



FOX Wealth Management



Investment Seminar
Portfolio Construction, ETF's & Direct Shares

Presenter:

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FOX Wealth Management

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FOX Wealth Management

Content

- Advice Fees;
- Global Market Snapshot – GDP Growth;
- Economic/Market/Business Cycle;
- Market Opportunities – Growth verses Defensive;
- Portfolio Construction - Core/Satellite approach;
- Asset Allocation – Strategic & Tactical;
- Asset Class Exposure - ETFs and Direct Shares; and
- Questions?



Fees – The Cost of Advice

Fees	Services	Description
Free	Initial Meeting	Discuss your situation and the need for advice.
\$1,500 - \$2,500 (Once Off)	Upfront	Agree fees and allocate time to complete the review and analysis.
	Fact Find	Review of existing financial situation and risk needs;
	Analysis	Identify your current financial position, including your needs, goals and objectives;
	Investment Advice	Determine your risk tolerance;
		Tailor a portfolio that is in line with your risk profile;
		Review available securities and investment products;
		Research investments;
	Insurance	Determine any risk needs and provide quotes for cover;
	Recommendation	Complete a Statement of Advice (SOA);
		Review the recommendations with you; and
		Implement the recommendations post your approval.
0.70% p.a. flat fee (Ongoing)	Fee for Service	Based on the initial funds under advice, charged monthly and re-set annually;
		Regularly review your portfolio strategy, investments and risk needs;
		Provide quarterly Market and Portfolio Reports (valuation and performance); and
		Be available to discuss matters relating to your financial situation.



Market Snapshot: GDP Growth

2014: Developed markets **deleveraging**; and
Emerging markets **converging**.

- North America: Recovery underway – 2% to 3%
- Europe: Consolidating – 1.5% to 2.5%
- Asia - China: Steady around 7.5%
- Emerging Markets: Converging - 3.5% to 5.5%
- Australia: Below average – 2% to 3%

Global Inflation Expectations: **Moderate price rises** despite ultra-expansionary monetary policy.



Economic Cycle

Rising Interest Rates
Unemployment Falling
Rising Retail Sales
Rising Property Prices

Strong Growth
(US & Europe)

Slowdown Economic Activity
Falling Property Prices
Falling Share Prices
Softening Retail Sales

Slowdown

Consumer Sentiment Up
Rising Share Prices
Increasing Economic Activity
Easier Credit Conditions
Low Interest Rates

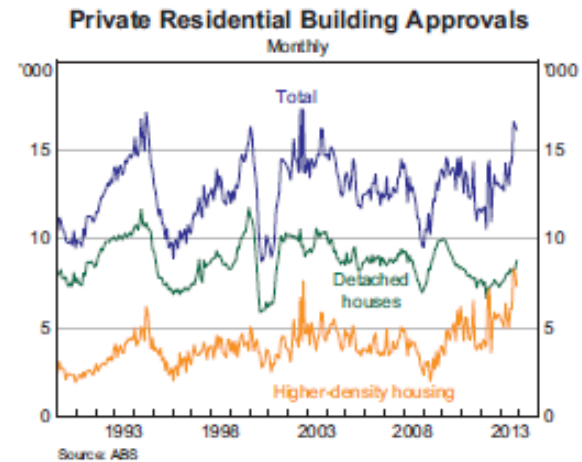
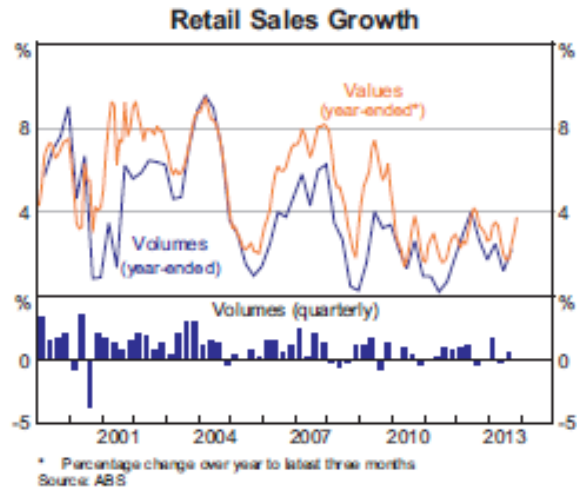
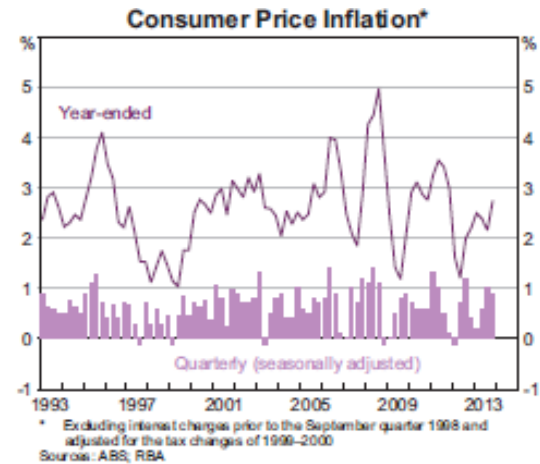
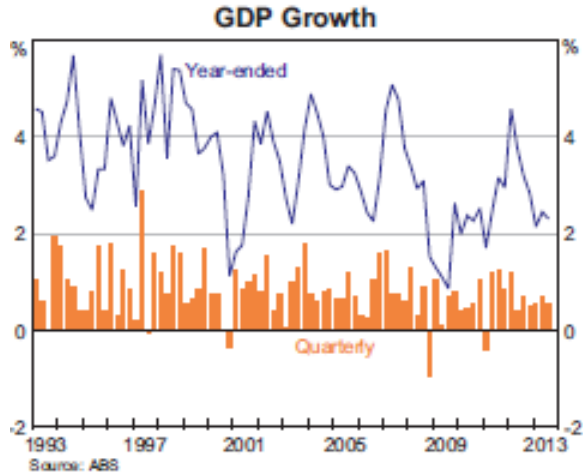
Recovery
(Australia)

Falling Interest Rates
Unemployment Rising
Company Failures
Tight Credit Conditions
Zero to Negative Growth

Recession



Australia: Growth & Inflation

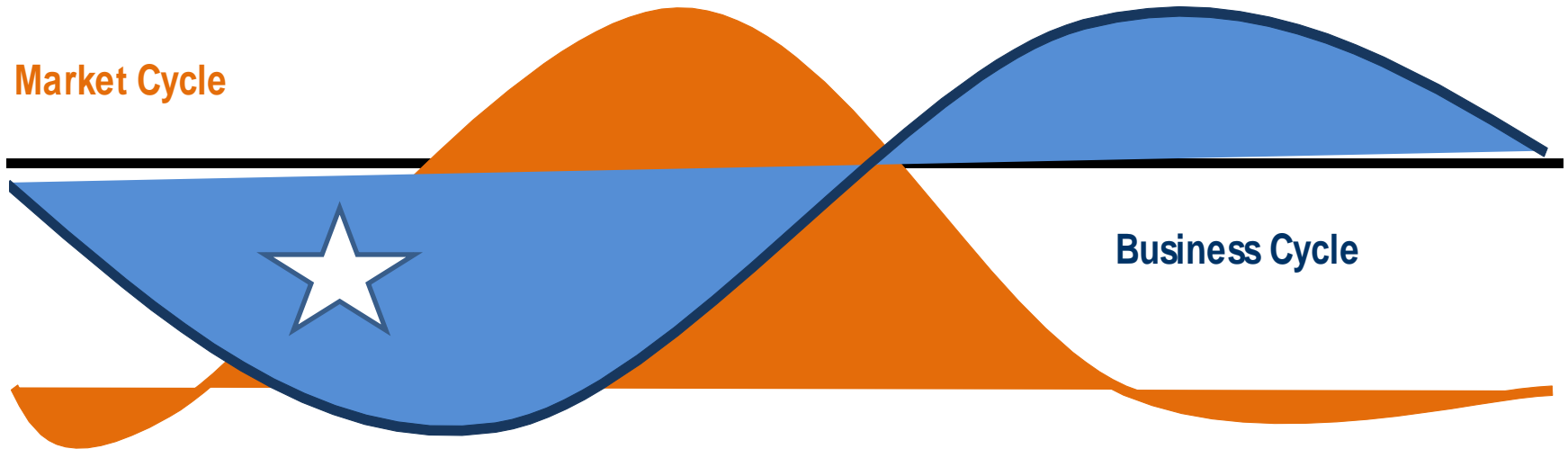




Market/Business Cycle

GROWTH SECTORS			DEFENSIVE SECTORS	
Information Technology	Materials	Consumer Staples	Utilities	
Consumer Discretionary	Industrials	Energy	Healthcare	Financials

Market Cycle



Business Cycle

Full Recession	Early Recovery	Full Recovery	Early Recession
Bottom of Cycle	Bull Market	Peak Cycle	Bear Market



Market Opportunities

Growth 
(Shares, property etc)

- Inflation;
- Markets recovering;
- Expansionary plans; and
- Opportunity?



Defensive
(Bonds, debt, credit etc)

- QE tapering;
- Interest Rates to normalise;
- Capital at risk.





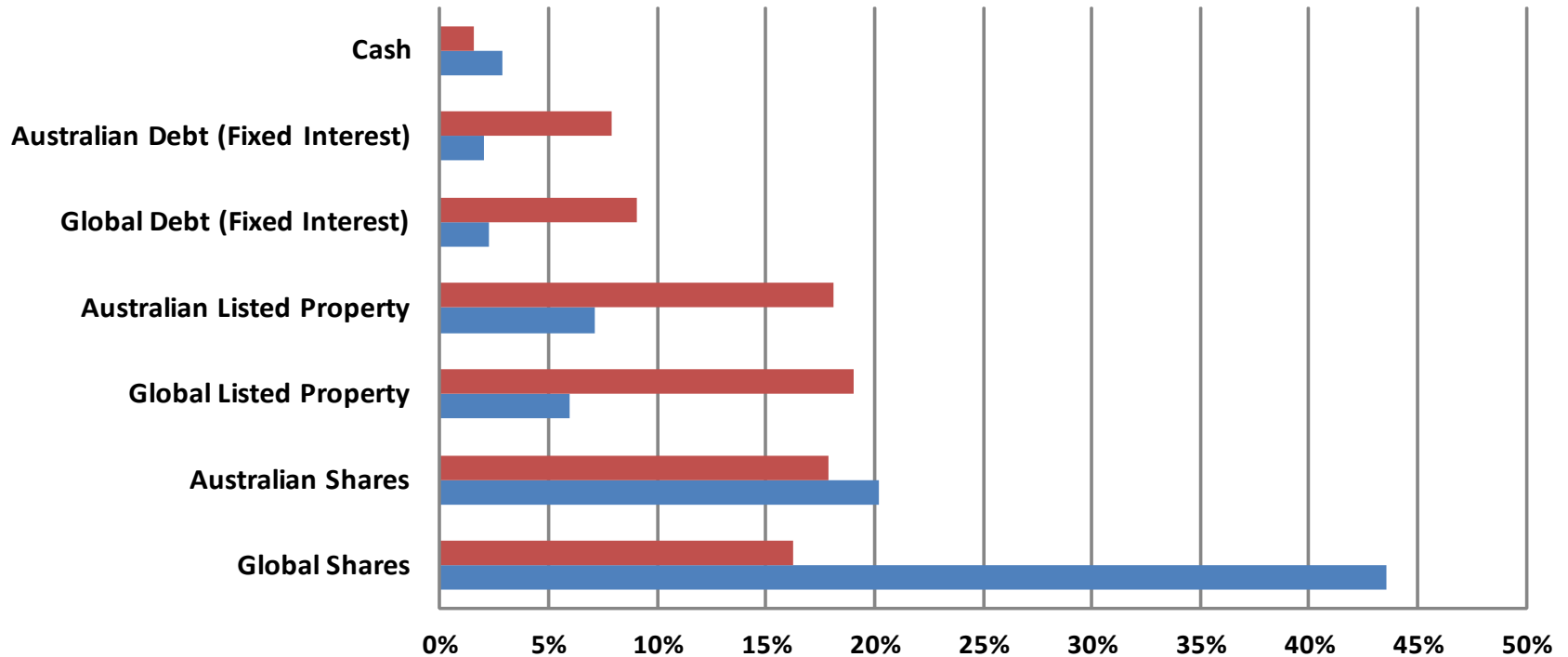
Asset Class Sources of Return

How do you determine the right **asset class risk exposure** in order to maintain a diversified portfolio and capture the desired returns?

Traditional Assets	Alternative Growth	Alternative Defensive
Growth Assets	Listed Infrastructure	Hybrid Debt
Australian Equities	Resources/Commodities	Mortgages
Global Equities	Private Equity	Mezzanine Debt
Australian Property	Venture Capital	Credit
Global Property	Currency	Agriculture
Defensive Assets	Growth Hedge Funds	Defensive Hedge Funds
Australian Fixed Interest	Global Macro	Multi-Strategy
Global Fixed Interest	Long/Short Equities	Convertible Arbitrage
Australian Cash	Short Bias	Event Driven Strategies
	Managed Futures	Relative Value
	Volatility	Distressed Debt



Risk & Return – 1 Year

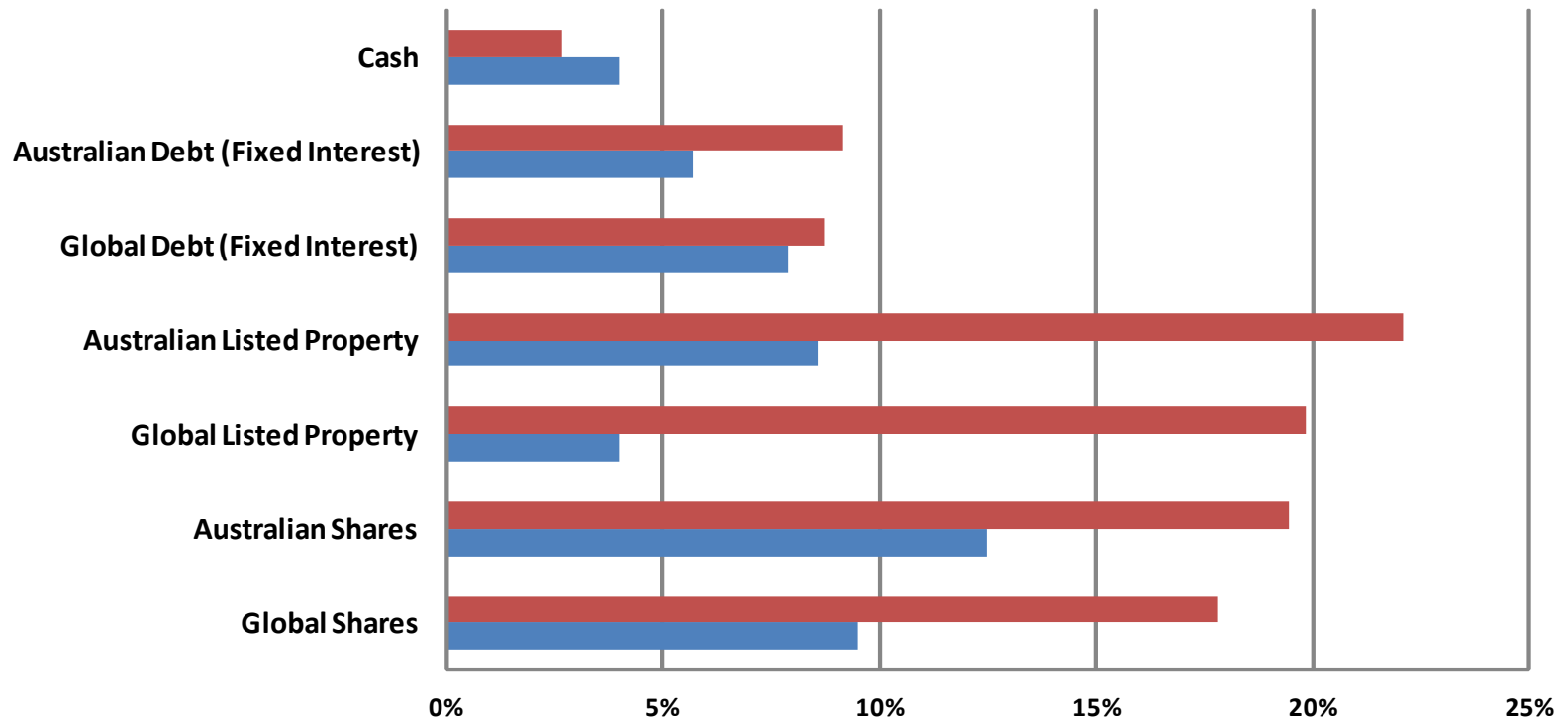


	Global Shares	Australian Shares	Global Listed Property	Australian Listed Property	Global Debt (Fixed Interest)	Australian Debt (Fixed Interest)	Cash
■ Risk	16.28%	17.88%	19.04%	18.10%	9.05%	7.87%	1.58%
■ Return	43.56%	20.18%	5.93%	7.10%	2.27%	1.98%	2.86%

Data Source: Lonsec as at 31 Dec 2013



Risk & Return – 5 Year



	Global Shares	Australian Shares	Global Listed Property	Australian Listed Property	Global Debt (Fixed Interest)	Australian Debt (Fixed Interest)	Cash
Risk	17.81%	19.45%	19.85%	22.09%	8.71%	9.13%	2.68%
Return	9.51%	12.46%	3.96%	8.57%	7.91%	5.71%	3.99%

Data Source: Lonsec as at 31 Dec 2013



Risk Profile & Return Appetite

A client's **Risk Profile** indicates the level of **Investment Risk** they are prepared to take in order to achieve their desired returns.

As a general rule of thumb:

Longer term risk horizon (time to retirement or in retirement)



Higher risk appetite; and

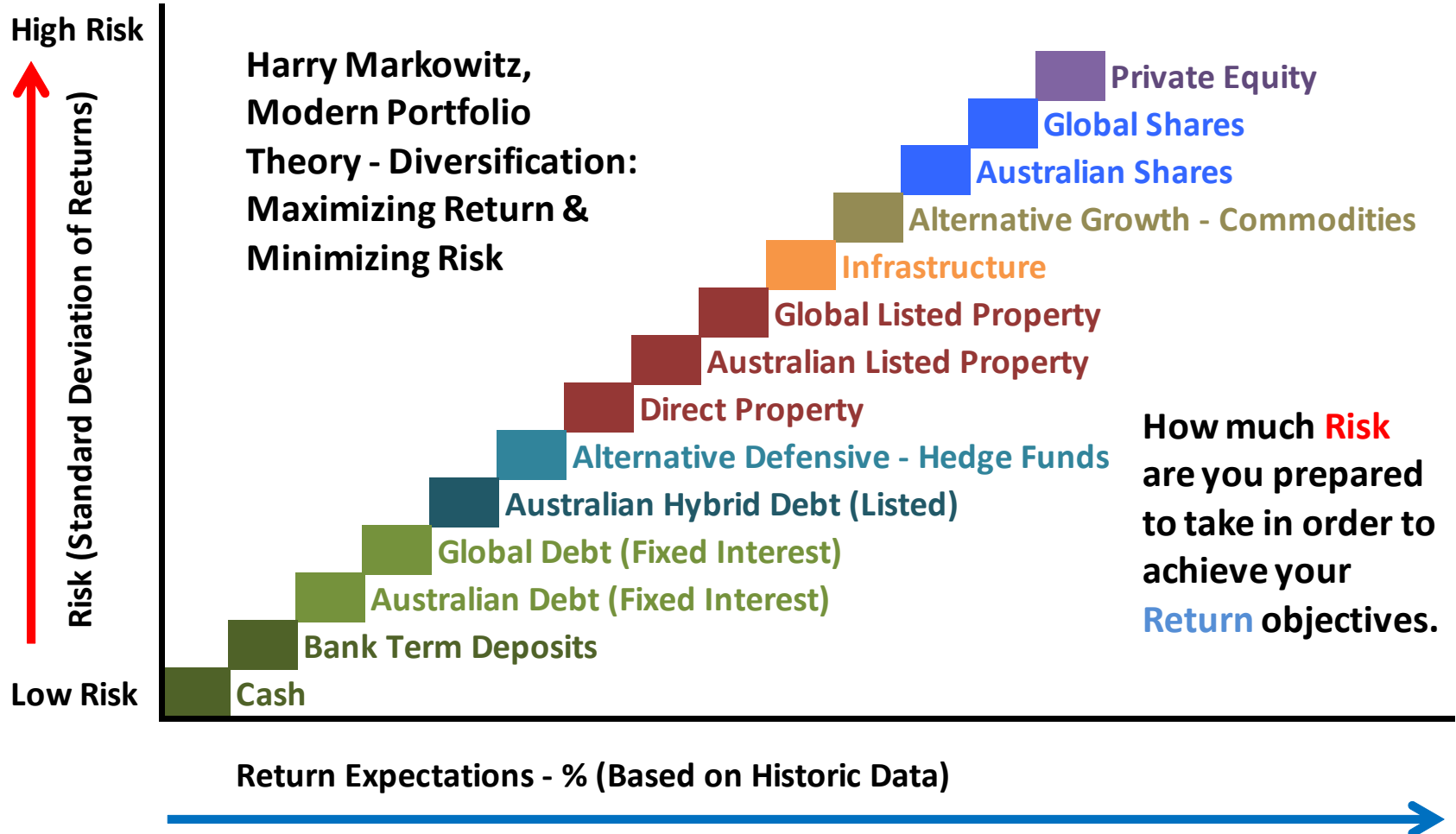
Short risk horizon (time to retirement or in retirement)



Lower risk appetite.



Asset Class Risk versus Return





Modern Portfolio Theory

The Modern Portfolio Theory was pioneered by Harry Markowitz in his paper "Portfolio Selection," published in 1952 by the Journal of Finance.

According to the theory, it's possible to construct an "efficient frontier" of optimal portfolios offering the:

“maximum possible expected return for a given level of risk”.

Today's portfolios are constructed by asset managers and industry leaders with the same thinking but mapped to reflect each clients risk profile.

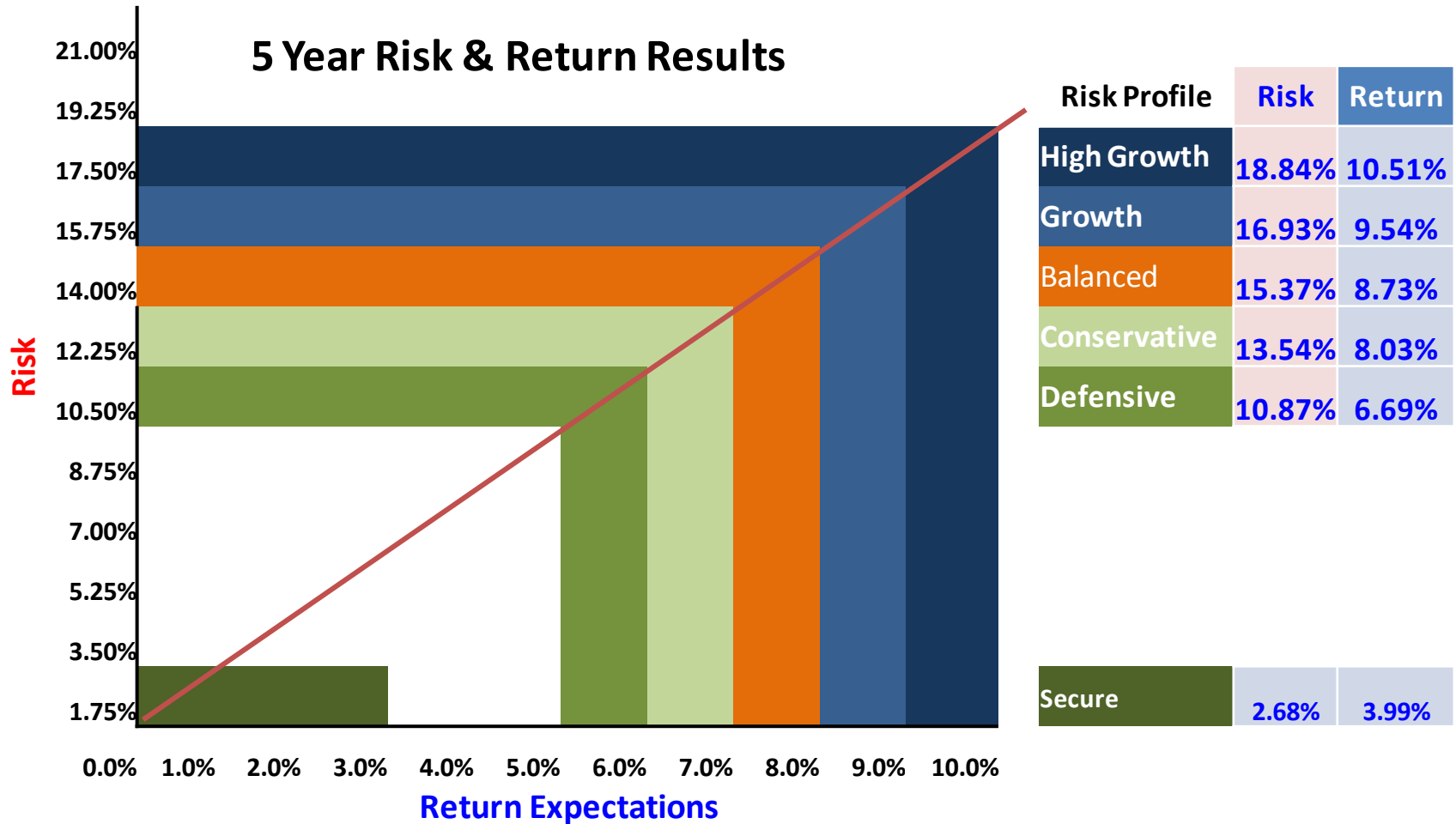


Strategic Asset Allocation

Strategic Asset Allocation	Secure	Defensive	Conservative	Balanced	Growth	High Growth
GROWTH						
Australian Shares	0%	18%	26%	33%	40%	53%
Global Shares	0%	6%	14%	20%	28%	37%
Australian Direct Property	0%	7%	3%	3%	2%	0%
Global Property	0%	6%	10%	12%	12%	10%
Growth Alternatives	0%	0%	0%	0%	0%	0%
SUB-TOTAL GROWTH	0%	37%	53%	68%	82%	100%
DEFENSIVE						
Australian Fixed Interest	0%	20%	20%	15%	10%	0%
Global Fixed Interest	0%	15%	15%	10%	4%	0%
Australian Cash	100%	25%	10%	5%	3%	0%
Defensive Alternatives	0%	3%	2%	2%	1%	0%
SUB-TOTAL DEFENSIVE	100%	63%	47%	32%	18%	0%
SUMMARY						
GROWTH	0%	37%	53%	68%	82%	100%
DEFENSIVE	100%	63%	47%	32%	18%	0%
TOTAL PORTFOLIO	100%	100%	100%	100%	100%	100%



Portfolio Construction





Risk Budget – Last 5 Years

Balanced Portfolio	Balanced Portfolio	Risk	Return	Risk	Return
GROWTH					
Australian Shares	33.00%	17.81%	9.51%	5.88%	3.14%
Global Shares	20.00%	19.45%	12.46%	3.89%	2.49%
Australian Listed Property	3.00%	19.85%	3.96%	0.60%	0.12%
Global Property	12.00%	22.09%	8.57%	2.65%	1.03%
SUB-TOTAL GROWTH	68.00%			13.01%	6.78%
DEFENSIVE					
Australian Fixed Interest	15.00%	8.71%	7.91%	1.31%	1.19%
Global Fixed Interest	10.00%	9.13%	5.71%	0.91%	0.57%
Australian Cash	5.00%	2.68%	3.99%	0.13%	0.20%
SUB-TOTAL DEFENSIVE	32.00%			2.35%	1.96%
SUMMARY					
GROWTH	68%			13.01%	6.78%
DEFENSIVE	32%			2.35%	1.96%
TOTAL PORTFOLIO	100%			15.37%	8.73%



Return Estimate for 2014

Balanced Portfolio	Balanced Portfolio	Return Estimate	Return Estimate	Total Return	Portfolio Return	Return Estimate	Return Estimate
MODEL PORTFOLIO	SAA	Growth	Income	Estimate	Estimate	Growth	Income
GROWTH							
Australian Shares	33%	8.00%	4.00%	12.00%	3.96%	2.64%	1.32%
Global Shares	20%	10.00%	2.00%	12.00%	2.40%	2.00%	0.40%
Australian Listed Property	3%	2.00%	7.00%	9.00%	0.27%	0.06%	0.21%
Global Property	12%	2.00%	5.00%	7.00%	0.84%	0.24%	0.60%
Growth Alternatives	0%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
SUB-TOTAL GROWTH	68%				7.47%	4.94%	2.53%
DEFENSIVE							
Australian Fixed Interest	15%	-2.00%	5.00%	3.00%	0.45%	-0.30%	0.75%
Global Fixed Interest	10%	-2.00%	3.00%	1.00%	0.10%	-0.20%	0.30%
Australian Cash	5%	0.00%	2.50%	2.50%	0.13%	0.00%	0.13%
Defensive Alternatives	2%	0.00%	5.00%	5.00%	0.10%	0.00%	0.10%
SUB-TOTAL DEFENSIVE	32%				0.78%	-0.50%	1.28%
SUMMARY							
GROWTH	68%				7.47%	4.94%	2.53%
DEFENSIVE	32%				0.78%	-0.50%	1.28%
TOTAL PORTFOLIO	100%				8.25%	4.44%	3.81%

As we know, past performance is not a guarantee of future results



Exposure: Shares, Bonds & Cash



Just as you thought you have a handle on the growth/defensive split, the next step is generally where the wheels fall off.

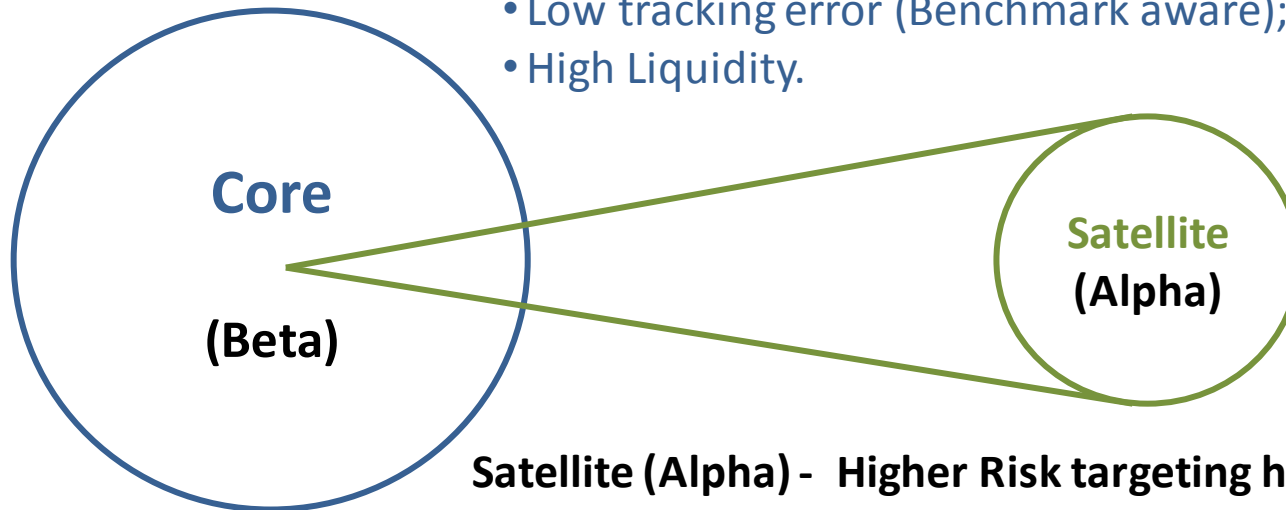
Remember, the **diversification** mantra is still very much alive, right down to the stock and bond exposure.



Core-Satellite Methodology

Core (Beta) – Passive Holding

- Strategic Passive Holding (Broad market exposure);
- Transparent and low cost (Index based);
- Low tracking error (Benchmark aware); and
- High Liquidity.



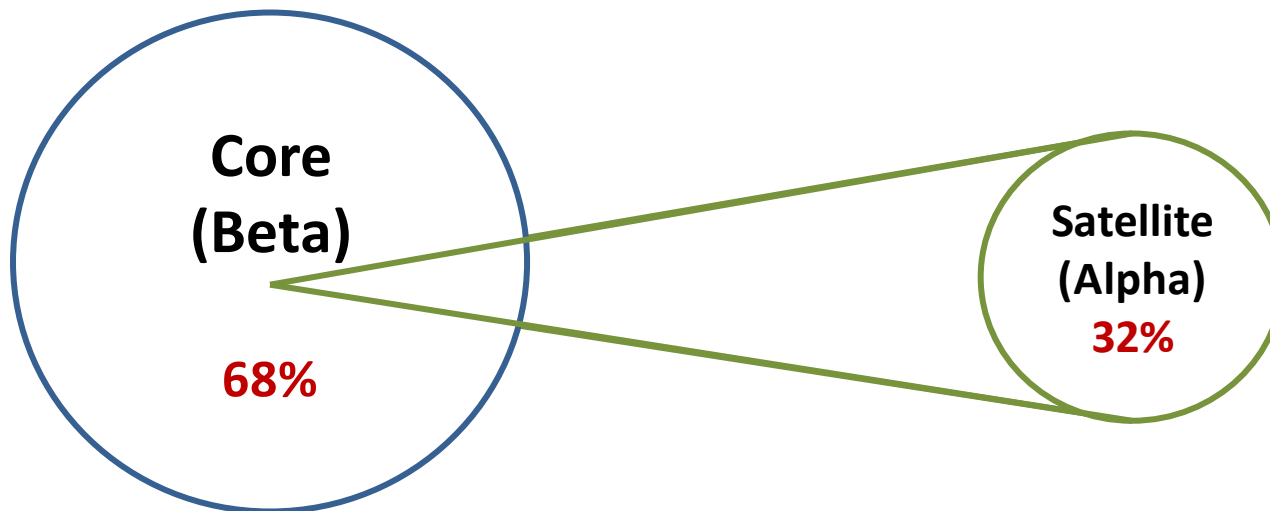
Satellite (Alpha) - Higher Risk targeting higher returns

- Tactical or Thematic Opportunities;
- Concentrated Exposure, higher cost, higher risk;
- Unconstrained tracking error (No benchmark); and
- Medium to High Liquidity.



Core-Satellite Exposure

The **Balanced Portfolio** (**68%** Core & **32%** Tactical) asset class exposure is allocated between the core and satellite exposure in the same weights as the SAA risk profile.





Portfolio Strategic AA Breakdown

Balanced Portfolio	Weight %	CORE	SATELLITE	TOTAL
ASSET CLASS	SAA	68%	32%	100%
Australian Shares	33%	22.44%	10.56%	33.00%
Global Shares	20%	13.60%	6.40%	20.00%
Australian Direct Property	3%	2.04%	0.96%	3.00%
Global Property	12%	8.16%	3.84%	12.00%
Growth Alternatives	0%	0.00%	0.00%	0.00%
SUB-TOTAL GROWTH	68%	46%	22%	68%
Australian Fixed Interest	15%	10.20%	4.80%	15.00%
Global Fixed Interest	10%	6.80%	3.20%	10.00%
Australian Cash	5%	3.40%	1.60%	5.00%
Defensive Alternatives	2%	1.36%	0.64%	2.00%
SUB-TOTAL DEFENSIVE	32%	22%	10%	32%
TOTAL	100.00%	68.00%	32.00%	100.00%

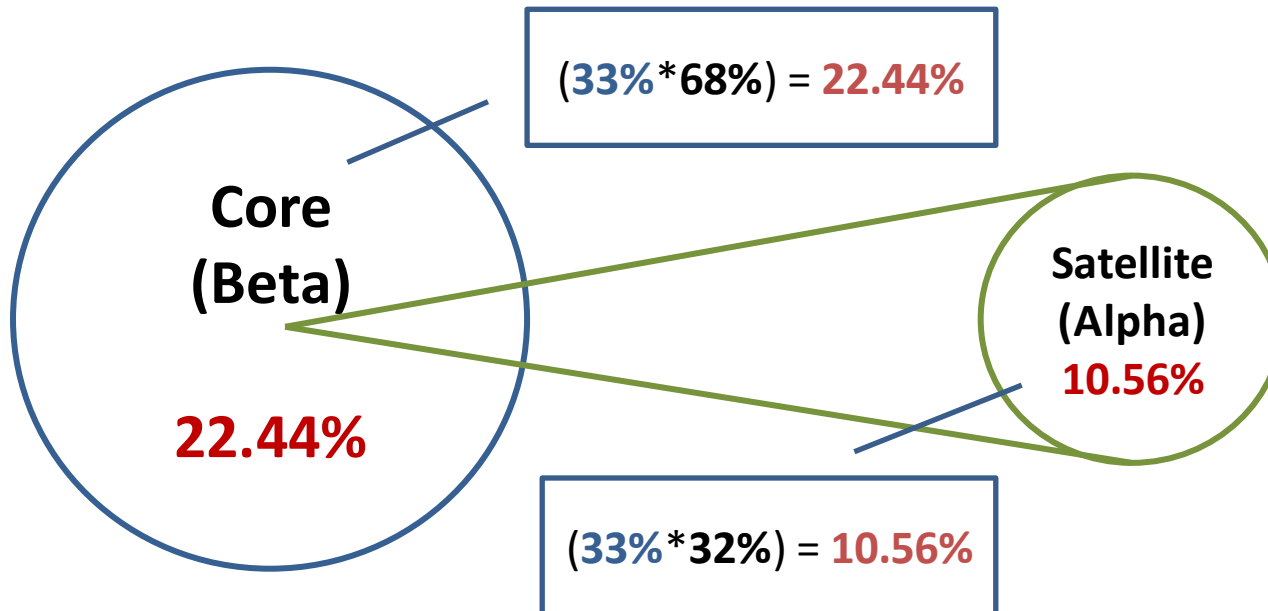


Balanced Portfolio (68/32)

Australian Shares

Asset Allocation portfolio weight **33%**.

The Asset class exposure is split between the risk sectors:





Australian Share Core Exposure

**Core
(Beta)**

22.44%

Broad market

Exposure.

Risk Horizon

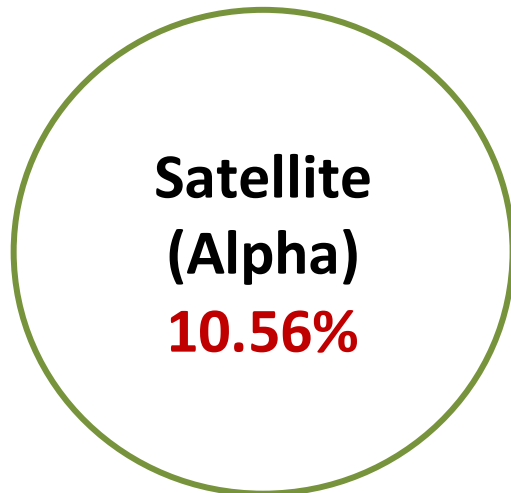
5-7 Years

Exchange-traded products (ETPs) is the family name for the group of products comprising **exchange-traded funds (ETFs)**, managed funds (MF) and structured products (SPs). There are over 90 ETPs accessible through ASX.

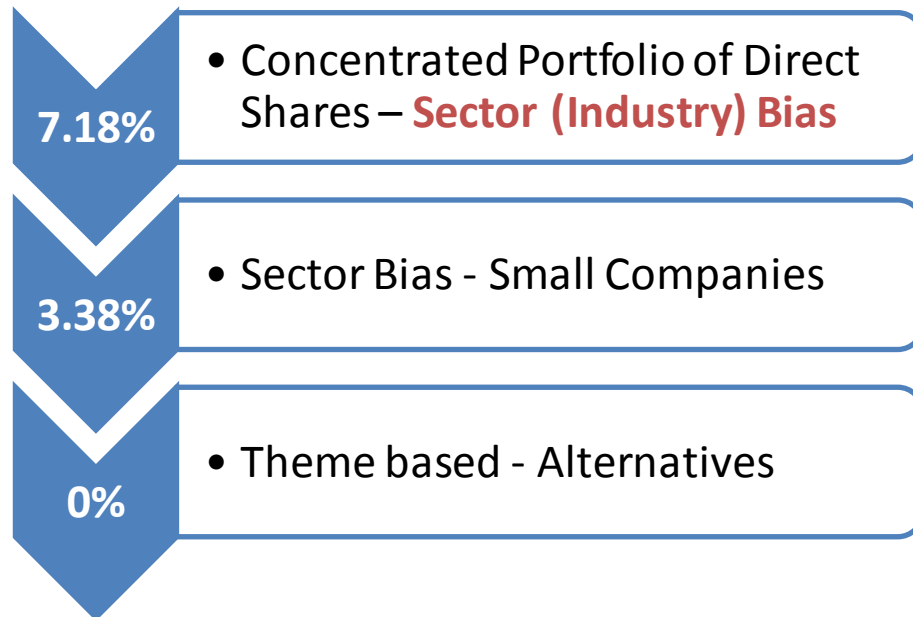
Exposure	ASX Code
iShares MSCI Australia 200	IOZ
SPDR[®] S&P[®]/ASX 200 Fund	STW



Australian Shares - Satellite



Tactical
Exposure.
Risk Horizon
1-3 Years



Strategic Investments:
The weights for each sub-sector are determined by the business cycle, themes and/or opportunities.



Sector (Industry) Classifications

S&P/ASX200 GIC's	Index Wght %	3	6	12
Consumer Discretionary	4.37%	3.09%	18.19%	38.86%
Financials - ex - A-REITS	36.79%	5.08%	16.00%	33.87%
Telecommunication Services	6.43%	5.93%	13.72%	26.91%
Health Care	4.70%	5.29%	11.40%	26.30%
Information Technology	0.83%	3.44%	10.63%	25.08%
Consumer Staples	8.17%	1.10%	6.36%	17.71%
Industrials	6.33%	0.77%	12.95%	14.37%
Energy	5.79%	-2.98%	10.56%	11.54%
Utilities	1.61%	-0.43%	4.87%	8.08%
Real Estate Investment Trusts (Reits)	6.17%	-1.52%	-1.48%	5.71%
Materials	18.80%	5.20%	22.39%	-3.04%
	100.00%			

Note: The satellite (alpha) portfolio underlying industry bias will impact the portfolio asset class industry bias.

By skewing the satellite position, the overall exposure to shares may be either **dialled-up or dialled-down** depending on the market opportunities.



Portfolio Example

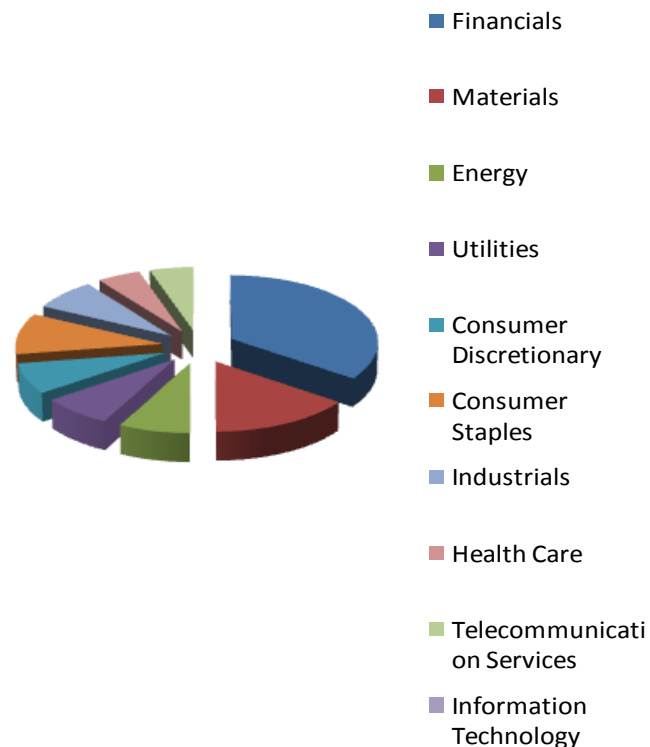
ASSET CLASS - EXPOSURE	ASX CODE	CORE WGHT %	SAT WGHT %	PORT WGHT %	MGMT FEES %	MGMT FEES %
Australian Shares						
iShares MSCI Australia 200 ETF	IOZ	22.44%		22.44%	0.19%	0.04%
Direct Share Portfolio*	N/A		7.18%	7.18%	0.00%	0.00%
SPDR S&P/ASX Small Ordinaries ETF	SSO		3.38%	3.38%	0.50%	0.02%
Total		22.44%	10.56%	33.00%		0.06%
Global Shares						
iShares S&P Global 100 ETF	IOO	13.60%		13.60%	0.18%	0.02%
Magellan Flagship Fund Limited ETP	MFF		4.35%	4.35%	0.46%	0.02%
iShares FTSE China Large-Cap ETF	IZZ		2.05%	2.05%	0.74%	0.02%
Total		13.60%	6.40%	20.00%		0.06%
Australian Property						
Vanguard Australian Property Securities Index ETF	VAP	3.00%		3.00%	0.25%	0.01%
Total		3.00%	0.00%	3.00%		0.01%
International Property						
SPDR® Dow Jones® Global Real Estate Fund	DJRE	12.00%		12.00%	0.50%	0.06%
Total		12.00%	0.00%	12.00%		0.06%
Australian Fixed Interest						
iShares UBS Composite Bond ETF	IAF	17.00%		17.00%	0.24%	0.04%
Russell Australian Select Corporate Bond ETF	RCB		10.00%	10.00%	0.24%	0.02%
Total		17.00%	10.00%	27.00%		0.06%
Australian Cash						
Macquarie Cash Management Account	N/a	5.00%	0.00%	5.00%	0.00%	0.00%
Total		5.00%	0.00%	5.00%		0.00%
Total		73.04%	26.96%	100.00%		0.25%



Direct Shares - Satellite

*DIRECT SHARES	ASX CODE	PRICE \$	WGHT %	PORT WGHT %
NATIONAL AUSTRALIA BANK LIMITED	NAB	\$ 31.20	7.50%	0.54%
ANZ BANKING GROUP LIMITED	ANZ	\$ 29.60	7.50%	0.54%
SUNCORP	SUN	\$ 12.82	7.50%	0.54%
MACQUARIE GROUP LIMITED	MQG	\$ 42.73	7.50%	0.54%
AMP LIMITED	AMP	\$ 4.56	5.00%	0.36%
BHP BILLITON LIMITED	BHP	\$ 34.75	10.00%	0.72%
RIO TINTO	RIO	\$ 57.83	5.00%	0.36%
WOODSIDE PETROLEUM LIMITED	WPL	\$ 37.87	7.50%	0.54%
AGL ENERGY	AGK	\$ 14.74	7.50%	0.54%
CROWN LTD	CWN	\$ 12.61	7.50%	0.54%
WESFARMERS LIMITED	WES	\$ 40.39	5.00%	0.36%
WOOLWORTHS LIMITED	WOW	\$ 33.71	5.00%	0.36%
ASCIANO	AIO	\$ 5.10	7.50%	0.54%
RAMSAY HEALTH CARE	RHC	\$ 41.27	5.00%	0.36%
TELSTRA CORPORATION LIMITED	TLS	\$ 4.90	5.00%	0.36%
TOTAL DIRECT SHARE PORTFOLIO			100.00%	7.18%

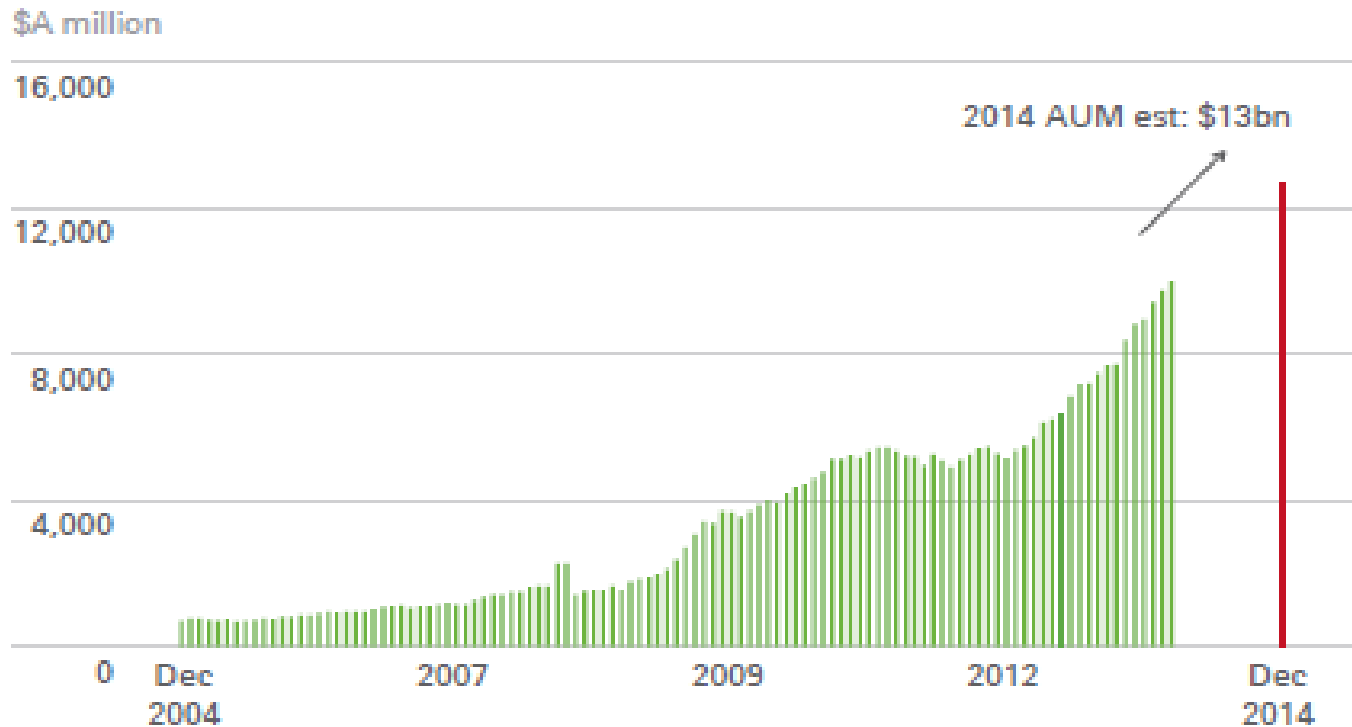
SECTOR WEIGHT (%)





Exchange Traded Products

FIGURE 2: GROWTH EXPECTATIONS OF AUSTRALIAN ETP INDUSTRY



Source: SSgA ASX, SSgA as at 31 December 2013



Questions



A copy of this presentation will be emailed to you after the seminar.



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