



## 2015 OUTLOOK: 2 THINGS YOU NEED TO KNOW



The economic backdrop for the year ahead is likely to be fairly similar to what we saw in 2014; expect continued economic expansion but at a relatively modest and more uneven pace.

We expect growth of around 3% in Australia. At the same time, inflation is likely to remain benign and the Reserve Bank of Australia is projected to cut the cash rate to 2.25% early in the year with a 50% chance of another cut in the June quarter.

As we transition to a more balanced economy, investors should try to avoid getting too gloomy. Yes, the mining sector is slowing down, but low interest rates and a falling Australian dollar is providing great boost for non-mining parts of the Australian economy. While economic growth is still not strong enough to lead to a fall in unemployment, we expect that the job market in 2015/16 will start to pick up as the stimulus to the economy from lower interest rates and the falling Australian dollar starts to feed through.

**“Expect continued economic expansion but at a relatively modest and more uneven pace.”**



**DR SHANE OLIVER**  
Head of Investment Strategy and Economics and Chief Economist

### What does this mean for investors?

There are two key things that investors need to be mindful of:

1. What we saw in 2013 and in 2012 (returns of around 20%) out of shares is not sustainable over the long-term. Expect something more like 8-10%;
2. Every year experiences a lot of ‘noise’ and 2015 will be no different. This can be negative in terms of distracting you from your key investment strategy. Try and turn down the volume on the financial news and focus on maintaining a long-term investment strategy.

## KEEP YOUR INVESTMENTS ON TRACK THIS NEW YEAR

With the new year upon us, we explore the importance of retirement planning.

### Boost your income in retirement

There are a lot of moving parts when it comes to planning for retirement. You need to identify and prioritise your goals, estimate how much income you may need and assess your likely financial capacity in retirement. Then you are better positioned to work out what saving and investment decisions to take today that could help you boost your income in retirement. A financial adviser can help you through this process, considering your objectives, your personal circumstances and prevailing market conditions to recommend strategy that is most suitable to you.

**“Planning for retirement is an ongoing process that requires periodic review.”**

### Keep your investments on track

Planning for retirement is an ongoing process that requires periodic review. Throughout your working years, your planning may progress through a series of stages in which you will clarify your investment objectives, evaluate your progress and make decisions to build confidence that you are on track to reach your investment targets. Even after retirement, with market conditions and your personal circumstances subject to change, you should periodically review your investment strategy to ensure you stay on track with realising your dreams.



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### Final thoughts

Entering the new year, we encourage investors to reassess what they want to achieve from their investments, and to take action by speaking to their financial adviser to bring about these changes. While thinking of investing for retirement can seem overwhelming, it should encourage you to map out a clear path to success.

## SHEDDING LIGHT ON DARK POOLS

Dark pools are effectively private off-market exchanges that enable large or institutional investors to buy or sell large positions without disclosing their intentions to the market. While dark pools can offer price and liquidity opportunities to large investors, they also pose some significant risks. In this article we shed some light on dark pools, exploring the key benefits and considerations associated with these 'hidden' exchanges.

The **primary** advantages of using dark pools are:

- > **Anonymity:** Participants do not disclose their trading intention to the exchange prior to execution. This can limit adverse price movement prior to execution.
- > **Lower dealing costs:** Avoiding exchange fees and offering the opportunity to price at the mid-point of the bid/ask spread rather than paying the full spread.
- > **Added liquidity:** Access to liquidity unavailable on public exchanges.

### What are the issues associated with dark pools?

A lack of transparency can make these exchanges vulnerable to potential conflicts of interest by their owners and other predatory trading practices. Dark pools may also result in a pricing disparity between the private exchanges and the public exchanges. This is because dark pools do not disclose trade details until after the transaction, potentially hindering price discovery. These factors need to be carefully considered and reviewed when making an informed decision regarding the use of dark pools in the dealing process.



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### Final thoughts

Dark pools are one of many valuable resources for the institutional investor that should be properly analysed and considered when transacting on behalf of clients. Used properly, dark pools can offer price, cost, and liquidity advantages to the institutional funds that ultimately benefit the retail investors who own these funds.

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## MANAGED FUNDS: WHAT'S NEW?

Managed funds, which allow you to pool your money together with other investors so that you can invest in a range of assets that may otherwise be out of your reach, are growing in popularity in Australia. In this article, we discuss some recent developments and explore some of the things you may need to consider.



**“New services... allow investors even easier access to managed funds.”**

### Why are managed funds popular?

- > **Diversification:** By spreading investments across different fund managers, companies, industries, sectors and/or countries, managed funds lessen the risk that one bad investment will significantly reduce the overall value of the portfolio. To achieve this level of diversification on your own, you would need large sums to invest.
- > **Liquidity:** Typically, you can easily redeem parts or all of your share/units.
- > **Access to a broad range of expertise:** Managed funds are managed by a professional fund management team who provide you with expert fund management (research, select and monitor your investments) as well as regular reporting. When you invest in a managed fund you have access to a broader range of assets that may not be readily available (or affordable) to smaller individual investors. You can also access a broad range of assets or markets with a relatively small amount of cash.

### Recent developments

There are new services available to allow investors even easier access to managed funds. For example, the Australian Stock Exchange has recently launched an mFund Settlement Service which allows investors to buy, hold and sell units in unlisted managed funds through a process similar to buying and selling shares. This development provides greater choice, control and flexibility when constructing portfolios. Before making a decision you should always read all relevant documentation, conduct your own independent investigations and analysis of the fund, and obtain appropriate financial, legal and tax advice.

## Economic indicators

Gross domestic product (annual rate %)*	Latest	Current	Previous	1 year ago
World (IMF/OECD)	31 Dec-2013	2.9	n/a	3.1
Australia	30 Sep-14	2.7	2.7	1.9
China	30 Sep-14	7.3	7.5	7.8
European Union	30 Sep-14	0.8	0.8	-0.3
United States	30 Sep-14	2.7	2.6	2.3
Inflation (annual rate %)*	Latest	Current	3 months ago	1 year ago
Australia	30 Sep-14	2.3	3.0	2.2
China	30 Nov-14	1.4	2.0	3.0
European Union	30 Nov-14	-0.2	0.3	0.8
United States	31 Oct-14	1.3	1.7	1.2
Official interest rates (%)*	Latest	Current	3 months ago	1 year ago
Australia	31 Dec-14	2.50	2.50	2.50
China	31 Dec-14	3.53	2.53	3.15
European Union	31 Dec-14	0.05	0.05	0.25
United States	31 Dec-14	0.25	0.25	0.25
Bond yields (%)	Latest	Current	3 months ago	1 year ago
Australia 3Y	31 Dec-14	2.13	2.71	2.95
Australia 10Y	31 Dec-14	2.74	3.48	4.24
United States 2Y	31 Dec-14	0.66	0.57	0.38
United States 10Y	31 Dec-14	2.17	2.49	3.03

## Exchange rates

Official interest rates (%)*	Latest	Current	3 months ago	1 year ago
Australian Dollar / Chinese Renmimbi	31 Dec-14	5.0770	5.3724	5.4158
Australian Dollar / Euro	31 Dec-14	0.6763	0.6927	0.6492
Australian Dollar / Great British Pound	31 Dec-14	0.5248	0.5398	0.5401
Australian Dollar / Japanese Yen	31 Dec-14	98.1161	95.9886	94.0314
Australian Dollar / United States Dollar	31 Dec-14	0.8184	0.8751	0.8946

## Share market analysis

Sharemarkets (in local currency)	5yrs (%pa)	3yrs (%pa)	1yr (%)	3 months (%)	1 month (%)
Australia: S&P/ASX 300 Accumulation	6.5	14.7	5.3	2.9	2.0
Germany: DAX Accumulation	10.5	18.5	2.7	3.5	-1.8
Global emerging markets : MSCI Accumulation (AUD)	3.7	12.2	6.9	2.1	-0.5
United Kingdom : FTSE 100 Accumulation	7.7	9.6	0.7	-0.3	-2.3
United States : S&P 500 Accumulation	15.5	20.4	13.7	4.9	-0.3

\*Data is most current available

+Rates are expressed as 1 Australian Dollar (IMF/OECD) purchasing-power-parity

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