ISSUE | 1 VOLUME | 2021 YEAR

Monthly Update

GROW YOUR WEALTH – PRIVATE WEALTH MANAGEMENT AND SEPERATELY MANAGED ACCOUNTS

Will we see a correction in the market?

Long term investors we have seen many market corrections, 1987, the Tech Wreck, 911, GFC and the COVID corrections. Are we about to see the next correction?

The evidence is that valuation in the US are stretched especially in the tech sector, there is a flood of IPO with strong support and high valuations. At present the market is geared to 43% and bond rates are all time lows forcing fixed interest investors into riskier positions. We are seeing record increase in online trading accounts being set up in the US and witness the Game Stop event where individual investors took on the big US hedge funds and won.

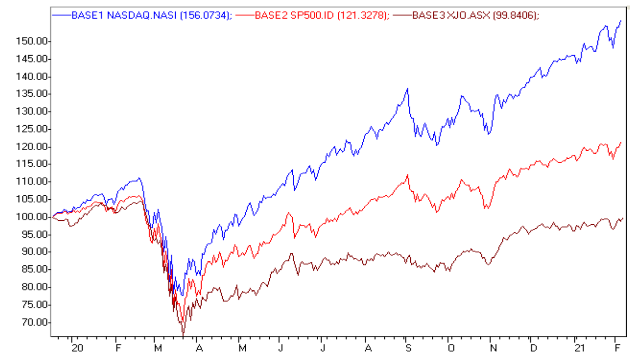
When we compare the growth in the US market to the Australian market from the COVID lows, there is a big difference in returns. As shown in the below chart, the ASX 200 has not run as hard as the S&P 500 or the NASDAQ. From the lows of Mach 2019 the ASX 200 has gained 43%, the S&P 500 has gained 65% while the NASDAQ is up 100%. Both the S&P 500 and NASDAQ are trading above their pre-COVID highs. The current bull market is the fastest and largest returns the market has experienced form the March 2019 lows.

If we take a longer view of this Bull market and assumed, it started back in when the GFC bottomed in March 2009 it would be the longest Bull market for the ASX 200 again raising concerns as to when this bubble will burst. There are more US companies trading greater than 100 times earnings than ever before and the number exceeds by half those that traded at the same level prior to the dotcom bubble in 2000.

Market bubbles can run for longer than expected before they pop. This time is no different, I expect that we will see stimulus from governments ramp up over the coming months as we transition out of COVID and rebuild the economy. This should provide support to the market and allow share price to hold or continue to raise. Investing at present is all about the stock selection and the sectors your exposure your portfolio to.

The high risk plays at present are the tech stocks, they are already overvalued especially in the US. Take Tesla, valued at $50 billion despite generating an annual loss of $82 million. Tech stock are priced to perfection and beyond, for us this sector is now speculative and a time to take profits or at least take out your initial capital.

It is important to structure portfolios so that the companies you hold will be able to weather any correction while at the same time maintain on going income of the portfolio. The low risk sectors includes Banks, Food and Materials as they all have solid income streams and forward demand for their product. The Tech and Travel sectors are most at risk making it a prudent reduce your weighting to these sectors.



This chart highlights the difference in growth between the Nasdaq (Tech Stocks in the US) S&P 500 and the ASX 200.

In blue is the Nasdaq which is currently trading well above its highs prior to COVID 19. The S&P 500 in red has rebounded and is trading slightly above its pre-COVID levels while the ASX 200 is trading below it pre-COVID highs,

If the US market was to correct you can expect it will be felt here in Australia however most likely to a lesser degree. This chart also clearly highlights that it is the Tech companies which are current overvalued.

BEAR funds are funds that help investors profit from, or protect themselves against, a declining market by potentially generating returns that are inverse of the performance of the Australian share market.

They are attractive to investors who want to hedge exposure during market downturns or are ideal investments in the short-term.

The most common Bear fund is the Beta Shares Australian Equities Bear Hedge Fund (BEAR.ASX). This fund invests in cash and cash equivalents and sells equity index futures contracts.

The proposal is if the market decreases then the ETF will increase by the same amount and vice versa. In times when the market is positive the BEAR fund will produce negative returns. However, when markets fall the BEAR fund will provide a positive return.

This type of investment is best described as insurance against a falling market. It only pays off if the market falls. The benefit of holding the BEAR fund is that it provides a cheap hedge against a falling market, when compared to the costs of selling out your portfolio and buying back in again. Let alone trying to get the timing right.

BEAR funds when correctly implemented can generate the desired returns in the short term. It is not recommending as a long term holding in a portfolio. It is only a short term position when market looks like they are going to correct.

BEAR Australian Equities Bear Hedge Fund is currently trading at $10.19 per share.

Investing in Gold

Generally, when you see the market fall, the gold price shoots up. Gold is universally known in the market as a safe haven and sign of value and wealth.

Whether the downfall in the market is economic or political, gold will likely retain value without external factors tainting it. Investing in Gold can be through Gold mining companies, buying gold physically or through an ETF.

Our primary recommendation for GOLD is the ETFS METAL SECURITIES AUSTRALIA LIMITED. GOLD's principal reason for existing is allowing investors to own and trade golds through a listed security on the ASX.

Advantage:

- provides investors with an interest in physical gold without the necessity of holding, trading and storing physical gold bullion.
- an efficient, cost effective way for investors to gain exposure to its performance.
- Investors are provided with a 'pure' exposure with gold bullion physically allocated to investors and held by the Custodian.
- The exposure to gold is not provided synthetically or via a derivative.
- Gold bullion may provide a number of diversification benefits in a portfolio due to its historically low correlation with traditional asset classes such as equities and fixed income.

Disadvantages:

- As the Fund does not hedge its currency exposure, performance can be impacted when the dollar rises.
- The Fund has no obligation to insure the gold bullion against loss, theft or damage.

Gold is an asset often seen as a reserve store of value and is generally seen as a safe haven asset for conservative investors.

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