Joel Mitchell AR 307719
Third Sector Advantage Pty Ltd
ACN 149 714 321 T/A
Insight Wealth Solutions
PO Box 180
Montmorency VIC 3094
joel@insightws.com.au
www.insightws.com.au

TAX INVOICE

ABN 56 149 714 321

Third Sector Advantage Pty Ltd

22 July 2017

Ron & Marian McDonald
44 Colony Club Drive
Newlands Arm VIC 3875

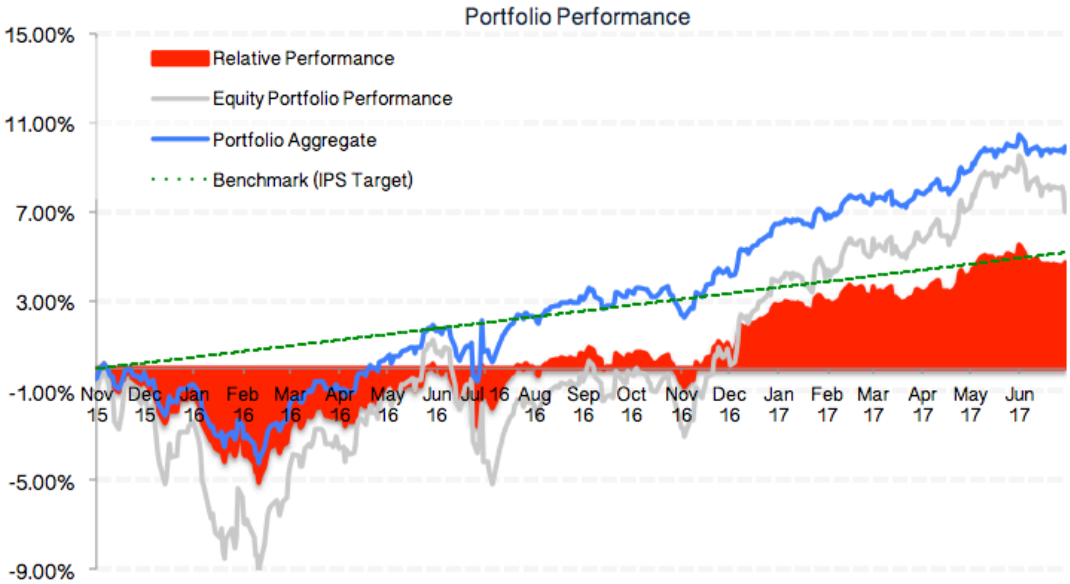
DESCRIPTION	AMOUNT INCLUDING GST	GST
Consultant Retention Fee (CRF)	304.11	27.65
Asset-Based Fee (0.55% p.a.)	1,248.92	113.54
	Total GST	**141.18**
	TOTAL DUE	**1,553.03**

Insight Wealth Solutions Satisfaction Guarantee

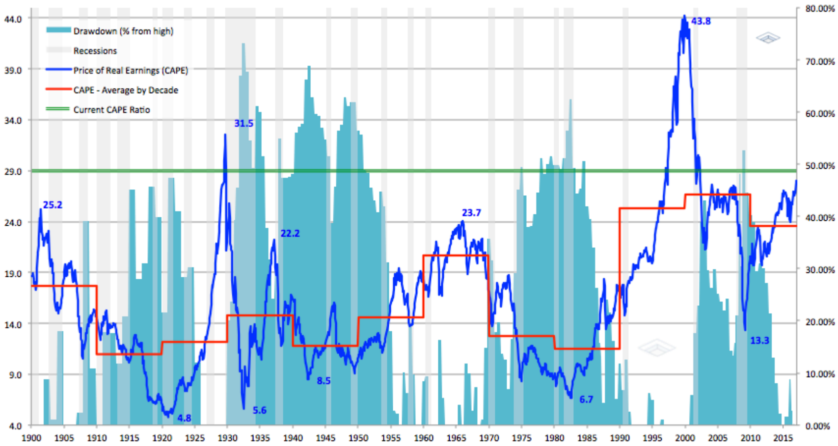
If for whatever reason you are not completely satisfied with our services we will, at your option, either waive our advice fees or accept a portion of fees that reflect your level of satisfaction.

Warm regards,

Joel Mitchell, CFA®
F. Fin, MAppFin, CIPM®, GDFP, DFS
Director, Private Wealth
Third Sector Advantage



For the five months to 30 June your SMSF portfolio generated investment returns of around $35,183, outperforming your benchmark by approximately 1.78%. While this result is encouraging it hides the increasingly difficult conditions within equity markets. Specifically, if we look at risk premiums underlying equity markets (that is, implied market risk discount rates less inflation) we see that we are approaching levels similar those immediately preceding the GFC (the "tech boom" of the late '90s was the only time it's been higher).



This, in itself, says little about how things will play out from here, except to say that **from current levels, future returns will be lower and risk will be higher**. However, unless something changes dramatically in investor psychology in the coming months and years (and I am betting it won't) we should expect that investors will want to be compensated for this higher risk **and** will not be particularly eager to be paid less for the privilege of lower returns. Thus, we expect risk premiums to risk, and with it asset prices to fall.

Naturally this raises two important questions: *When will this occur*? And *how bad will it be*? I can't answer either of these, at least not with any confidence. In research conducted earlier in the year we found a loose relationship between inflation-adjusted earnings and a rolling seven-year measure of earnings and five-year prospective returns. In other words, our best guess is that in the next five years or so we will see markets stage a "correction". The extent of falls will depend on a whole range of factors, though from current prices something around 25% (give or take 10%) seems about right.

This is part of the reason we have been increasing exposure to the $USD; if the market does take a tumble it is very likely we will see the $AUD weaken. From the current level of around US$0.79 per $1 AUD, a more risk averse climate could easily see Australia's currency risk premium increase 0.5%, which, in turn, would see the $AUD fall to about US$0.62 (a 20% fall in the dollar, but a 26% boost for $USD assets). Combined with a market fall of 25%, this would translate to a net loss of about 5.5%.

Our concerns over market valuation, and in an attempt to manage this risk while still generating good returns, earlier this year we took a position in the Wingate Global Equity Fund, which uses a covered option-writing strategy to generate income, plus an additional investment in Epoch Global Equity Fund, which focuses on underlying cash flow and capital allocation policies. Both are more conservative than the general market, and should underperform over the mid-to-long term, but will protect capital (or at least be left holding better quality assets) should the markets fail to continue its march higher.

Over coming weeks and months we will likely recommend further changes, with clear emphasis on managing risk. A final note on this point, as you may recall from our initial discussions and advice, it is important we don't become too attached or loyal to our investments. Clearly we have had a number of very good investments within your portfolio. Allan Gray is a standout performer (number one performing Fund in Australia last year), as is PM Capital's Global Equity Fund (#1 from 207 Global Funds). Each Fund's success can be attributed, in part, to the skill of their investment teams. However that was not why we invested in either of them. For Allan Gray we wanted to get a meaningful exposure to the materials sector, which, at the time, I saw as being heavily undervalued. For PM Capital we wanted exposure to consumer products throughout Europe and Asia. In each case they have delivered good results, but the moment they no longer meet the purpose for which we employed them, we should be prepared to sell them. For the last several months I have been tracking Allan Gray's portfolio very closely and I believe we are approaching a time where a sell-down (maybe not all, but some) will be required.