

NEWSLETTER

July 2021



EVEREST PARTNERS
PRIVATE WEALTH MANAGEMENT

Introduction

Happy new financial year! In this newsletter, we will focus exclusively on the share market, looking at it's extraordinary performance over the last 12 months and then also seeing how a client could take prudent advantage of years like the one just gone – while also making sure they can act intelligently in a bad year, as well.



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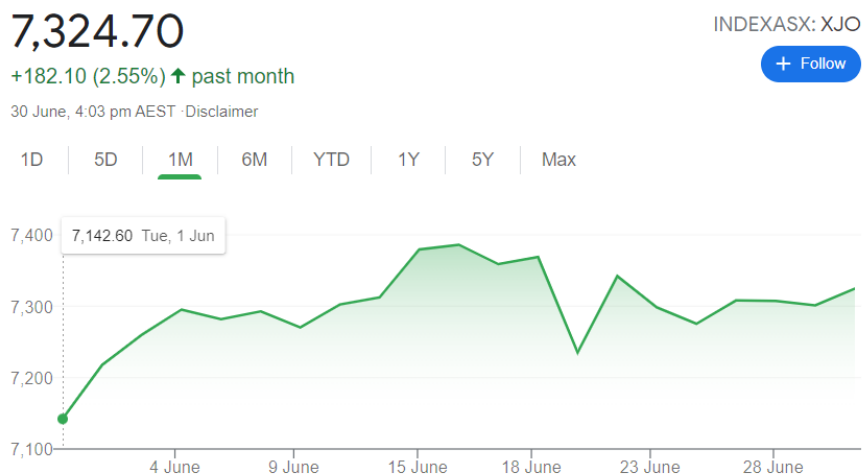
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The Share Market

As the financial year draws to a close, in this newsletter we will look back not just at the month of June but also at the last 12 months.

For the month of June, the market performance looked like this (thanks to Google):



As you can see, the market rose by around 2.5% for the month. This sits quite consistently with the experience of the year as a whole, during which results were quite incredible. As the following graph shows, the market rose by almost 24% on average as measured by the ASX 200. This is the change in market prices - it does not include dividends. If we include a conservative average dividend payment of 4%, then the market returned almost 28% for the 12 month period.



As you can see from the 12 month graph, the rise was almost inexorable. Graphically, things went from bottom left to top right pretty consistently. For every temporary fall in the market, there was a subsequent rise in the market of greater size. By the end of the year, prices had risen by 24%.

While we would love to say that we predicted this, the truth is we didn't! But that is OK, because no one predicted this. We keep a very close eye on these things, and we don't have any record of any market commentator or analyst who predicted anything like a 28% return for the ASX 200 in the 2020/2021 financial year. Pandemics tend to dampen expectations.

Regular Investments Into the Australian Market

Given a 28% return for the year, there is no doubt that any person who invested heavily into the share market on July 1 2020 would have done very well. However, they would have also needed to have known the future. Had they rightly predicted the future, they would have been the only one.

Our advice to clients is always that short-term movements in the share market are impossible to predict but that longer term movements are highly likely to generally be positive - provided you don't get wiped out if there are short term downturns. The idea, then, is to invest regularly into the market so that you can take advantage of any long term positive performance in that market.

Let's illustrate this with an example. Let's look at a couple who are self-employed and who decided, in June 2020, to each contribute \$25,000 as concessional contributions into a superannuation fund. The fund initially held those contributions in a cash account, before making 12 regular investments into the share market on the first day of each month of the financial year. The couple each had a personal marginal income tax rate of 32.5%.

The first thing to realise is that while the couple paid \$50,000 into their super fund, the actual cost to them was less than this. As concessional contributions, the amounts put into superannuation were tax deductible to the couple. Their marginal tax rate is 32.5%, meaning that the \$50,000 of total contributions reduced their tax bill by \$16,250. Therefore, the contributions only 'cost' them \$33,750.¹ That said, the contributions were taxed at 15% within their superannuation fund. So, once the tax was paid by the fund, there was \$42,500 remaining.

So, the couple have 'spent' \$33,750 and purchased an asset within their superannuation fund worth \$42,500. That is an immediate 'return' of \$8,750, or 26.7%.

As we say above, in the perfect world the couple would have invested the entire \$42,500 into an investment product that tracked the ASX 200 index and they would have made this investment on the first day of the financial year. Given an overall return of 29% or so for the financial year, this would have left them with \$54,825 within their super fund. Even if we assume a 15% tax rate on their investment returns,² the couple would be left with a minimum of \$52,976. Remember, the actual cost to the couple was only \$33,750. So, in this perfect world where the couple knew the future, they could have achieved a one-year 57% return on the money that they gave up by making a super contribution and then investing perfectly.

The world is not perfect, however. But the good news is that this couple did come to see us for advice on how to move their super contributions into the share market. We did our usual analysis of their situation. This revealed that their recent contributions should be invested according to a high growth investment approach. We then gave them a prudent and sensible investment strategy to make such investments, recommending that 1/12th of the amount within super be invested into the ASX 200 on the first day of each month over the course of the financial year. Here is how the investments looked:

¹ We are ignoring Medicare levies in this example.

² This would actually depend on whether and when they sold the investment,.

Date	Amount Invested
July 1 2020	\$3,540
August 1 2020	\$3,540
September 1 2020	\$3,540
October 1 2020	\$3,540
November 1 2020	\$3,540
December 1 2020	\$3,540
January 1 2021	\$3,540
February 1 2021	\$3,540
March 1 2021	\$3,540
April 1 2021	\$3,540
May 1 2021	\$3,540
June 1 2021	\$3,540

The investments used an ETF which tracks the ASX 200.³ Here is the closing value of that ETF on each of the days that our clients made their investments:

Date	Value of ETF
July 1 2020	\$75.24
August 1 2020	\$75.33
September 1 2020	\$76.27
October 1 2020	\$75.10
November 1 2020	\$75.62
December 1 2020	\$84.30
January 1 2021	\$84.56
February 1 2021	\$85.04
March 1 2021	\$87.25
April 1 2021	\$88.00
May 1 2021	\$89.95
June 1 2021	\$91.79

³ The one we are using for this analysis is the Vanguard Australian Shares Index ETF.

Now, here are the two above tables combined, along with the number of units that the couple purchased on each of the purchase days.

Date	Price of ETF	Amount Invested	Number of units in ETF purchased
July 1 2020	\$75.24	\$3,540	47
August 1 2020	\$75.33	\$3,540	47
September 1 2020	\$76.27	\$3,540	46
October 1 2020	\$75.10	\$3,540	47
November 1 2020	\$75.62	\$3,540	46
December 1 2020	\$84.30	\$3,540	42
January 1 2021	\$84.56	\$3,540	41
February 1 2021	\$85.04	\$3,540	41
March 1 2021	\$87.25	\$3,540	40
April 1 2021	\$88.00	\$3,540	40
May 1 2021	\$89.95	\$3,540	39
June 1 2021	\$91.79	\$3,540	38
			Total: 514

As you can see, by the end of the year, the couple's superannuation fund had purchased 514 units in the ETF. As of June 30, these units were worth \$94.70 each. So, the assets within the superannuation fund were worth \$48,675. As an average return across the year, this represents 14.5% on the initial \$42,500. If the average dividend for the year was 4%, then we can add 2% to this couple's investment return because, on average, their money was in the share market for half of the year. So, their total return becomes 16.5%.

16.5% is less than 28%. So, clearly, this couple would have been better off putting all of their money into the share market on the first day of the year. But that is always the case when a market rises. Remember, on the 1st of July last year no one knew that the market was going to provide a total return approaching 30%. We were only three months into a global pandemic at the time. Importantly, this couple achieved a return of 16.5% while holding, on average, half of their investment in cash at any one point in time.

Now have a closer look at the table above. Look at the number of shares that were purchased each month. As you can see, the couple purchased more shares in months when the market was lower and fewer shares in the months when the market was higher. This is an interesting feature of the above investment strategy: by spacing out making an investment into a number of small purchases, the couple automatically bought more shares when prices were lower and fewer shares when prices were higher. Within their portfolio, this means that the average purchase price of the share was 'dragged down' by the relatively large number of units bought when prices were lower.

Now imagine that 2020/21 went the other way: imagine that prices *fell* during the year. In that case, making the investment all at once at the start of the year would have been a disaster. Making the investments in smaller units would have allowed the couple to take advantage of the falling prices – once again, they would have been buying more units as prices fell.

The above technique is known as *dollar cost averaging*. It does not suit everyone, but it is well worth thinking about when trying to remove the risk of market fluctuations. It is a way of benefiting when markets fall while also getting some benefit when markets rise. It is also a good way to make sure that you do not ‘miss out’ when markets do unexpectedly, extraordinarily well – like it did in the year just gone.

The Legal Stuff

General Advice Warning

The above suggestions may not be suitable to you. They contain general advice which does not take into consideration any of your personal circumstances. All strategies and information provided on this website are general advice only.

We recommend you seek personal financial, legal, credit and/or taxation advice prior to acting on anything you see on this website.

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