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Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss whether you should invest in bitcoin, the process of spreading your investments to reduce risk, and 5 ways to keep a cool head in a falling sharemarket.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime we hope you enjoy the read.

All the best,

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Bitcoin – is it really for you?

If I could sum up the contents of my junk emails over the last 12 months in a single word it would be: Bitcoin. I can't tell you how many unsolicited invitations I've received to start trading bitcoin – you may have experienced the same thing. This alone is a concern but when heavy hitters like the International Monetary Fund (IMF) start calling out the risks of bitcoin, the warning bells should definitely start ringing.

By way of background, bitcoin is one of many "cryptocurrencies" or digital currencies that aren't backed by governments or banks. Instead it relies on a decentralised peer-to-peer network called a blockchain – a vast digital ledger that uses complicated calculations to record all transactions made using bitcoin.

The technical details are complex. What's much easier to grasp is the meteoric rise of bitcoin.

Big gains means big risks

For many years you could buy bitcoin for the price of a restaurant meal. Then in 2016 it started to take off. By mid-December 2017 bitcoin had soared in value to $AUD25,410. And that's where things headed south. In mid-January 2018 bitcoin's value had tanked to $AUD12,893.

As so often happens in speculative markets, some people have made big money. But plenty of latecomers would have experienced dreadful losses.

Security concerns

Hindsight is always a wonderful thing. But one of the fundamental rules of investing is that big returns come with big risks. Another maxim for successful investing is to only invest in something you understand, and it's a reasonable bet plenty of people don't fully grasp how cryptocurrencies work.

The problem is, crooks do. A report by the University of Cambridge notes that 22% of bitcoin exchanges have experienced security breaches. The same report says less than half the cryptocurrency payment companies in the Asia-Pacific, Europe and Latin America hold a government license.

It's hardly reassuring stuff. And just recently the IMF warned that cryptocurrencies can "post considerable risks as potential vehicles for money laundering, terrorist financing, tax evasion and fraud".

Yet despite all this, investors are still pouring money in, hoping to ride a second wave of gains.

Is bitcoin a good investment?

History is littered with the fallout from speculative markets, and the pattern is often similar – a steep rise in value fueled by investors coming on board late in the cycle for fear of missing out.

For my money, a good investment is backed by a quality asset – like shares in a successful company, a well-located investment property, or units in a managed fund run by a reputable team. There are plenty of such investments to choose from, and we can help you narrow down the choice of what's right for you.

As it stands, cryptocurrencies are largely unregulated, and without the backing of an underlying asset there is no real reason why their value should continue to rise other than demand from over-exuberant investors. If you do plan to invest in bitcoin, my advice is to only tip in money you can afford to lose.

If you'd like to invest in proven assets with a track record of ongoing returns and long term capital gains, backed by best of breed research, contact us for professional advice on a portfolio tailored to your goals.

– by Paul Clitheroe AM

Paul Clitheroe AM, co-founder and Executive Director of ipac securities limited, Chairman of the Australian Government Financial Literacy Board and Chief Commentator for Money magazine.

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Spread your money, reduce risk

Six out of ten Australians own investments outside of the family home and super. That's good news. The only problem is that many people are still putting all their eggs in one, or just a few, baskets.

The latest investor study by the Australian Securities Exchange (ASX) found 40% of investors admit they don't have a diversified portfolio. Almost one in two investors think their portfolio is diverse, yet they hold, on average, less than three different investment products.

The role of diversification

Diversification plays a key role in long term investing. To understand why, it can help to think about what goes on at the racetrack, where the bookies always seem to win while the punters are invariably left empty-handed.

The secret to bookmakers' success is that they spread their risk by continually changing the odds to encourage punters to back as many different horses in a single race as possible. This spread of money means the wins should outweigh losses.

Punters, on the other hand, concentrate risk by betting on just one horse in each race. Unless the horse wins, the punter loses his money.

When it comes to investing, the strategy of spreading your money so you have a little in a broad number of investments, not a lot in one, can strengthen long term returns and minimise losses in much the same way that bookies hedge their bets.

Sticking to what we know

However, a wealth of research shows diversification is a weak spot for many investors. The ASX found we tend to stick to cash, property and Australian shares. In addition to concentrating risk, this can mean missing out on decent returns earned by other asset classes.

As a guide, a recent ASX/Russell report found residential property topped the league table of returns for mainstream investments over the last 10 years, averaging gains of 8.1% annually. What's surprising is that over the same period, global bonds (hedged) and Australian bonds were the next best performing investments with average annual returns of 7.4% and 6.1% respectively.

Aussie shares didn't even make the top four, earning an average of 4.3% annually over the past decade (though to be fair, this period includes the global downturn when sharemarkets tanked). Cash delivered woeful returns of just 2.8% annually over the 10-year period.

Expanding your portfolio

It's a compelling argument to consider expanding your portfolio beyond the mainstays of cash, bricks and mortar and local shares.

This is an area where your adviser can deliver tailored recommendations. However, investments like bonds, infrastructure (which incidentally returned 13.3% globally over the last year), or international shares (10.6%) can be good additions to a portfolio.

These types of investments can be difficult to access as an individual investor, and a managed investment fund – either listed or unlisted, offers an easy way to expand your portfolio into new areas and reap the rewards of diversification. It's worthwhile seeking advice about what could work best for your portfolio.

– by Paul Clitheroe AM

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5 ways to keep a cool head in a falling share market

Despite concern, falling share prices are not necessarily a sign of a mild or major bear market situation, according to Dr Shane Oliver.

The share market correction many people are talking about at the moment is causing concern for a number of investors, including those accumulating super and drawing money from their super savings, which is understandable given the rapid falls we've seen in recent days.

From share market highs to the lows witnessed recently, we saw United States and Japanese shares fall 10%, Eurozone shares fall 8%, Chinese shares fall 9%, while Australian shares fell 5%.

Sharp falls, with talk of billions of dollars being wiped off the share market, are stressful for investors as no one likes to see the value of their investments decline.

However, it's worth noting that periodic corrections in share markets in the order of 5% to 15% are actually normal.

We believe these market movements are indeed corrections, and not a sign of what market watchers would call a mild or major 'bear market' situation.

A mild bear market would be a share market decline of say 20% that turns around relatively quickly, like we saw in 2015-2016. A major bear market would be a decline of more than 20% in market valuation, like what we saw during the 2008 global financial crisis (GFC).

Our assessment remains that this recent volatility is a correction, not a bear market, and we're not seeing signs of a recession.

5 insights to help you keep a cool head

1. Selling shares or switching to a more conservative investment strategy or super option after a major fall just locks in a loss. With all the talk of billions of dollars being wiped off the share market, it may be tempting to sell, but this just turns a paper loss into a real loss with no hope of recovery. The best way to guard against making a decision to sell, on the basis of emotion after a sharp fall in markets, is to adopt a well thought out long-term investment strategy and stick to it.

2. Shares have a tendency to literally climb a wall of worry over many years with numerous events dragging them down periodically, but with the long-term trend ultimately rising and providing higher returns than other more stable assets. Keep in mind, bouts of volatility are the price we pay for typically higher, longer-term returns from shares.

3. When shares and growth assets fall they are cheaper and offer higher long-term return prospects. So, the key is to look for opportunities that the pullback provides.

4. While shares may have fallen in value, the dividends from the market haven't. So, the income flow you are receiving from a well-diversified portfolio of shares continues to remain attractive, particularly against bank deposits.

5. The economic environment globally and in Australia is still quite stimulatory, meaning interest rates remain at historically low levels (for the time being at least) making debt relatively cheap, which encourages investment. Monetary conditions in the US might be tightening, but they are still what we would consider easy, and they are still very easy globally, with monetary tightening still a fair way off in Europe, Japan and Australia. We are a long way from the sort of monetary tightening that leads into recession.

Dr Shane Oliver

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