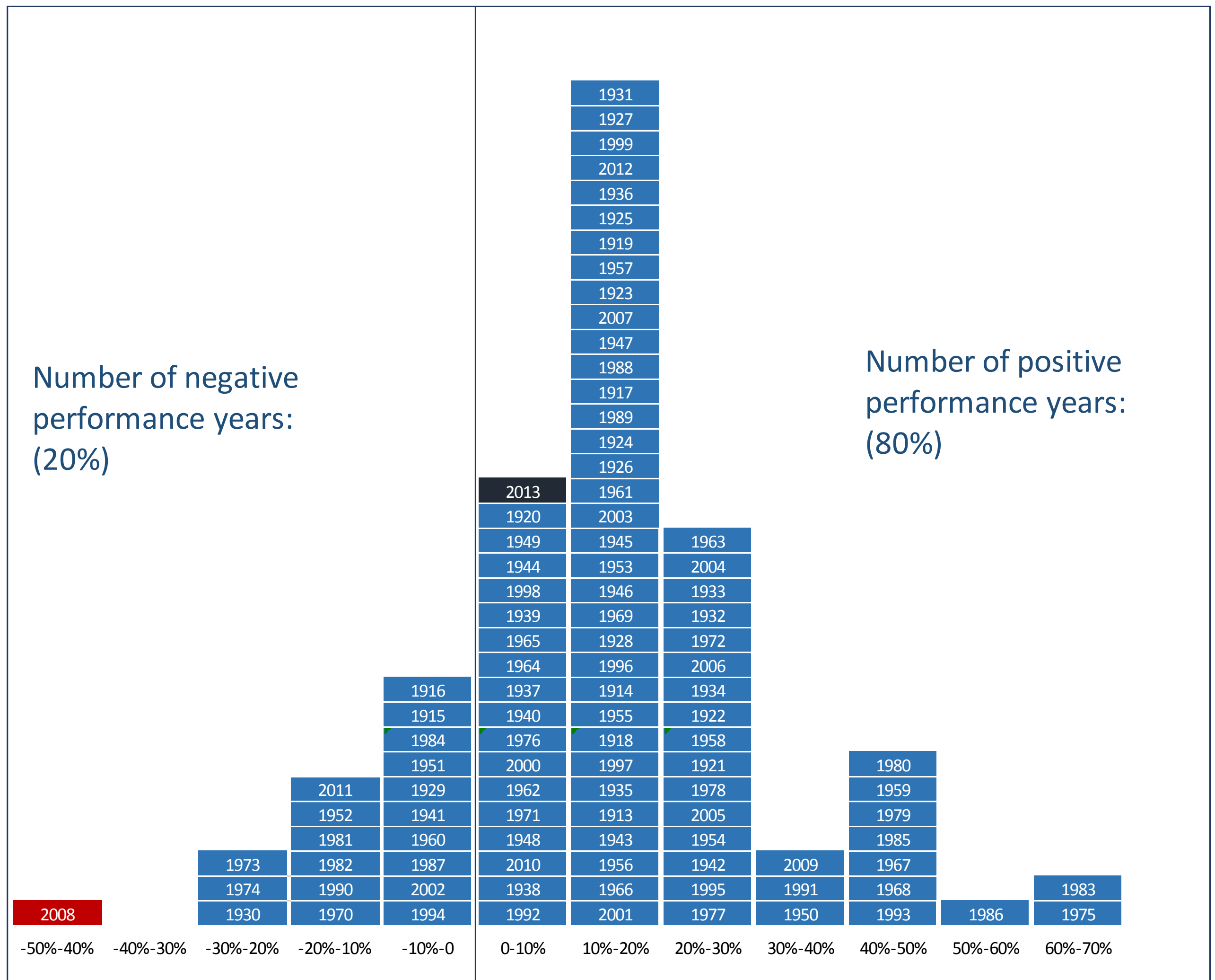
20. Your investment property purchase options.

You have 5 broad options to consider, when buying an investment property:

1. Do it yourself – Some people enjoy searching for and buying properties themselves, while some do not like the process and others simply don't have the time.
2. Use local real estate agents - You could provide your requirements (budget, rent etc.) to one or more local real estate agents, and then pick from the properties they show you.
3. Use a buyer's advocate - We can assist you by working with a buyers advocate. A buyer's agent is a licensed real estate professional who legally acts for the purchaser. We provide your requirements to them and they search for a property suitable for your goals and objectives.
4. Use a property research company - We can assist you and introduce you to a property research company. Legally these companies are real estate agents who sell properties to you. These are nearly always new properties and are sourced from developers. The property research companies we recommend have research processes that filter out potentially unsuitable properties and ultimately come up with investment properties that meet their investment criteria. They also provide their expert opinion on the best locations to buy properties. See the diagrams below that outline in general the approach taken by a property research company.
5. Use an NRAS Investment Property Specialist - We can assist you and introduce you to a property research company who specialise in NRAS Properties. Legally these companies are real estate agents and sell properties to you. These are always new properties and are sourced from developers. These properties are all NRAS properties (National Rental Affordability Scheme) – please ask your adviser for the separate fact sheet on NRAS properties. See the diagrams below that outline in general the approach taken by a property research company.

We have a separate fact sheet that outlines the pros and cons of each of the above options. Please ask your adviser for more information.

Over the last 100 years, the Australian sharemarket has posted positive returns in 80 percent of calendar years, highlighting the importance of having a long term focus rather than reacting to short term volatility.



Source: All Ordinaries Accumulation Index annual returns 1913 - 2013

	Return (%)		Return (%)		Return (%)
1913	10.7	1930	-28.1	1947	18
1914	13.4	1931	20	1948	3.6
1915	-1.9	1932	26.5	1949	9.6
1916	-1.7	1933	27.1	1950	32.9
1917	17.6	1934	24.6	1951	-3.3
1918	11.6	1935	11.4	1952	-11.8
1919	18.4	1936	18.8	1953	14.8
1920	10	1937	6.2	1954	20.6
1921	22.4	1938	1	1955	12.1
1922	23.6	1939	7.2	1956	10.3
1923	18.3	1940	5.3	1957	18.3
1924	17.1	1941	-3.8	1958	22.8
1925	18.5	1942	20.4	1959	47.1
1926	16.2	1943	10.5	1960	-7.3
1927	19.8	1944	9.6	1961	16
1928	14.6	1945	15.5	1962	5
1929	-3.6	1946	14.8	1963	28.6

	Return (%)		Return (%)		Return (%)
1964	6.6	1981	-12.9	1998	8.5
1965	7.1	1982	-13.9	1999	19.3
1966	10.2	1983	66.8	2000	5
1967	42.9	1984	-2.3	2001	10.1
1968	42.5	1985	44.1	2002	-8.1
1969	14.7	1986	52.2	2003	15.9
1970	-16.2	1987	-7.9	2004	27.6
1971	4.3	1988	17.9	2005	21.1
1972	26.4	1989	17.4	2006	25
1973	-23.3	1990	-14.5	2007	18
1974	-23.9	1991	34.2	2008	-40.4
1975	62.9	1992	0.5	2009	39.6
1976	5.2	1993	40.5	2010	3
1977	20.2	1994	-8.2	2011	-11.4
1978	22.2	1995	20.2	2012	18.8
1979	46.3	1996	14	2013	4.44*
1980	48.9	1997	11.4	*Six months to 30 June	

Average annual return: +13.5%

Important Information

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