MONEYNEWS

The newsletter of Moneywise Personal Financial Management Pty Ltd

Issue 2 2020

How did shares perform in FY20 and where to from here?

The 2019-20 financial year was poor across the board for diversified investors as each of the major asset classes posted lower than historical average returns. 'Risk' assets like shares and property were hit by the sharp coronavirus sell-off in February-March 2020, from which most shares and bonds have not yet fully recovered. In the case of 'defensive' assets like cash, term deposits and bonds, the low returns for the year were due to ultra-low interest rates in Australia and across the world.

Poor year follows a good run

Bad years happen from time to time, but we need to look at this in context. The calendar years 2012 to 2017 constituted an extraordinary run of six consecutive years of above average real returns from all of the main asset classes - something that had never happened before in history. We said at the time that this could not continue. Calendar 2018 was a negative year thanks to the 'global growth scare' in the December quarter, but markets rebounded strongly in 2019 to over-priced levels once again. Something had to give, but what we didn't know was the trigger, until the coronavirus shut-downs.

On the whole, Australian shares posted their worst financial year return since the GFC, just pipping 2011-2012. The ASX 200 benchmark fell 10.9% in 2019/20.

The biggest drag on the market for the latest year was the banks. Three of the big four banks were down by one third, with CBA down 16%. Macquarie lost 5%.

The big miners also lagged the broad market but by less than the banks. BHP was down 13% and RIO down 6% on collapsing prices of coal, oil and most industrial metals in the global slowdown.

There were some bright spots in the local share market, particularly the healthcare and technology sectors with companies like CSL and Afterpay riding the global shift to greater spending on health and the rise of e-commerce.

Overall, the last 12 months has seen a rather mild share market compared to the past two major recession sell-offs – the 2001-2002 'tech wreck' and the 2008-2009 'GFC'. Those were very mild economic contractions compared to the current much deeper coronavirus contraction but share prices on both occasions suffered much deeper and longer set-backs than we have seen in the current coronavirus crisis thus far.

Part of the difference is the monetary and fiscal support measures have been much larger and more extensive this time around, but even these extraordinary stimulus measures will probably not be enough to prevent company profits and dividends being cut by as much as they were in the tech wreck and the GFC.

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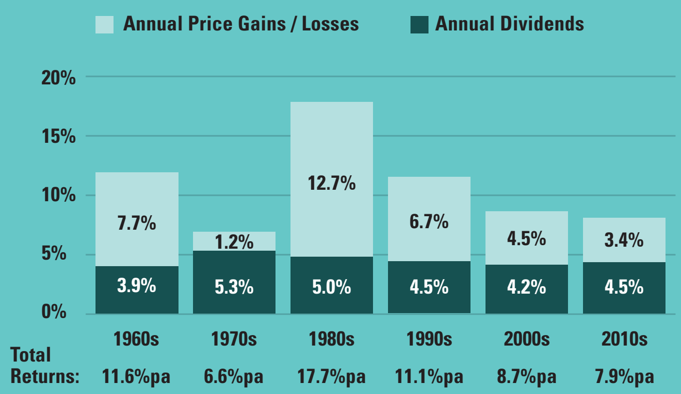
Dividends from Australian shares

The chart below illustrates the average returns per decade from price growth and dividend yields.

Average Returns Per Decade



Dividend yields were slightly higher in the 1970s, and that was also when inflation was highest. Yields were higher mainly because share prices were lower (inflation hurts share prices much more than it does dividends). Share prices then recovered strongly in the 1980s but dividend yields remained relatively constant, meaning the dollar amounts of dividends grew along with share prices.

Dividends do vary from year to year of course – companies increase dividends during booms but reduce them in slowdowns and recessions to preserve capital. Aggregate dividends across the Australian market have fallen by around 8% over the past year (mainly from the banks for reasons unrelated to the coronavirus shutdowns) and they are likely to fall by at least that much again as the shutdowns hit profits, but it will probably still leave returns from dividends near 4% over the coming year.

The above chart does not include the benefits of 'franking' credits for Australian owners of Australian shares. This has added an average of +1.7% to yields since 1987 (it was +1.9% in 2019), bringing 'grossed-up' yields to above 6% for Australian residents.

The three big factors lying ahead

We are certainly entering a challenging period both as a global community and domestically we are facing the first major full-blown recession since the early 1990s. So, what lays ahead of us.

There are now three factors in play.

First is the coronavirus itself. The crisis has reminded us that some countries (like the US and Australia) are essentially just loose federations of States which can and do make their own rules and set their own path. This cycle of waves of infections and restrictions may continue until a cure or vaccine is found – perhaps next year. The US is the largest investment market and the most important for global investors, and infection rates there have now re-spiked up to twice the level of the first wave in April.

Second is government spending and borrowing. Formerly capitalist governments everywhere have now turned into welfare states in which they have become lenders, spenders, employers, and owners of last resort to try to directly or indirectly 'save' jobs and votes.

Investors will need to keep a close eye on how much governments can borrow before something pricks the confidence bubble. In Australia, the Commonwealth was carrying a low debt level of around $50 billion before the GFC. Then to counter the GFC it borrowed an average of $50 billion per year net for next 10 years, taking the level of debt to $560 billion before the virus hit. Since the virus shutdowns, it is now borrowing around $35 billion per month to fund all of the welfare programs.

Third is central banks. Since the GFC, they have become buyers of last resort of government bonds, mortgage bonds, corporate bonds and even shares and property trusts (in the case of Japan). Our own RBA has spent $51 billion buying up government bonds since the March crisis. They say it's tiny, but it is the same amount as the entire stock of government debt before the GFC.

Meanwhile, in the coming weeks and months we will be keeping an eye on the virus numbers, as well as the unemployment numbers and loan arrears rates, and how governments react to them. The big question in the short term in Australia will be whether the government can turn off the welfare taps fully by March 2021.

Magically ending all these policies smoothly without dire consequences will need a miracle. There will need to be a long-term game plan to get back to balancing the ledger. We did recover or 'snap back' quite quickly from the last major crisis, the GFC.

Can it happen again?

If you would like to speak to us about your overall investment strategy, give us a call.

Maintaining your mental health through the pandemic

The COVID-19 pandemic has shifted our day-to-day lives in a dramatic way. One of the biggest changes to come from this period, was a transition to working from home for many people.

On top of this adjustment, parents had the additional challenge of monitoring remote schooling for their children. Social interactions were severely reduced and many of the activities that allow us to unwind, such as going to the gym, a cinema or a concert, were no longer possible.

While this return to more of a home-based life has had its benefits, it has also meant a blurring of the lines between work and rest. Coupled with isolation, heightened stress and anxiety which has built up over the days, weeks and now months may become something quite serious, such as burnout.

What is burnout?

Burnout is a form of emotional, mental and physical exhaustion caused by prolonged or extreme stress. You may feel as if you've got nothing left in the tank and you struggle to concentrate and stay motivated. As a result you can start to dislike your job or doubt your ability to effectively do your work.

Burnout can creep up on you as stress accumulates. You may find yourself feeling depressed and anxious, dealing with physical symptoms such as headaches, sore muscles and stomach aches, are no longer able to think creatively or on the spot, and feel tired and drained.

Why burnout is on the increase

According to Safe Work Australia data collected between 2012 – 2013 and 2016 – 2017, 92% of serious work-related mental health conditions were attributed to mental stress.[i] The 2016 Snapshot of the Australian Workplace found that 29% of workers always or often felt a high amount of stress in relation to their job.[ii]

The COVID-19 situation has brought with it significant mental health challenges, as made evident by the increase in calls to mental health support services.

You may be feeling an increased pressure to keep many balls up in the air and placing expectations on yourself (or having them placed on you) to be as productive and efficient as you'd ordinarily be. Not only can working from home make it harder to switch off at the end of the day and compartmentalise your home and work life, it also reduces your social contact which can lead to isolation.

Looking after your mental health

It's important to acknowledge we're undergoing a pretty unique period of time. Society has had to adjust and many people are experiencing a collective uncertainty. Rather than push through with a 'business as usual' mentality, give yourself the space to recognise that you're in a challenging situation.

If you're working from home, you may have greater flexibility, plus no more dreaded morning commutes, but try to keep to a regular schedule as much as possible. Be realistic about how much work you can get through a day while still making time to have your three main meals away from the computer screen and powering off before bedtime.

Limit your exposure to the news, be aware of what you are viewing and reading and take note of the impact it may be having on your mental health, whether it be depressing news stories or those happy social media posts.

While social distancing and restrictions may inhibit you from what you'd ideally like to be doing, think outside the square for now. Healthy relationships support good mental health. Ask a friend to grab a takeaway coffee with you and have a walk and a chat. Make a regular appointment to call or visit a family member or friend to check in with each other. Get out of the house for a bike ride or sign up to that outdoor bootcamp to get your blood pumping.

Resources to access

There's no shame in reaching out for help, as we all need support during times of hardship and when we are feeling overwhelmed. Beyond Blue is an excellent resource with helpful information, active forums and a 24-hour confidential support hotline (1300 224 636). You can also chat with your GP who can help you form a mental health care plan which provides access to a certain amount of subsidised sessions with a psychologist.

i. htti https://www.safeworkaustralia.gov.au/doc/infographic-workplace-mental-health
ii. https://www.convergeinternational.com.au/docs/default-source/research/a-future-that-works-2016-snapshot-of-the-australian-workplace

Are you aware of the significant income protection insurance changes coming?

If not, you and any family members should act now in order to give you a potentially once in a lifetime opportunity, here's why.

Regulatory changes are proposed that will reduce the amount of cover and benefits you can obtain from 1 July 2021. However, some insurers are already preparing for this and are changing their policy offers ahead of that date, so we recommend clients act now to avoid missing out.

High quality personal policies at very competitive premium prices are available now for those who are eligible and apply quickly.

Contact our life insurance specialist Chris Matlock, who can explain the proposed changes, help you review your options and provide a tailored advice solution.

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