





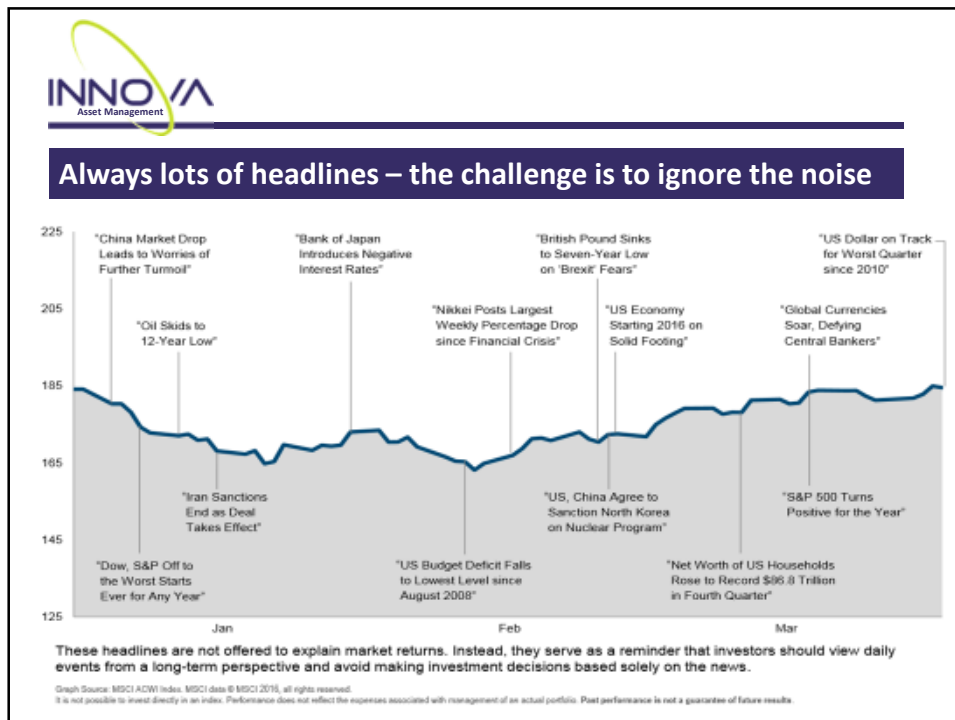
### **Important Information**

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**What do Innova do for clients?**



**Economies and Markets are different things**

- Strong economic growth does not necessarily equate to strong market returns
- Conversely, slow economic growth doesn't necessarily mean poor returns
- When investing, you are buying financial instruments such as a piece of a business, the debt of a business, part of a property with leases in force etc.
- The greatest factor that drives return is the price you pay
  - Pay too much, and even great assets provide poor returns
  - Pay less than something is worth, and even bad assets can make money

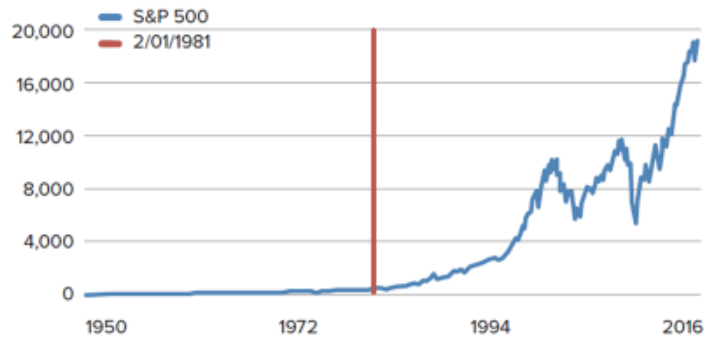
This may seem counter-intuitive because of all the economists on TV talking about markets. The media usually get it wrong.





### What about Developed Economies?

- Real economic growth in the US between 1950 and 1980 was 3.7%
- Between 1981 and 2014 it was 2.7%



Source: Bloomberg



### This also holds true in the short term

- Australian GDP growth was 3.7% in 2008, and dropped to 1.7% in 2009
- How did the market perform over this period?



Source: Bloomberg

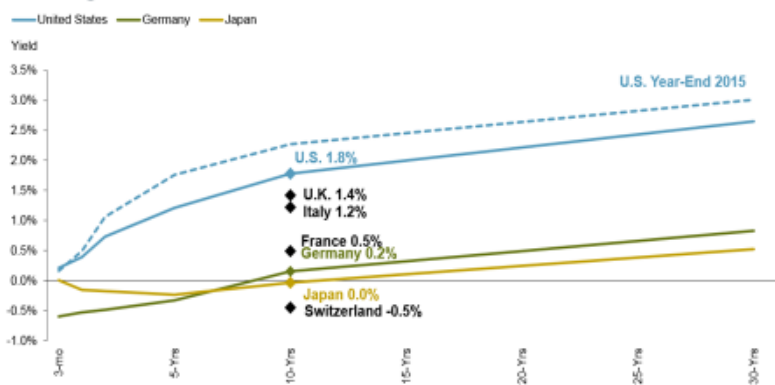


## Investment Markets Where are we today?



### Global central banking policies - an inadvertent war on savers

Sovereign Bond Yield Curves



Source: Haver Analytics 31/3/2016



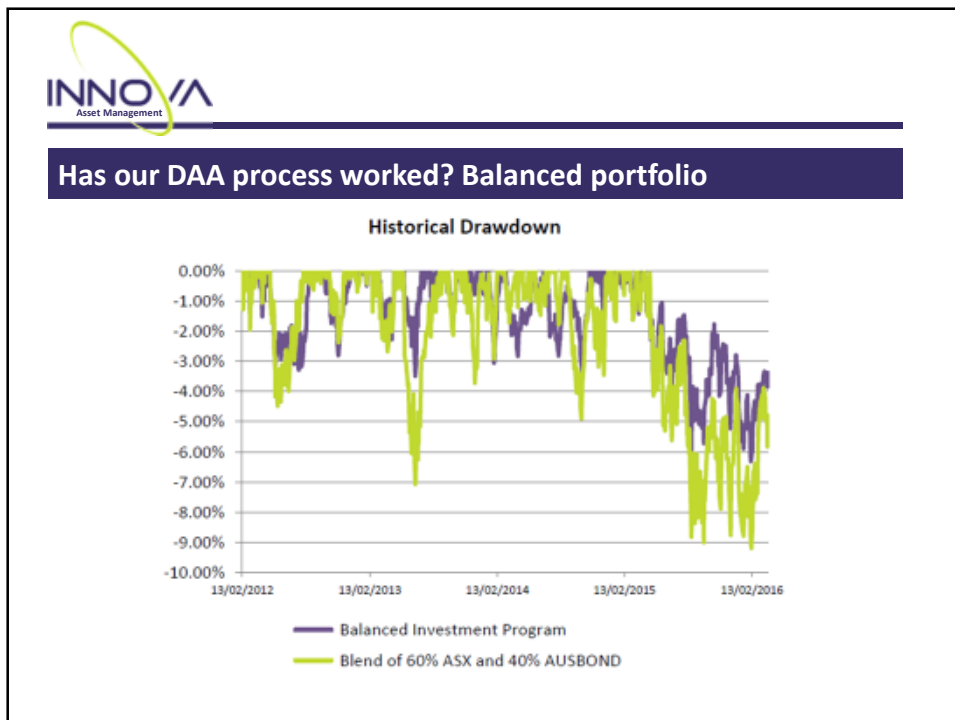
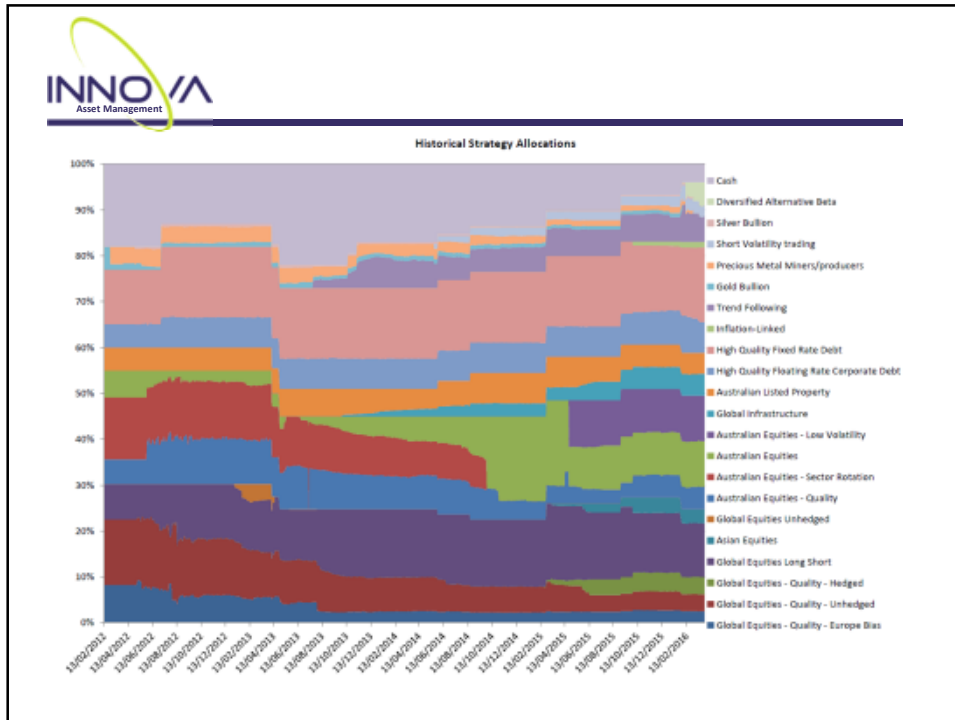
### Not much is cheap right now

- Right now is difficult
- Very little is cheap, most things are at fair value, and some things are expensive
- Australia
  - Equities at fair value – we topped up during the February lows
  - Bonds look expensive
  - Listed property looks very expensive
- Globally
  - US stocks and bonds look expensive
  - European stocks are relatively cheap, their bonds outrageously expensive
  - Asia, particularly China, looks more reasonably valued but people are scared
  - Russia is very cheap, but carries sovereign risk, so not cheap enough

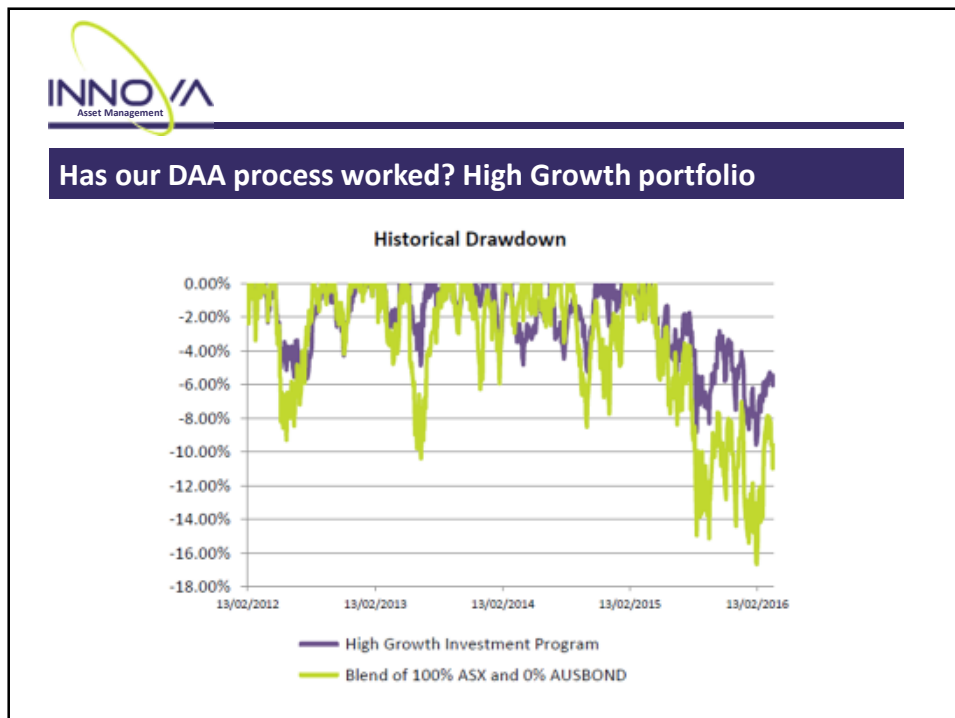
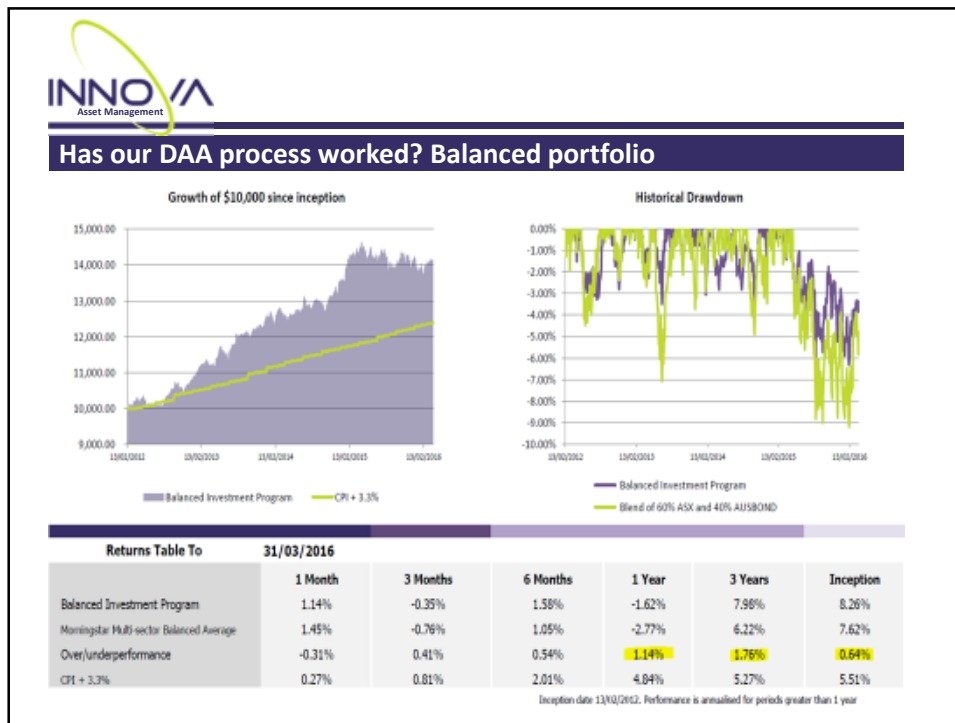


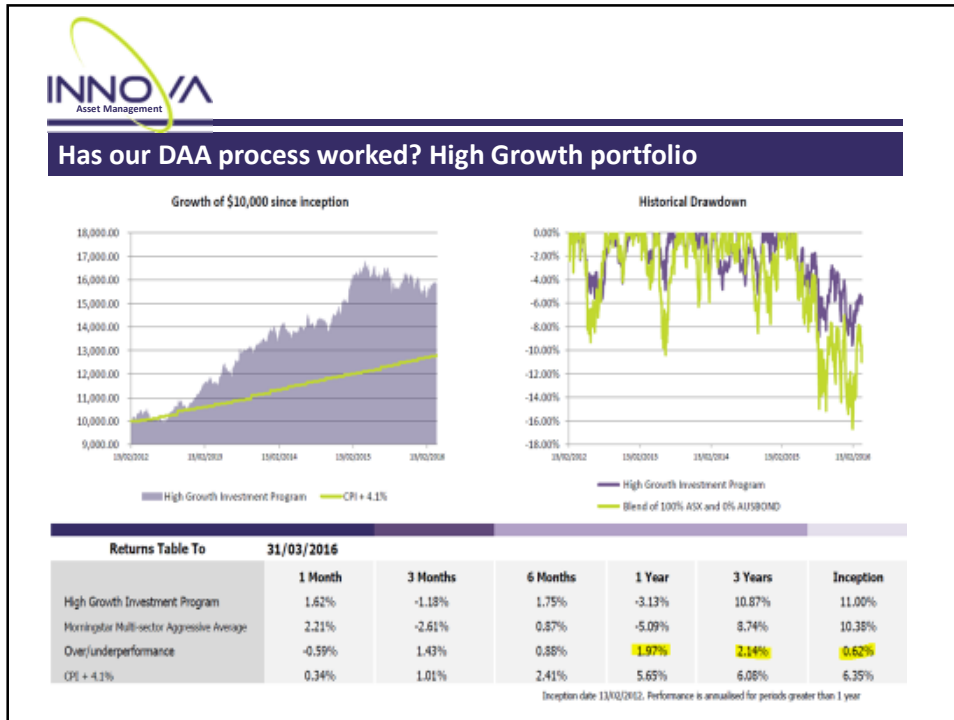
### What do you do if nothing is cheap?

- Diversify, diversify, diversify
- When you have high conviction, take big positions. When conviction is low or outlook is cloudy, reduce your position sizes and take more of them
- How are we diversifying?
  - Reduced Australian “quality” and increased allocation to “value”
  - An allocation to Asian Value
  - Reduced US exposure, but increased global ‘Quality’ exposure
  - Low duration bonds (floating rate instruments)
  - Infrastructure
  - Increased Alternatives (Market Neutral Strategies + Momentum + Selling Insurance (FX and Option premium))
- Get good advice – it’s easy to make money when everything goes up, it’s harder during the tough times
- Consider equity protection









Appendix



Why we like Floating Rate Instruments

Australian 10 year government bond yields from June-1857 to June 2014 (Source: Global Financial Data<sup>1</sup>)



## Protect your Investments – Capital Protection

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