



FIDUCIAN FOCUS

Summer 2017

Welcome to the Christmas Newsletter from Fiducian Financial Services, Wishing you a Merry Christmas and Prosperous 2018

As we edge towards Christmas and sharing a break with family and friends, it's a time for giving, reflection and evaluation.

Being parents or grandparents, we spend a lot of family time preparing our houses to make Christmas special and then there's the arduous task of thinking about what we can give our kids.

Every parent wants to give their kids all they can, to make their childhood years fun and engaging, and to set them up for life in the future.

One such gift we can all provide our kids is money management skills and with free time over the break it's a good opportunity to teach them.

Studies show that children form habits by the age of 7, so those early years are important. You can help kids get into good money habits by encouraging them to budget and save their pocket money. As they get older, set up a bank account and explain how compound interest works. We have a refresher article on compound interest on page three of this issue. Once kids start working, they'll already understand the value of compound growth. By putting aside a little from each pay into a savings account, they will be setting themselves up for financial security down the track.

Once again, we wish all our clients the happiest of holiday seasons, and look forward to working with you into 2018.



THE OUTLOOK FOR INTERNATIONAL SHARE MARKETS

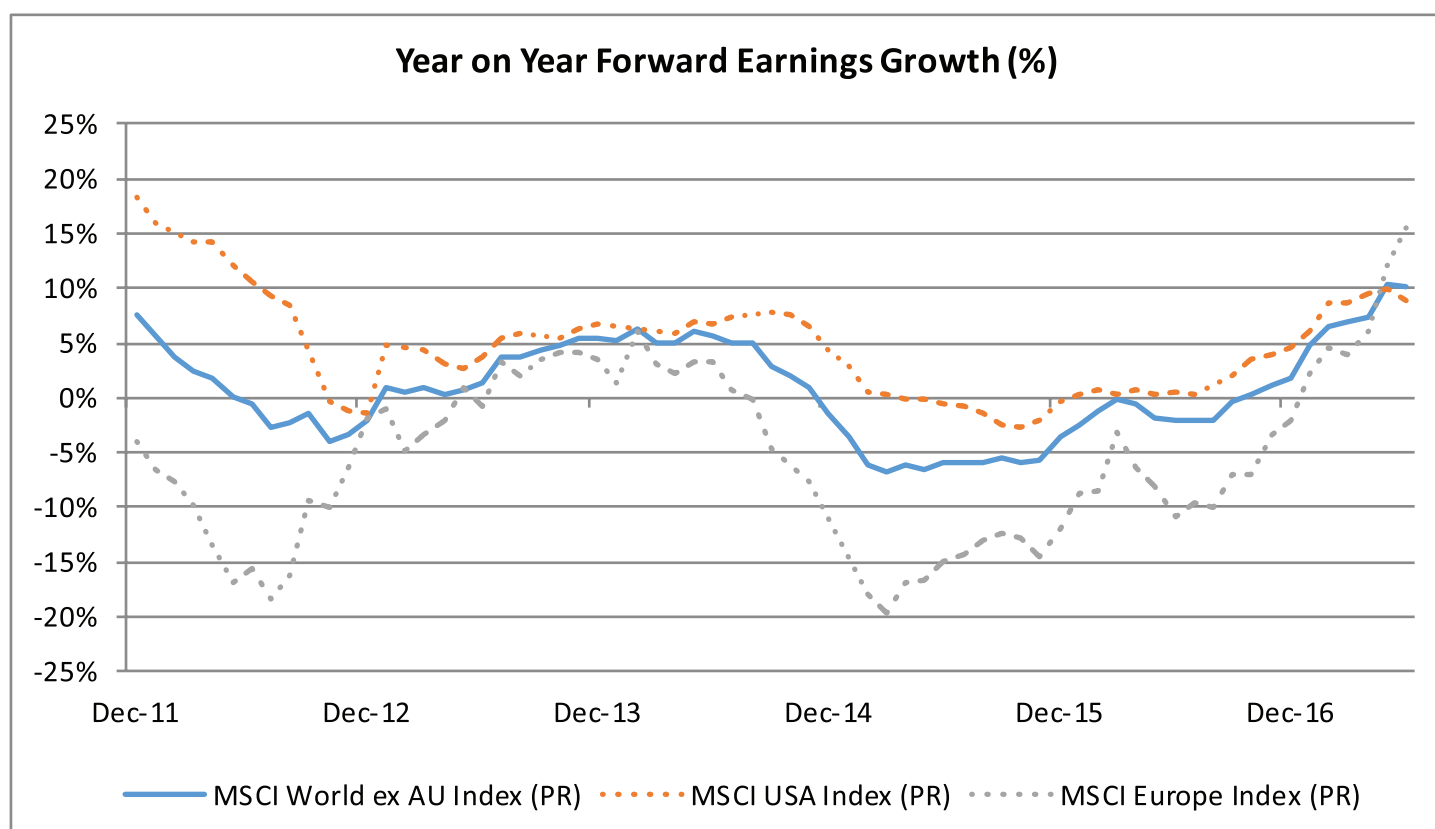
*Olivia Engel, Deputy CIO, Active Quantitative Equities, State Street Global Advisors
(State Street is an underlying manager for the Fiducian International Shares Fund)*

In recent months we have seen continuing evidence of economic and earnings growth all over the world. The latest rate rise by the US central bank (the 'Fed') signals its comfort in the level of growth in the US economy, with home sales generally trending higher and labour market conditions appearing to be strong. In Japan, the June Tankan survey showed improvement in business sentiment, as well as improvement in firm external demand and domestic demand. French business confidence is at a high not seen since July 2011. The overall Euro zone region PMI (Purchasing managers' index) remains at a level indicating expansion at 56.6 in July.

However, stock market valuations are still high: the price to earnings ratio of the MSCI World index as at 31 July was 21.6 (trailing earnings) or 16.8 (12 month forward earnings).

In an environment of ongoing economic recovery and elevated valuations, it is a challenging time to make top down macro decisions. First, there is not a lot of flexibility in this approach, for example, when drilling down into specifics, such as asset allocation calls or market timing calls. Secondly, the opposing forces on markets of elevated valuations on the one hand and earnings recovery on the other, can be difficult to balance.

While most of our time is spent on selecting companies on the basis of their attractive characteristics, we can infer things from the top down that can help us determine which big picture aspects are likely to be most preferred by investors at any given point in time. For example, when investors are showing signs of risk aversion, they will typically prefer stocks that have high quality characteristics, or are defensive in nature. Spikes in volatility due to unforeseen market shocks usually lead to acute risk aversion. As another example, when economies are showing signs of recovery, previously out-of-favour or cheap companies can become attractive again, as investors become comfortable with the improved economic environment. Currently, most major regions around the world are witnessing improving economic conditions and we see this as positive for companies with strong growth and sentiment indicators. However, we also observe that in aggregate, optimism has taken market prices and forecast earnings to new highs as shown in the table below. These extended valuations, particularly in the US, point to caution.



WHAT EVERY INVESTOR NEEDS TO KNOW

Compound interest has been described by Albert Einstein as:

'The eighth wonder of the world'

Compound interest is a fundamental component of wealth creation and by understanding and applying just this one powerful principle, you can make a significant difference to your financial independence and lifestyle over the long term.

Compounding is the effect of earning interest on interest. By saving and letting interest accumulate, you can achieve your financial goals faster.

Let's take a simple example to illustrate the point.

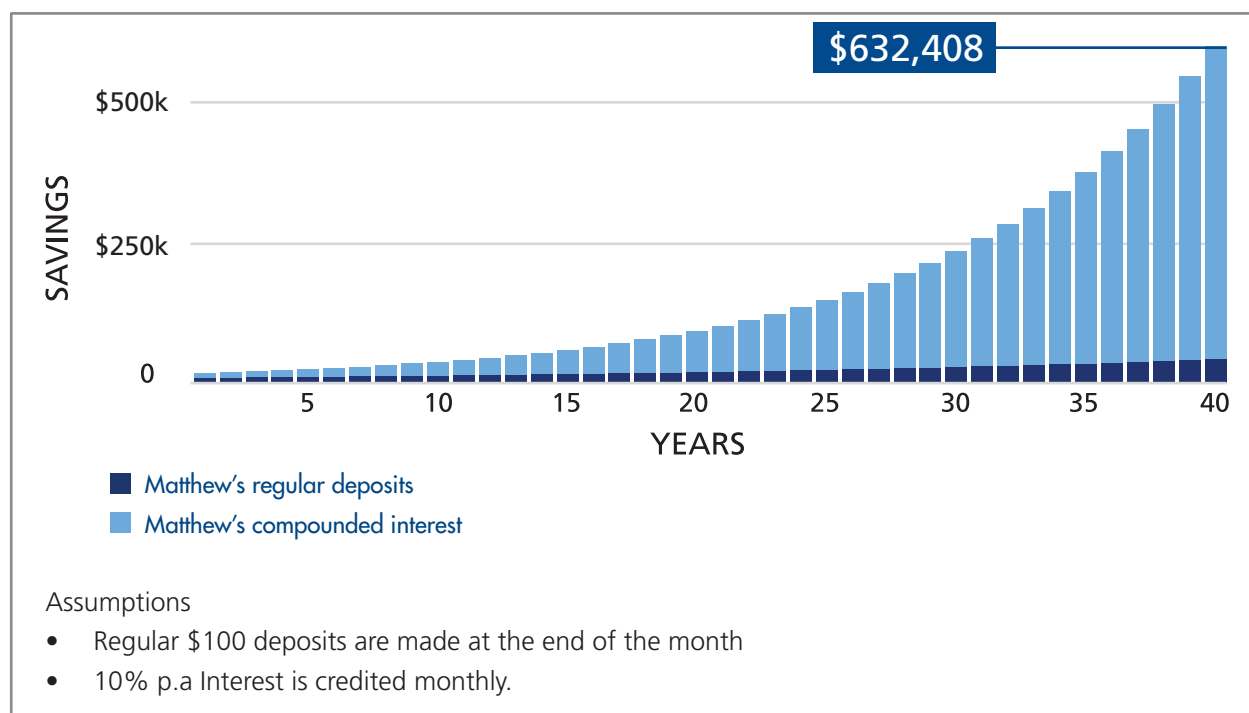
Case Study

Matthew is 20 years of age and he has just started a new job. He has \$100 a month spare which he can either spend or save. He decides to save his \$1200 a year in an investment that is going to return 10% per annum. Let's look at how much he has saved by the time he is 60 years of age

Over 40 years, Matthew has deposited \$48,000 through his own regular deposits, but his interest over the period, with the power of compound interest has accumulated to \$584,408, making his balance a total of \$632,408.

Lessons to be learned

1. Learn to live on less than you earn and invest your disposable income – 10% is an amount to aim for but start with less if that is all you can afford.
2. Seriously consider starting a regular savings plan as soon as you can to take advantage of compounding. No matter what your age and no matter how small your initial savings amount might be, the power of compounding will work for you. The sooner you start the better, as shown by our example below. Encourage your children to start saving and investing at an early age.



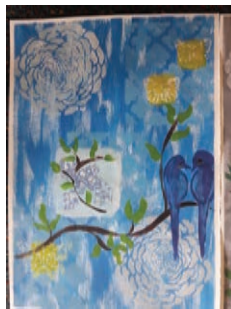
NOWRA GOLF & CRAFT DAY



The Nowra Fiducian office recently ran its 16th Annual Charity Golf & Craft Day. Held at the Nowra Golf Club beside the picturesque Shoalhaven River, 40 golfers and craft lovers took part this year in raising funds for Fiducian's charity 'Vision Beyond Aus' (VBA).

VBA provides free eye surgery and medical treatment to restore the sight of the world's most disadvantaged men, women and children. The work that is achieved through VBA and its volunteer Australian medical practitioners gives people born into poverty across India, Nepal and Cambodia a better chance to live a better, healthier life and an opportunity to contribute to their community. Every dollar helps to save someone's sight.

Visit visionbeyondaus.org.au to donate.



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