# IT IS CONFIRMED

AUSTRALIA IS THE LUCKY COUNTRY

...BACKED BY PROPERTY


## AUSTRALIA IS THE LUCKY COUNTRY

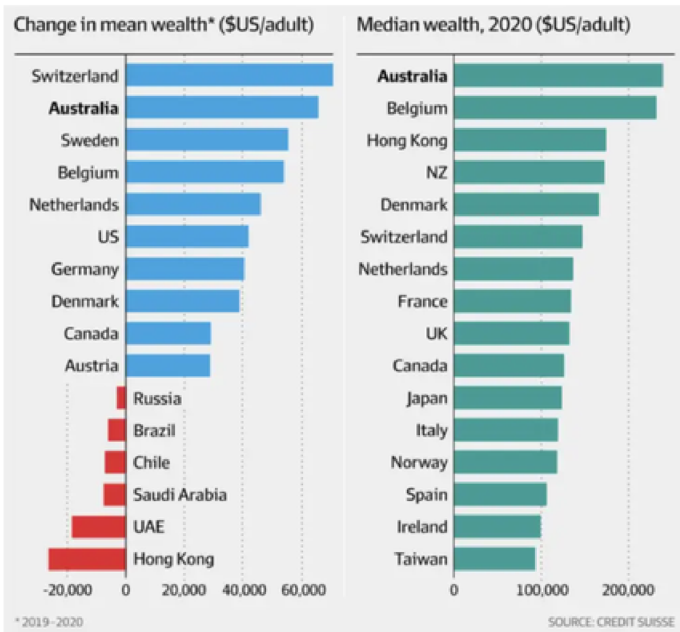
BY PAUL MIRON

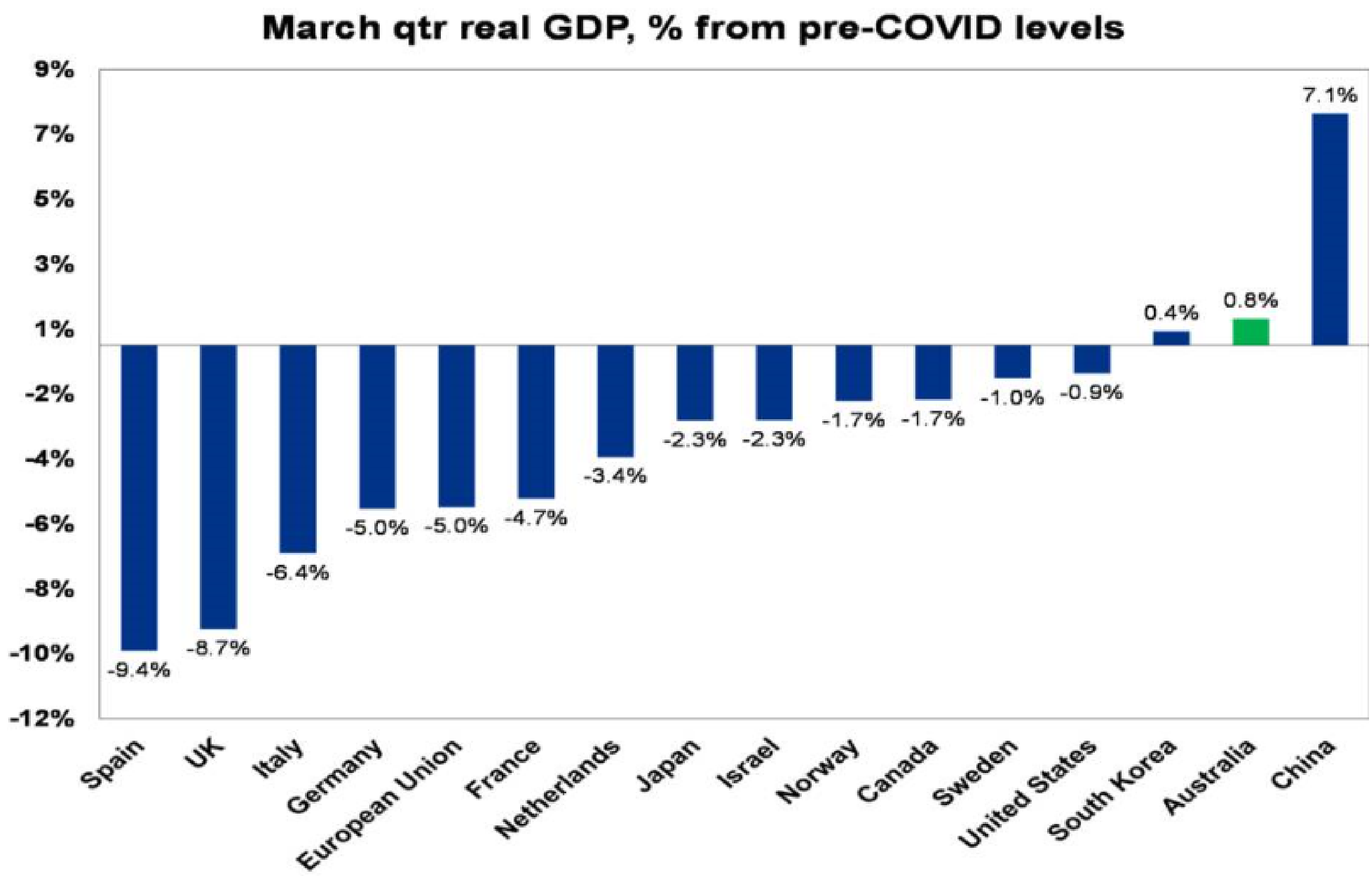
The end of financial year normally marks an annual ritual of self-assessment of one's investment portfolio performance relative to the market as well as creating financial goals for the next 12 months.

A key takeaway from living through the extraordinary circumstances due to Covid-19, is to ***expect the unexpected.***

According to Credit Suisse, Australians have become financially the wealthiest people in the world. This has been driven by the ongoing performance of our two principal sources of wealth - **housing and financial assets**, underpinned by robust GDP growth.

With record-low interest rates, asset prices have essentially experienced a boom, with house prices being the largest contributing factor, adding an extra 7 trillion dollars to our net wealth.






Source: OECD, ABS, AMP Capital

Whilst still being in the epicentre of the pandemic, Australia has performed remarkably well notwithstanding international border closures and associated lack of tourism and international students. Remarkably, the construction industry and certain property types, such as units, have not faltered despite limited international immigration and a substantial exodus of temporary residents from Australia.

In fact, due to record iron ore prices and in increase in demand for mining products in combination with an elevated Australian dollar, we are one of only three countries in the world with GDP now higher than pre-pandemic levels. Once again, Australians collectively have done much better compared to the rest of world.

As a result, the extraordinary V shape recovery is placing pressure on supply chain constraints and the combination of labour shortages resulting in the inflation bells sounding the alarm.

In line with my last article, “Inflation can be your friend”, the current debate over inflation is becoming the number one “hot” economic topic, as the risk to the economy and its stability is based on interest rates remaining low in the medium term. We are presently operating under the Reserve Bank’s proclamation that interest rates will remain unchanged until 2023. Ultimately, interest rates may need to rise earlier to combat inflation if required. This will inevitably deflate most asset classes modestly at best, or, at worst, will result in a crash and economic recession. As the market grapples with the two opposing views on whether inflation is transitionary or not, we should anticipate more volatility and heated debate on this topic.

It is Msquared’s view that inflation is indeed transitionary, and that the government will intervene in the investment property market if or when required to ensure the market does not overheat. We do believe that if the government is unable to open international borders at the end of the year and manage the vaccination rollout more effectively, there is a real risk and impact to both economic fundamentals and our overall business and consumer confidence.

In considering the current economic environment and the uncertainty created by Covid-19. How can investors continue investing with confidence?

The collective wisdom of the greatest and most successful investor's such as Warren Buffet, Jack Bogle, George Soros and Ray Dalio, just to name a few, put it it down to a simple formula of the following:

1. Understanding risk.
2. Diversification across asset classes.
3. Ensuring that you are constantly invested in the market irrespective of the current market cycles.

**The appreciation and understanding of risk**

Put simply, it is the appreciation of the risk of loss of capital relative to the reward. Most investors' attention is drawn to the promises of return rather than an assessment of any downside risk, such as the possibility of losing capital.

Ultimately, once an investor experiences capital losses one of two behaviours emerges:

1. The fear of investing
2. Taking an even greater risk on future investments in an attempt to recoup the loss.

Either strategy is essentially a disaster long-term.

Understanding and appreciating risk is a learnt skill and you can now tap into the acquired knowledge which suggests:

1. To pause the temptation of trying to predict the market.
2. Not to follow fads and trends.
3. Not be swept up in the emotion of the moment.

As a result, we are experiencing structural changes to the investment market, there is excess capital and higher asset prices result in yield compression across all the markets. Demand for mortgages and alternative investment has never been higher. Investors are seeking higher returns due to favourable economic market conditions with disregard to the higher risks, which we see as a clear danger to investors if not managed appropriately.

Mortgage investment should be considered by investors as part of their overall portfolio due to asset preservations characteristics – as the underlying investment is backed by property, which, over the last 60 years has had a predictable nature of consistent and reliable income. These are the foundations of a well-balanced portfolio.

Msquared ensures that all investment opportunities are based on risk to reward as our core offering. Investors are in the driving seat when it comes to choosing the type of investments, risk and return via our unique structure. We share the rationale, expertise and due diligence with our investors enabling them to construct their fund portfolio.

All our investments are fully secured against a non-specialised property located in metro areas along the Eastern seaboard of Australia. This gives investors the peace of mind that the Msquared strategy can withstand economic shock and enable stable and consistent monthly returns.

If you would like more information, please feel free to contact me or our dedicated team of professionals in the office.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