HEART Financial Advisers

Wealth Adviser

ISSUE 64 APRIL 2023

Four all-time best charts for every adviser and investor

BY ROMANO SALA TENNA

Republished from Firstlinks.com.au

I have read countless books on investing, met an enormous number of financial experts and fund managers, and made pretty much every investing mistake possible.

If I could distil my learnings into one statement, it would be this:

The short term is unknowable, but the long term is inevitable.

Let me share the four best tables from 30 years of investing.

1. The long term is inevitable

The stockmarket has good years and bad, but over the long term there is only one trend, and it is up. Despite this being obvious, I continue to be astounded at how investors behave during 'bad' years.

BEFORE YOU GET STARTED

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We encourage you to seek professional financial advice before making any investment or financial decisions.

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Calendar year 2022 marked the 147th year of trading on Australian exchanges (under various guises). That enormous amount of data provides the clearest guide for anyone willing to learn. During this period, the market (dividends plus share prices) has risen 117 years and declined 30 years. So 79.6% of the time, the market rises. One in five years on average, the market declines.

SINCE 1875	NEGATIVE RETURNS	POSITIVE RETURNS	TOTAL
# of Years	30	117	147
% of Years	20.4%	79.6%	100.0%
Average Return	-10.1%	16.1%	**10.8%**
SINCE 1979			
# of Years	12	31	43
% of Years	27.9%	72.1%	100.0%
Average Return	-11.0%	21.9%	**13.0%**

Source: Katana Asset Management

When the market rises, it does so by an average of 16.1%, and when it declines the average is minus 10.1%. When combined, we see that over the past 147 years, the market has averaged a return of 10.8% per annum.

Since we have become more sophisticated and introduced the Accumulation Index in 1979, the data points to an even stronger outcome. Over the 43 years since 1979, the market has risen by an average of 13.0% per annum. And this is despite some seriously scary episodes, including the 1987 stockmarket crash, the 1997 Asian Financial Crisis, the GFC and the fastest fall on record, Covid-19.

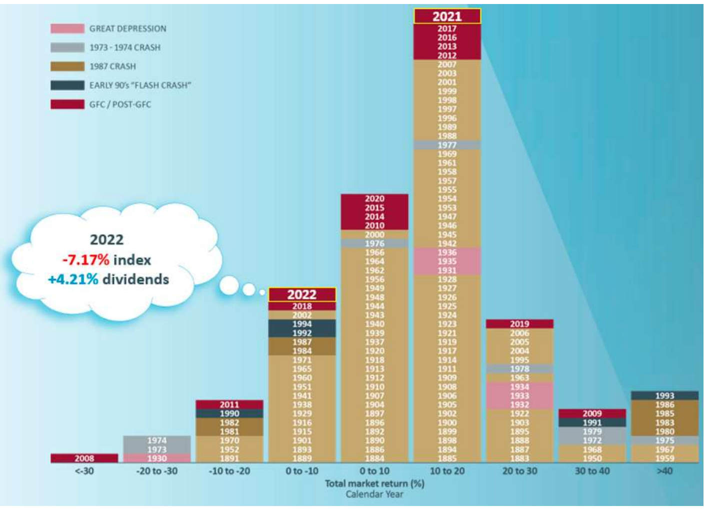
2. Volatility is the price you pay for a seat at the table

But of course, in the short term - from year to year - markets are volatile.

The distribution curve is shown below but many investors have failed to grasp the most important aspect.

The main point is that crashes are inevitable: be ready and don't panic at the bottom (the only time to panic is at the top).

There has only been one (calendar) year in the 147-year history where the market fell by 30% or more, in 2008. But if you panicked and sold during that crash, you would have missed an extraordinary recovery. In 2009 the market was up by 39.6% and rose in 11 of the 14 years following the crash, including by 18.8% in 2012, 19.7% in 2013 and 24% in 2019.



Source: Katana Asset Management

Know thyself. If you are prone to doing the wrong thing at the wrong time, stay out of the stockmarket. Or work with a trusted financial adviser who can coach you through such periods.

3. Rolling period returns ... my favourite and best

To better understand how the market behaves over different timeframes, we can break the data into rolling periods. For example, a rolling five-year period is the average return over every five-year period since 1875.

What this table demonstrates is extraordinary.

Timeframe (Rolling Average)	Average Return Since 1875	Number of Negative Periods
5 Years	65.0%	7
7 Years	100.6%	2
8 Years	120.2%	0

Source: Katana Asset Management

If you had invested your money in the index, turned off your screen, went away and came back five years later, then on average you would have a 65% return. There would have been only seven occasions out of the 143 rolling five-year periods where you would have a negative return.

If you had invested your money in the index, turned off your screen, went away and came back in seven years later, then on average you would have a 100.6% return, and there would have been only two occasions where you would have a negative return.

But even more remarkably ...

If you had invested your money in the index, turned off your screen, went away and came back eight years later, then on average you would have a 120.2% return, and there would have been NO occasions on record where the dividends and capital growth would have been negative.

If you had invested your money in the index, turned off your screen, went away and came back eight years later, then on average you would have a 120.2% return, and there would have been NO occasions on record where the dividends and capital growth would have been negative.

There is only one long-term trend, and it is up.

4. Wait ... here's a better table!

Timeframe (Rolling Average)	Average Return Since 1875	Number of Negative Periods
5 Years	65.0%	7
7 Years	100.6%	2
8 Years	120.2%	0

Source: Katana Asset Management

We've literally compiled hundreds of tables over the past three decades, and this is our best. There are two critical points.

First, we see even more dramatically, the true power of compounding. Compounding for 10 years, produces the equivalent of 17 one-year returns. Impressive. But compounding for 20 years produces the equivalent of an extraordinary 63 one-year returns!

And **second**, the importance of generating an extra margin. The Katana Australian Equity Fund has generated an extra 2.7%+ per annum net of all fees for 17 years. If we take a 2.7% per annum margin and compound it over 10, 15 and 20 years, the effects are mind-boggling. Over 10 years, it is the equivalent of 24 one-year returns. Over 20 years, this generates the equivalent of 107 one-year returns. Difficult to believe, but true. Generating an extra 2.7% per annum (net) generates the equivalent of 107 one-year returns versus 63 one-year returns without it.

Timeframe, timeframe, timeframe

If the short term is unknowable and the long-term inevitable, an investor really does need to focus on the long term. If through age or financial circumstance an investor does not have the luxury of a long-term horizon, then they should understand the extra risk that they are taking on.

Remember in the stock market, volatility is the price you pay for a seat at the table. There will be another crash. Guaranteed. If your time horizon is not beyond the next crash, or you panic and do the wrong thing at the wrong time, then discretion may be the better part of valour.

Romano Sala Tenna is Portfolio Manager at Katana Asset Management. This article is general information and does not consider the circumstances of any individual. Any person considering acting on information in this article should take financial advice.

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Five Charts on Investing to Keep in Mind in Rough Times Like Now

BY SHANE OLIVER

Republished from Sharecafe.com.au

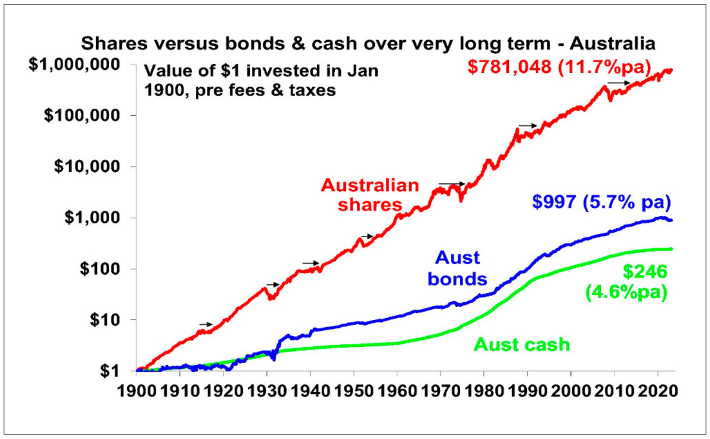
Introduction

Every so often the degree of uncertainty around investment markets surges and that's been the case for more than a year now reflecting the combination of high inflation, rapid interest rate hikes, the high and rising risk of recession which has been added to in the last few weeks by problems in US and European banks. And all of this has been against the background of increased geopolitical uncertainties. Falls in the value of share markets and other investments can be stressful as no one wants to see their wealth decline. And so when uncertainty is high a natural inclination is to retreat to perceived safety. As always, turmoil around investment markets is being met with much prognostication, some of which is enlightening but much is just noise. I will be the first to admit that my crystal ball is even hazier than normal in times like the present. As the US economist JK Galbraith once said "there are two types of economists – those that don't know and those that don't know they don't know." And this is certainly an environment where we need to be humble.

But while history does not repeat as each cycle is different, it does rhyme, in that each cycle has many common characteristics. So, while each cycle is different the basic principles of investing still apply. This note revisits once again five charts I find particularly useful in times of economic and investment market stress.

Chart #1 The power of compound interest

This is my favourite chart. It shows the value of $1 invested in various Australian assets in 1900 allowing for the reinvestment of dividends and interest along the way. That $1 would have grown to $246 if invested in cash, to $997 if invested in bonds and to $781,048 if invested in shares up until the end of February. While the average return since 1900 is only double that in shares relative to bonds, the huge difference between the two at the end owes to the impact of compounding – or earning returns on top of returns. So, any interest or return earned in one period is added to the original investment so that it all earns a return in the next period. And so on. I only have Australian residential property data back to 1926 but out of interest it shows (on average!) similar long term compounded returns to shares.



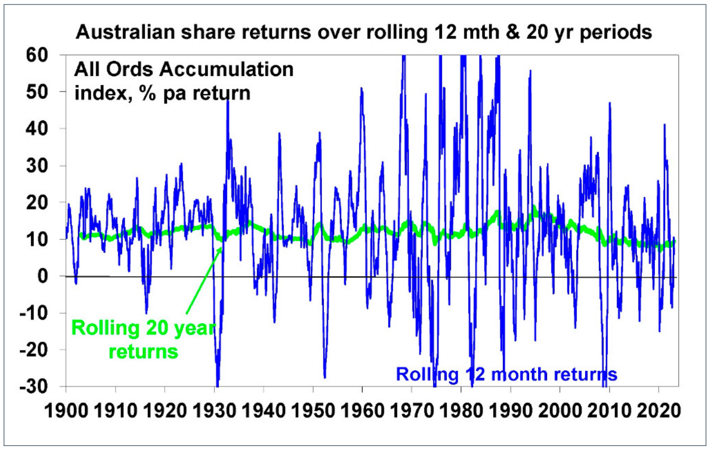
Source: Bloomberg, AMP

The higher returns that shares produce over time relative to cash and bonds is compensation for the periodic setbacks they have. But understanding that these periodic setbacks are just an inevitable part of investing is important in being able to stay the course and get the benefit of the higher long-term returns shares and other growth assets provide over time.

Key message: to grow our wealth, we must have exposure to growth assets like shares and property. While shares and property have had a rough ride over the last year as interest rates surged, history shows that both will likely do well over the long-term.

Chart #2 Don't get blown off by cyclical swings

The trouble is that shares can have lots of (often severe) setbacks along the way as is evident during the periods highlighted by the arrows on the previous chart. Even annual returns in the share market are highly volatile, but longer-term returns tend to be solid and relatively smooth, as can be seen in the next chart. Since 1900, for Australian shares roughly two years out of ten have had negative returns but there are no negative returns over rolling 20-year periods.



Source: Bloomberg, AMP

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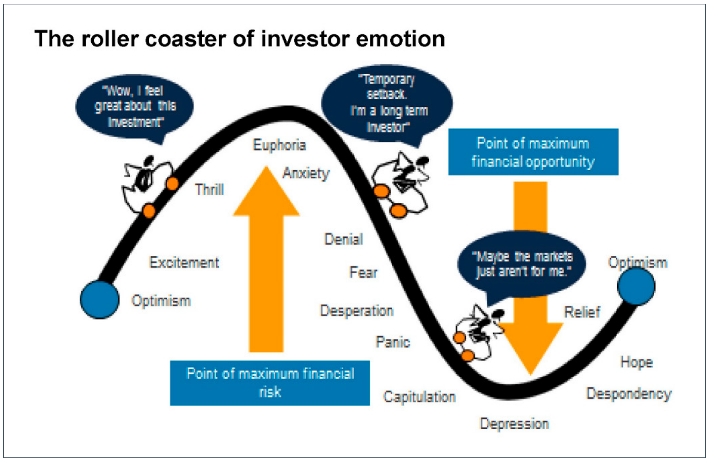
Key message: short-term, sometimes violent swings in share markets are a fact of life but the longer the time horizon, the greater the chance your investments will meet their goals. So, in investing, time is on your side and it's best to invest for the long-term when you can.

Chart #3 The roller coaster of investor emotion

It's well known that the swings in investment markets are more than can be justified by moves in investment fundamentals alone – like profits, dividends, rents and interest rates. This is because investor emotion plays a huge part. This has been more than evident over the last year with all the swings in markets. The next chart shows the roller coaster that investor emotion traces through the course of an investment cycle. Once a cycle turns down in a bear market, euphoria gives way to anxiety, denial, capitulation and ultimately depression at which point the asset class is under loved and undervalued and everyone who is going to sell has – and it becomes vulnerable to good (or less bad) news. This is the point of maximum opportunity. Once the cycle turns up again, depression gives way to hope and optimism before eventually seeing euphoria again.

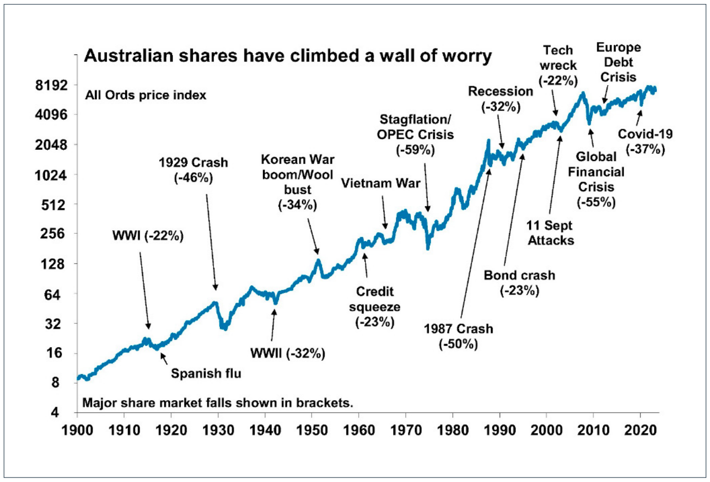


Source: Russell Investments, AMP

Key message: investor emotion plays a huge role in magnifying the swings in investment markets. The key for investors is not to get sucked into this emotional roller coaster. Of course, doing this is easier said than done, which is why many investors end up getting wrong footed by the investment cycle.

Chart #4 The wall of worry

There is always something for investors to worry about it seems. And in a world where social media is competing intensely with old media it all seems more magnified and worrying. This is arguably evident again now in relation to uncertainty about inflation, interest rates and associated recessions risks. The global economy has had plenty of worries over the last century, but it got over them with Australian shares returning 11.7% per annum since 1900, with a broad rising trend in the All Ords price index as can be seen in the next chart, and US shares returning 9.9% pa. (Note that this chart shows the All Ords share price index whereas the first chart shows the value of $1 invested in the All Ords accumulation index, which allows for changes in share prices and dividends.)



Source: ASX, AMP

Key message: worries are normal around the economy and investments and sometimes they become intense – like now. But they eventually pass.

Chart #5 Timing is hard

The temptation to time markets is immense. With the benefit of hindsight many swings in markets like the tech boom and bust and the GFC look inevitable and hence forecastable and so it's natural to think why not switch between say cash and shares within your super fund to anticipate market moves. This is particularly the case in times of emotional stress like now when much of the news around inflation, interest rates and recession risks seem bad. Fair enough if you have a process and put the effort in. But without a tried and tested market timing process, trying to time the market is difficult. A good way to demonstrate this is with a comparison of returns if an investor is fully invested in shares versus missing out on the best (or worst) days. The next chart shows that if you were fully invested in Australian shares from January 1995, you would have returned 9.3% pa (with dividends but not allowing for franking credits, tax and fees).

Covers Jan 1995 to 17 March 2020.
Source: Bloomberg, AMP

If by trying to time the market you avoided the 10 worst days (yellow bars), you would have boosted your return to 12.2% pa. And if you avoided the 40 worst days, it would have been boosted to 17.1% pa! But this is very hard, and many investors only get out after the bad returns have occurred, just in time to miss some of the best days. For example, if by trying to time the market you miss the 10 best days (blue bars), the return falls to 7.2% pa. If you miss the 40 best days, it drops to just 3% pa.

Key message: trying to time the share market is not easy. For most its best to stick to an appropriate well thought out long term investment strategy.

Dr Shane Oliver, Head of Investment Strategy and Economics and Chief Economist at AMP Capital is responsible for AMP Capital's diversified investment funds. He provides economic forecasts and analysis of key variables and issues affecting all asset markets.

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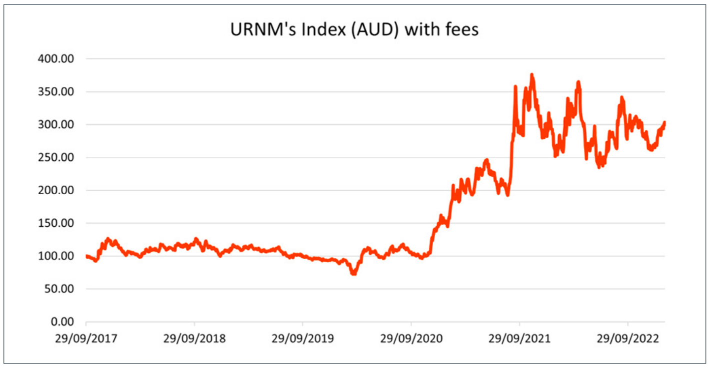
What matters in uranium? 3 critical trends

BY PATRICK POKE

Republished from Betashares.com.au

2022 was a quiet year for uranium equities, which registered falls of 5.99%[1] in a year that was marked by volatility across almost all asset classes. That didn't stop the price of uranium oxide (U3O8) from marking its third consecutive year of gains though, up 11.9% in 2022, and 96.2% over the last three calendar years[2].



Source: Bloomberg, Betashares.

As at 31 January 2023. Past performance is not indicative of future performance of any index or ETF. Graph shows performance of the index that Betashares Global Uranium ETF (ASX: URNM) seeks to track, net of management fees and costs (0.69% p.a.), and not the performance of URNM. You cannot invest directly in an index.

In the first few months of the year, we've seen these trends continue, with U3O8 posting modest gains. Uranium equities also saw some gains in the first two months of 2023, before selling off over March (so far), as broad equity market volatility picked up. While U3O8 is now at levels that is allowing some lower cost projects to begin restarting their mines[3], they remain well below levels that some industry figures believe are needed to incentivise sufficient production to meet demand[4].

It looks like 2023 is shaping up to be an interesting year in uranium markets.

Recent news

Since our last update in August, there have been several major developments for uranium markets.

Japan has continued its about-face on nuclear energy, introducing a new policy that aims to maximise the use of its existing fleet, both by restarting as many reactors as possible, and by extending the lives of ageing reactors.

South Korea's '10th Basic Plan for Long-Term Electricity Supply and Demand' calls for nuclear to account for nearly 35% of electricity generation by 2036, up from 23.4% in 2018[5].

The Swedish Government is aiming to introduce a new law that would remove restrictions on the number of nuclear reactors. The Prime Minister said in a press conference that there was an "obvious need for more electricity production in Sweden", and that they should be able to "build more reactors in more places"[6].

The Indian Government has provided "in principle" approval for five locations to build new nuclear power plants.

Last year, the US Department of Energy National Nuclear Security Administration announced that it would create a 1 million pound (385 tonne) federal strategic uranium reserve. More recently, contracts have begun being awarded for the reserve, with enCore Energy, Ur Energy, Uranium Energy Corp, Energy Fuels, and Peninsula Energy all having been contracted so far.

India already has 22 operating reactors, with 11 currently under construction[7].

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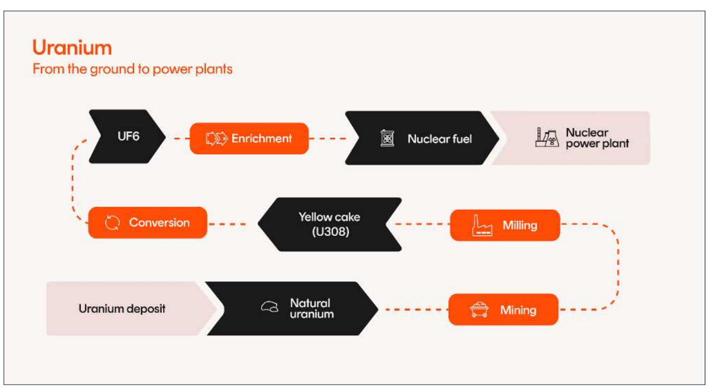
Trends to watch
Uranium 'overfeeding'

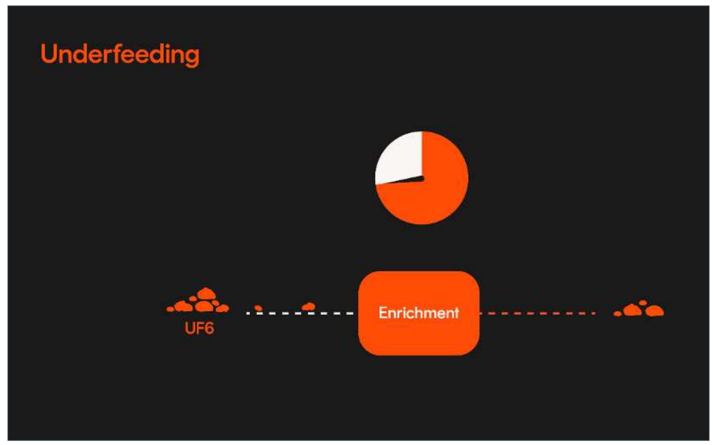
Uranium enrichment is a key part of the fuel cycle.

Initially, 'yellow cake' - the output from uranium mills, usually located at the project site - is converted from uranium oxide (U3O8) into uranium hexafluoride (UF6). Enrichment is the process that turns this UF6 into a product that can be used in a nuclear power plant.

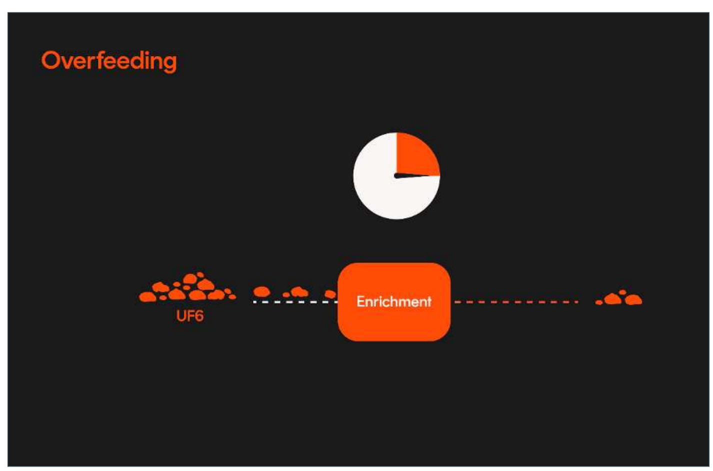


In years past, there has been a trend of 'underfeeding', due to an excess of enrichment capacity. Essentially, a smaller amount of UF6 is 'fed' into the enrichment centrifuges, which are then operated for a longer period, resulting in the same output for a smaller input. This has been an important factor in keeping uranium prices low prior to the last three years[9].

However, some industry figures are now expecting a reversal in this trend[10]. Due to a shortage of enrichment



capacity, not only are facilities expected to stop underfeeding, but some may even begin overfeeding. As the name implies, this is the opposite of underfeeding. Additional amounts of UF6 are fed into centrifuges, which then can be run for a shorter period. This is a more efficient use of enrichment capacity, but requires more UF6, which in turn increases demand for U3O8.



According to Brandon Munro, CEO of Bannerman Energy and World Nuclear Association Advisory Panel Member, one current bottleneck in this process is conversion capacity. In the most recent Annual General Meeting for Bannerman

Russia accounted for around 5% of mined U3O8 supply in 2021, while its neighbour and ally, Kazakhstan, accounted for a massive 45%. Much of Kazakhstan's uranium is sent to Russia for conversion and enrichment, further complicating matters for Europe and the US. Based on the most recent data available from the World Nuclear Association, it was estimated that Russia accounted for 38% of conversion capacity and 46% of enrichment capacity globally.

Energy, he expressed the view that additional conversion capacity would be supportive for U3O8 prices as additional UF6 supply could mean less underfeeding, and possibly even overfeeding, which would free up enrichment capacity.

According to some estimates, this could create 20 million to 30 million pounds (9,000 to 13,500 tonnes) of additional demand for U3O8[11]. In 2022, the total volume of U3O8 sold across contracts and spot markets was 175 million pounds (79,000 tonnes)[12]. That's around 11% to 17% of the U3O8 market.

Moving away from Russian supply

Russia accounted for around 5% of mined U3O8 supply in 2021, while its neighbour and ally, Kazakhstan, accounted for a massive 45%. Much of Kazakhstan's uranium is sent to Russia for conversion and enrichment, further complicating matters for Europe and the US. Based on the most recent data available from the World Nuclear Association, it was estimated that Russia accounted for 38% of conversion capacity and 46% of enrichment capacity[10] globally.

Russia's invasion of Ukraine has resulted in repeated calls for European and US governments and corporates to sever ties with Russia. If utilities are to reduce their dependence on Russian supply, additional investment in mines, conversion facilities and enrichment facilities in "friendly" countries will be required.

Decarbonisation

As the world increasingly looks to reduce its reliance on coal and gas, while simultaneously electrifying many processes that were previously fuelled by oil, significant investment in electricity production will be required to meet our climate goals. Over the past decade or so, most of the attention has been on wind, solar and the grid-scale storage capacity required to make these major parts of our energy mix. More recently though, a reprioritisation of energy security has seen renewed interest in nuclear energy, as evidenced by the number of governments that have changed their policies and plans (see Recent News section above, plus our last update in August).

Nuclear energy undoubtedly faces challenges, such as high capital costs, a history of cost overruns, and a lack of widely agreed permanent storage solutions for waste. However, given the appeal of CO2-free, long-lifespan, reliable and demand-responsive power, and with new technologies, such as small-scale modular reactors (SMRs), emerging, nuclear is expected to have a role in a decarbonised future.

BetaShares is a leading Australian fund manager specialising in exchange traded funds (ETFs) and other Funds traded on the Australian Securities Exchange (ASX). Since launching their first ETF more than a decade ago, BetaShares has grown to become one of Australia's largest managers of ETFs.

Q&A: Ask a Question

Question 1

Should I pay for my age care with a refundable accommodation deposit (RAD) or daily accommodation payment (DAP)?

The decision of whether to pay for aged care with a Refundable Accommodation Deposit (RAD) or a Daily Accommodation Payment (DAP) depends on your financial situation and preferences.

A RAD is a lump sum payment made to the aged care provider that is refundable when you leave the facility. The amount of the RAD is based on the room type and location, and it is capped by the government. A DAP, on the other hand, is a daily payment that covers the cost of the room and other services.

If you have enough savings or assets to pay the RAD upfront, it may be a good option for you as it provides a guaranteed return on investment and reduces ongoing fees. However, if you prefer to keep your savings or assets liquid, you may prefer to pay a DAP, which is an ongoing expense but does not require a large upfront payment.

It's important to note that paying a RAD or DAP can affect your eligibility for government subsidies, such as the Age Pension or Commonwealth Home Support Program. You should seek advice from your financial adviser to determine which options suits you.

Question 2

What are the consequences of passing away without a will?

If you die without a valid will, your assets will be distributed according to the intestacy laws of the state or territory in which you lived. The distribution of your assets may not be in line with your wishes and may result in unintended consequences.

The intestacy laws vary by state and territory, but they generally provide for the following order of distribution:

1. Spouse or de facto partner: Your spouse or de facto partner will generally receive the whole of your estate if you have no children, or a share of your estate if you have children.
2. Children: If you have children, they will generally receive a share of your estate, with the remaining share going to your spouse or de facto partner.
3. Parents: If you have no spouse, de facto partner, or children, your estate will go to your parents.
4. Siblings: If you have no spouse, de facto partner, children, or parents, your estate will go to your siblings or their children.

If there are no surviving relatives, your estate may go to the state or territory government.

It's important to note that if you die without a valid will, your estate may also be subject to higher administration costs and legal fees, and it may take longer to distribute your assets to your beneficiaries.

Question 3

What are the advantages to a downsizer contribution?

A downsizer contribution is a special type of superannuation contribution that allows eligible individuals to make a one-off contribution to their superannuation account after selling their home. Here are some of the advantages of a downsizer contribution:

1. Boosting your superannuation balance: A downsizer contribution can help increase your superannuation balance, which can be particularly beneficial if you are approaching retirement age and looking to build up your retirement savings.
2. No work test requirement: Unlike other types of contributions to superannuation, there is no need to meet a work test requirement to be eligible to make a downsizer contribution. This means that if you are aged 67 or over, you can still make a downsizer contribution even if you are not currently working.
3. Tax benefits: Downsizer contributions are not subject to the usual age-based contribution limits and are not considered a part of your concessional or non-concessional contributions caps. This means that you may be able to make a larger contribution to your superannuation account.
4. Flexibility: The funds you receive from downsizing your home can be used for a variety of purposes, such as travel, medical expenses, gifting to family or even upsizing. A downsizer contribution can provide a tax-effective way to use some of the funds to contribute towards your retirement.

It's important to note that there are eligibility requirements and limitations on the amount that can be contributed as a downsizer contribution. Speak to your financial adviser to determine whether making this contribution is suitable for your situation.

If you have a question that you would like to see answered in **Wealth Adviser**, please send it through to **centraladvice@wtfglimited.com**.

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