RJN FINANCIAL

Investment Update

What a “financial year”!

July 2019

First, a note!...

Concepts discussed herein are of a general nature.

You should ***<u>not</u>*** *act on the material provided without obtaining advice specific to your own needs, objectives and circumstances*.

Summary...

The global sharemarkets finished the 2019 financial year with a "swan leap" after the December quarter "swan dive".

There has been a large move in long bond yields, globally. For example, the Australian 10 year government bond is currently yielding around 1.33%. Historic lows.

Such a drop in bond yields usually signals concerns over the economy. Australia's RBA decreased rates in June and July (to 1.00%) and the market is pricing in at least another cut this calendar year. Equities are not as concerned!

The world economy did begin to show softening growth, causing central banks to become more easy with their monetary policy. The US Federal Reserve also now appears to be on an easing bias.

The Australian election result appeared to be welcomed by the markets and in particular bank stocks. There is some softness in the retail data, including car sales. Property clearance rates began to increase, but it is too early to say that property prices have bottomed. Always, remember that an economy is made up of many sectors and usually some areas are doing quite well while others may be struggling. That is currently the case.

Should the US Dollar begin to depreciate (as a reaction to the US decreasing rates or potentially ceasing the reduction in the central banks balance sheet) we should see strength in commodities and related securities. Some early signs are there, such as the recent increase of the gold price in USD.

Some caution in deploying new capital is warranted after a 20% first half. We are focussed on areas of value or managers with a particular niche/specialisation.

The charts on the following pages show some of the important "areas" we are looking at.

ASX (All Ords)…Two halves (and an amazing second half)

Property Trusts (A-REITs)…excessive exuberance…driven by lower rates

“Large Caps were stronger than smalls”

CommSec

Overweight to small caps was a net negative in FY2019

Strong 6 months globally (in USD)

@CharlieBilello

Data: YCharts

Country	Ticker	2019 YTD
Argentina	ARGT	37.6%
Greece	GREK	33.9%
Russia	ERUS	30.3%
Colombia	GXG	22.5%
Switzerland	EWL	21.4%
Canada	EWC	20.4%
Netherlands	EWN	19.4%
US	SPY	18.7%
Australia	EWA	18.1%
Italy	EWI	17.9%
France	EWQ	17.7%
Brazil	EWZ	17.6%
Hong Kong	EWH	16.4%
Saudi Arabia	KSA	15.9%
Thailand	THD	15.7%
Ireland	EIRL	14.6%

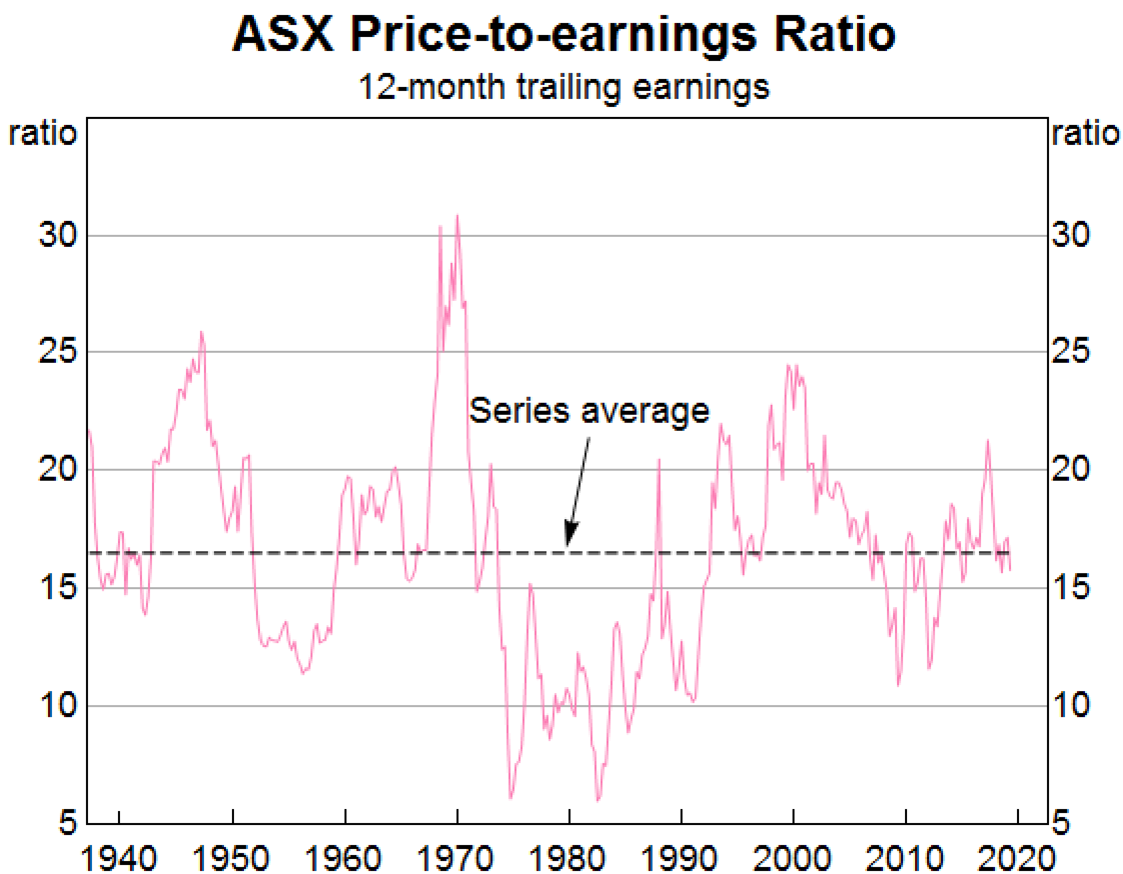
There are things to watch…Negatives

- Debt remains a global problem
- Economic growth in 2019 is patchy
- Should Aust. housing prices continue to fall this will hold back spending (explaining the cut in rates by the RBA).
- US economy has now been expanding for 10 years
- Pockets of excessive valuation in shares
- If trade tensions are not resolved it will be negative (but not for all countries)
- Long dated bonds are signaling a slow-down (or further central bank intervention)

And, the positives are…

- Cash rates are low (and now look like they are going lower)
- Financial stimulus through tax cuts and increased infrastructure spending is expected
- Australian economy is still growing
- Resource states are seeing increased growth (thanks to iron ore, gold and coal industries)
- Pockets of undervaluation in some areas/sectors

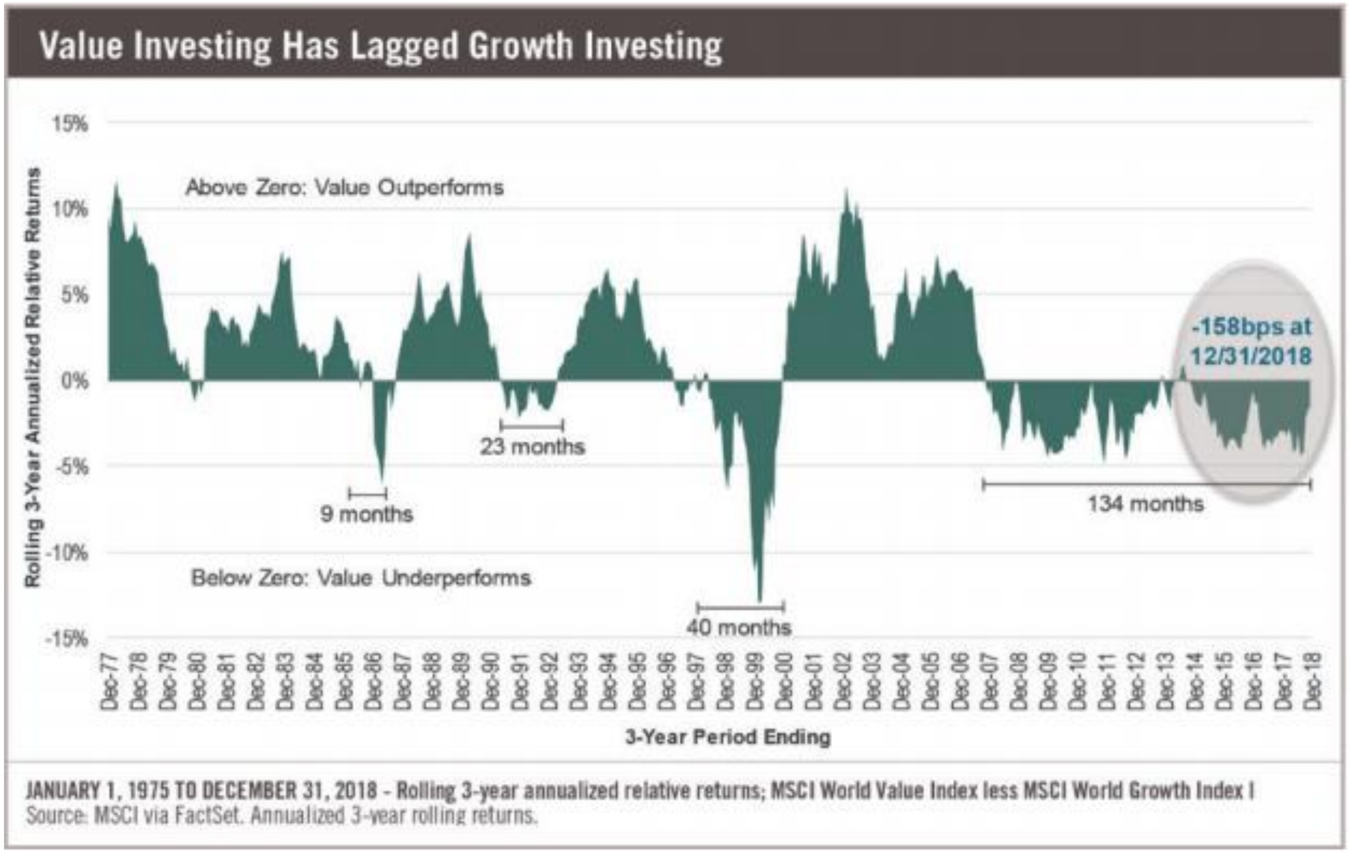
Aust. sharemarket on average is fair value…but averages can hide plenty!



* Top 100 companies by market capitalisation prior to 1979; Datastream/Refinitiv-calculated series for total exchange from 1980

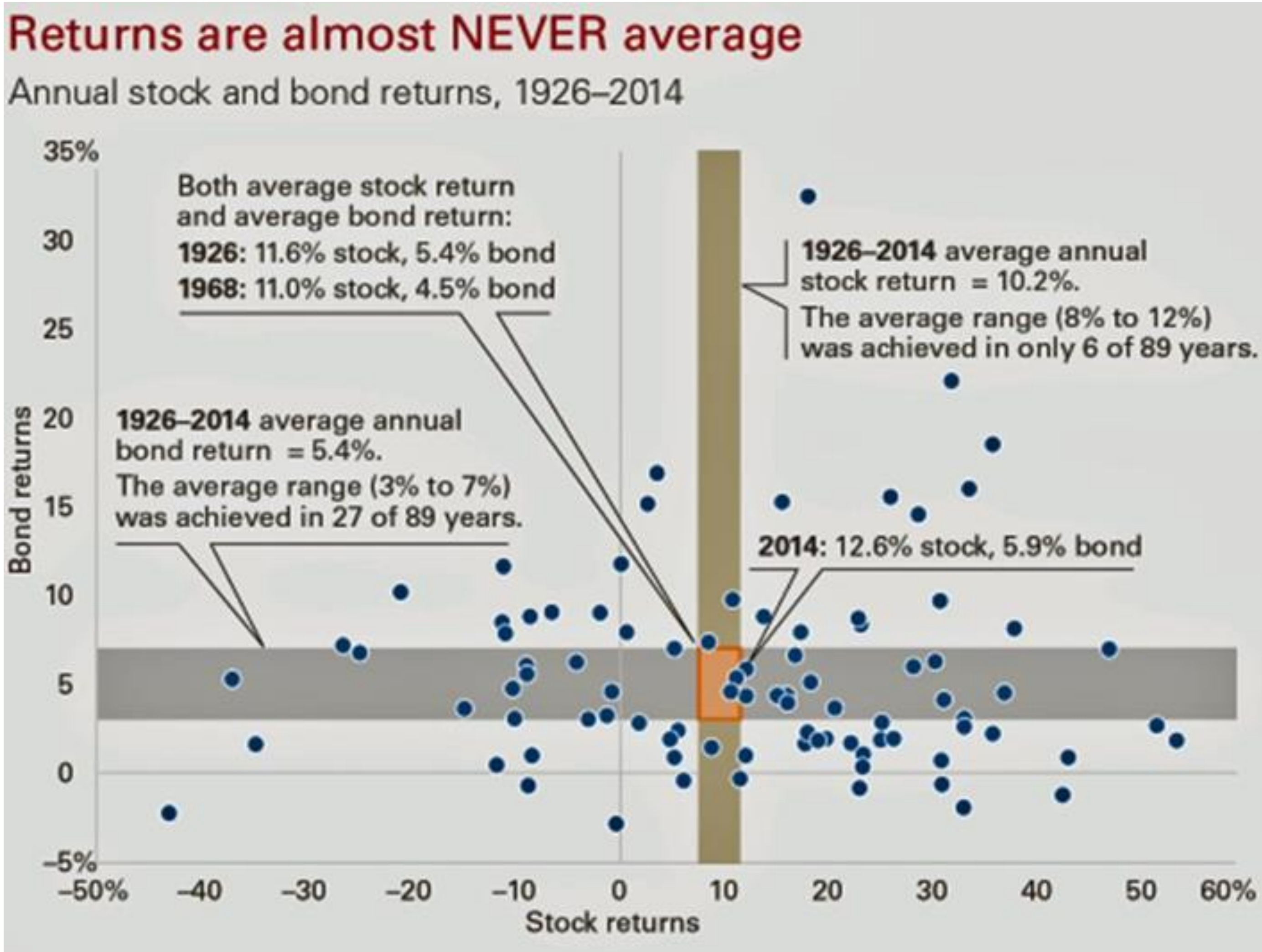
Sources: ASX; RBA; Refinitiv Datastream

“Value” shares are underperforming “growth”



Usually this reverts…it will again

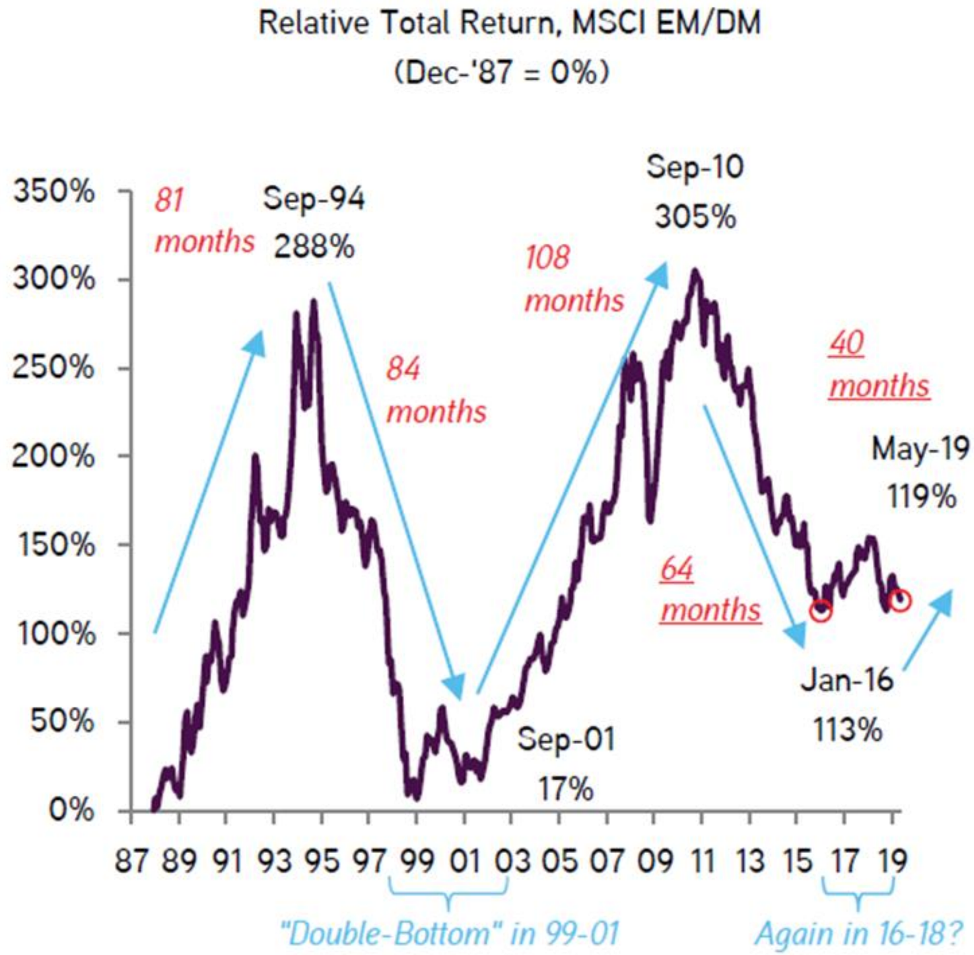
"Returns are rarely average"



Source: Bloomberg View, "Average Returns, Rarer than you think" by Barry Ritholtz

Years above the average and years below – rarely average

"Emerging markets have underperformed developed for 8+ years"



Data as at May 31, 2019. Source: MSCI, Bloomberg, Factset, KKR Global Macro & Asset Allocation analysis.

Opportunity for a reversion

Sectors/areas that may add return

- **Commodities (***especially if the USD declines***)**

  undervalued relative to other assets

- **Small Capitalisation companies**

  can grow faster than the general market

  underinvested/neglected by most fund managers

- **Sectors/companies with low expectations (value)**

- **Lowly geared income assets (***e.g. Commercial property; infrastructure***)**

In summary…

- The recent 6 month “rally” in shares may be more a reaction to declining rates than a positive growth outlook
- Some caution is warranted after a 19%+ gain
- Cash has two functions:
  - Use for living requirements
  - Gives you “firepower” at the right time
- Excess cash can be put to “work” by averaging in
- Know your risk profile & diversify enough to pass sleep test
- Returns are not linear so be patient

If you have any concerns or questions, please contact the RJN Financial team to ensure your strategy is still appropriate.

We look forward to being of service.

"Client Referrals are very important to us. If you know of anyone who could benefit from our services, please do not hesitate to contact us".

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