



Welcome to the Autumn Edition of the Strategy First Newsletter. A wise man once said, "investing is a marathon, not a sprint". With those words in mind, Strategy First now has 5 years of performance data on our Investment Philosophy so in this edition, alongside a few other things, we will review how well it has performed against our market peers. Hope you enjoy the newsletter and as always, we welcome your feedback. From all the team at Strategy First, we wish you all a great Easter.

## The Investment Marathon

Whilst in terms of the Investment 'Marathon', 5 years is still early days. It provides a sufficient period of time to assess how well our Investment Philosophy has performed over one of the most difficult investment market cycles in 50 years.

To critically assess the performance of our Investment Philosophy, we run a 'live' fully invested 'Growth' Portfolio and compare the performance against all other Growth Funds available in the Australian market place (including Industry Super Funds) every six months. A Growth Fund is categorised as having an exposure to shares and property of between 60% to 80%.

The table below shows the 1, 3 and 5 year performance to 31 December 2009 of the Strategy First Growth Portfolio against all other Growth Funds as measured by funds management research house, Morningstar. Returns are after fees, but before tax.

**INSIDE THIS ISSUE:**

1. The Investment Marathon
2. 10 Year Forecast Returns
3. Market Timing Problems
4. The Price of Gold
5. Our Client Survey Results

	1 Year	3 Years	5 Years
<b>Strategy First Growth Portfolio</b>	<b>19.9</b>	<b>-0.8</b>	<b>5.4</b>
Upper Quartile (Top 25%)	20.3	-1.1	4.8
Median	18.3	-2.2	4.4
Lower Quartile (Bottom 25%)	16.1	-3.6	3.6

The Morningstar Survey does not include Industry Funds. Therefore, we included all Industry Funds with calculated returns to 31 December 2009 (*Those not included, have not yet updated their performance beyond 30 June 2009*). In summary, the Strategy First Growth Portfolio **outperformed 30 out of 34** available funds over the past 5 years. Importantly, the results achieved from our process are robust and repeatable. The above performance does not take into account significantly higher levels of tax investors (in actively managed funds) are likely to pay, compared to the Strategy First Investment Philosophy.

As a recap, the key principles of our Investment Philosophy are:

- Asset Allocation is the key determinant of investment returns, not security selection or market timing.
- 'Passive' investment management is superior to 'active' management.
- Diversification is critical.
- Costs and taxes matter.
- Diversified tilts to 'value' and 'small' companies in the equity component of a portfolio increases risk but also return.
- The purpose of the defensive component of a portfolio is to provide liquidity and dampen volatility. It shouldn't be designed to take risk.

Apart from quarterly adjustments made to the asset allocation over the past 5 years, the core decisions we have made are:

- The removal of the Australian and Global Listed Property Trust exposure from the portfolio in March 2007, due to valuation concerns.
- The removal of the Australian and Global Small companies exposure from the portfolio in November 2007, due to valuation concerns.
- The re-introduction of Australian Listed Property Trusts to the portfolio in September 2008, after a 40% fall in the index but just prior to the Lehman Brothers crash.
- Hedging 50% of the currency exposure to International shares at 0.63 US cents in November 2008, following the dramatic plunge in the Australian dollar.
- A switch from high quality Bonds within the defensive component of the portfolio, which had become expensive, to cash and rolling 90 day Term Deposits in March 2009, as the easing of the domestic interest rate cycle came to an end.

Whilst we can never know what the future will bring, what we do know is our Investment Philosophy is grounded in 50 years of peer reviewed academic research, which will ensure you earn the return you are entitled to from investment markets. Whatever the future delivers, here's hoping the next 5 years is a smoother ride than the past 5!

## 10 Year Forecast Returns

The table below outlines our 10 year forecast returns for each asset class in March 2009, compared with expectations for the next 10 years, based on March 2010 valuations. The forecast returns are used to make an assessment on whether we see an asset class as cheap, fair value, fully valued or expensive.

Asset Class	Forecast Return March 2009 ( % p.a.)	Forecast Return March 2010 (% p.a.)	Status March 2010
Cash	4.2	4.9	n/a
Fixed Interest	4.2	6.5	Fair Value
Listed Property	12.5	6.6	Fully Valued to Expensive
Australian Shares	15.9	8.1	Fair Value to Fully Valued
International Shares	16.0	6.8	Fully Valued

The recovery in prices since March 2009, has resulted in valuations for:

- Fixed Interest moving from being expensive to fair value as interest rates have risen.
- Listed Property has moved from being cheap to the top end of our fully value range (i.e. almost expensive).
- Australian shares have moved from being cheap to the mid point of our fully valued range.
- International shares have moved from being cheap to the top end of our fully value range.

In the case of Listed Property and International Shares, there is little to no premium to currently buying those assets relative to high quality Fixed Interest over the next 10 years.

## Market Timing Problems

Market timing is hard. We know that. But just how hard is it? US financial market and media commentator Mark Hulbert has been tracking more than 160 financial newsletters since 1980, so he is in a better position than most to judge the effectiveness of market timers. This article was published in The Wall Street Journal on 10 March 2010 – just over 1 year after the low point reached in markets on 6 March 2009. The Author's intention was to see how well the forecasters were at picking not only that major inflection point but also the other key turning points throughout the past decade. Please see an excerpt from this article below.

*"Here's this week's investment pop quiz. The first question: How many stock market timers, of the several hundred monitored by the Hulbert Financial Digest, called the bottom of the bear market a year ago? And a follow-up: Of those that did, how many also called the top of the bull market in March 2000 - or, for that matter, the major market turning points in October 2002 and October 2007? By the way, I have an ulterior motive in asking these questions. I've noticed many of the analyses of this week's anniversaries are guilty of rewriting history, making the last year and the last decade seem more predetermined and obvious than they were in advance. For example, one common theme this week has been to marvel at the folly of those who, 10 years ago, actually believed the hype about the Internet. Need I point out, those fools were all of us? It's one thing to say now, with the benefit of hindsight, the stock market in March 2000 was wildly inflated and ready to plunge. It's quite another to have predicted it at the time. The same goes for the end of the bear market one year ago.*

*I designed my pop quiz to illustrate just how much Monday-morning quarterbacking is going on. It turns out none of the markets timers I monitor were able to call the last decade's market's major turning points.*

*To be sure, there is no exact definition of what "calling" a market top or bottom involves. In the case of the March 2009 bear market bottom, for example, does "calling" it mean the adviser's portfolio needs to have moved from being all cash to 100% invested in stocks on the exact day of the bottom? If my analysis had relied on a definition as demanding as this, then it wouldn't be surprising no timers called recent market turning points. But my analysis actually relied on a far more relaxed definition. Instead of moving 100% from cash to stocks in the case of a bottom or 100% the other way in the case of a top, I allowed exposure changes of just ten percentage points to qualify.*

*Furthermore, rather than requiring the change in exposure to occur on the exact day of the market's top or bottom, I looked at a month-long trading window that began before the market's juncture and extending a couple of weeks thereafter. However, even with these relaxed criteria, none of the market timers the Hulbert Financial Digest has tracked over the last decade were able to call the market tops and bottoms since March 2000.*

*These results add up to perhaps the most important investment lesson of all that can be drawn from this week's market anniversaries. Predicting turns in the market is incredibly difficult to do consistently well. That means, if your investment strategy going forward is dependent on your anticipating major market turning points, your chances of success are extremely low".*

## Gold Gold Gold

The latest certainty doing the rounds of the popular media is that we should be loading up on gold to protect against a collapse of currencies everywhere.

Last year, well-known commentator Marc Faber went so far out on a limb as to proclaim all currencies were heading towards zero as inflation roars back to haunt us all. And the way to protect ones assets against this, apparently, is to buy gold like there is no tomorrow. Norman May would love it! The idea is gold is a good inflation hedge, the price of gold will rise as inflation escalates.

As usual there is some truth in this. For centuries, gold has held its value through periods of inflation, deflation, wars, pestilence and famine. Put another way, the price of gold in the long term has increased at about the same rate as inflation.

This is the same as buying an investment with an expected real rate of return of zero. Of course, in the medium term, the gold price fluctuates much more than the Consumer Price Index and, as a result, it is sometimes cheap and sometimes expensive.

Buy it when it is cheap and you will get long-term returns above inflation; buy it when it is expensive and you will earn long-term returns below inflation (That is, negative real returns). So, is gold expensive or cheap right now? Here's a clue. Over the past decade, the US CPI has risen by 22% and the gold price has risen by over 300%.

In inflation-adjusted terms, gold is close to its 1979 peak. Buyers in 1979 saw the price fall by 70% in the ensuing 20 years, a period when the cost of living doubled. That's a 85% loss of purchasing power. And this gloomy analysis holds even if inflation does indeed take off.

If you are really worried about inflation, cash is a better option. It will at least produce positive real returns. As for gold, remember rule number 1 - don't buy expensive assets. Gold, at these prices as an inflation hedge? It's nuts. And you can clearly see it's nuts.

Source: Tim Farrelly

## Our Client Survey Results

Thank you very much to all those who participated in our Client Survey. We greatly value your opinions and congratulations again to Roz Batten who won the IPOD.

The key findings from the survey were very encouraging, with positive results in the areas of overall service, staff professionalism and the quality of our advice.

Another very clear message from the survey, was your desire to have more contact with your adviser and the Strategy First team. As a result of this feedback and to meet your demand, we have commenced an initiative to review our client service and communication offering. We will be back to you in the June and September quarters with updates in this area.

Finally, 93% of you said you would like to refer Strategy First's services to friends, family and colleagues. Thank you for this endorsement and, as a result, we are working on a program to make that process much easier.

## Staff Changes

Some of you may already know, but as of 19 March, we said goodbye to Casey our receptionist. After 12 fabulous months, being part of the Strategy First Team, Casey has moved back to the Central Coast to be closer to family and new opportunities. We would like to thank Casey for her great attitude, her friendly demeanor and her great work ethic. She will be missed.

Every cloud has a silver lining and with Casey leaving, we welcome two new people to the Strategy First Team, Kasey and Annabel, who will be sharing the responsibilities of reception. Please make them feel welcome.

## OUR STRATEGY FIRST TEAM



Patrick Anwandter  
David Hardman  
Anneliis Matthews  
Diana Plenty  
David Price  
Rebecca Xenita  
Rhys Phillips  
Kasey Rushton  
Annabel Marsden