

Profile's Corner

Winter 2015

Issue 20

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PROFILE
FINANCIAL SERVICES



PROFILE UPDATE

Welcome to Volume 20 of our quarterly client newsletter. In this section, I provide an update on what's happening at Profile.

By Sarah Abood, CEO

New offices

The move to our **new Parramatta office** is finally complete! We said good-bye to Creagh Cottage on the 10th of April 2015, and since then we have been busy settling in to our new Parramatta premises at Level 9, 100 George St. We are very pleased with our new home, which is right in the heart of the Parramatta CBD close to shops and public transport. We hope you are finding it convenient to visit – please let us know any feedback you have on our new premises.

We are also **moving our CBD office soon**, as our lease will expire at the end of August 2015. I am pleased to say that we have found a new location for our city office, at Level 2, 55 Hunter Street. Our new office will be only a few blocks from our current location (at Level 8, 261 George St), very close to public transport (train, bus and ferry) and just across the road from Chifley Plaza. We will keep you posted on the timing of our move – it will most likely be sometime during August.

Website

We have been working for some time behind the scenes on a **relaunch of Profile's website**, which is due to go live before the end of the financial year. You will still be able to access the resources and information you are used to, however the structure of the site will change a little, and the content has been streamlined, to make the website easier to access from mobile devices such as phones and tablets. We will send a note around when the new website is live, and would really appreciate any comments or suggestions you have on the new site.

People

We are very pleased to welcome Stephen Paull of **Aspire Wealth**, and his clients, to Profile. Stephen was previously a planner with Genesys Wealth, an AMP-aligned dealer group. After AMP decided to close down the group, Stephen reviewed the best available options for his clients and made the decision to merge his business with Profile. Stephen was keen to find a group that is not aligned to a financial institution, was experienced in supporting a wide range of clients' needs, and had a number of highly qualified and experienced planners. We're very proud to be helping the Aspire clients achieve their financial dreams!



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**Asset class returns referred to in this publication are based on the following indices: Australian shares: S&P/ASX 300 Accumulation Index. International shares: MSCI World (AUD) TR Index. Fixed interest: UBS Warburg Composite All Maturities Index. Cash: UBS Warburg bank bill Index. Gold: Spot Gold Bullion (USD).*

We have recently welcomed two new staff members to Profile.

Michael Kidd has joined us in the expanded role of Head of Operations. Michael's role is crucial to the smooth and efficient running of our practice and ensuring we continually improve and deliver great service to our clients!



Previously Michael was General Manager at a large eastern suburbs financial planning firm. He has a strong technology and business process improvement background, and was previously a CFP- a qualified financial planner. He holds a Bachelor of

Commerce from the University of Queensland and is a JP.



Also recently joining us is **Hannah Williams**, in the role of Associate Financial Planner, working with Kurt and Laura. Hannah comes to us with a very strong tax and SMSF background, having previously worked as a senior accountant at a small firm in Toowoomba (for those of you who don't know, that is west

of Brisbane....so she might understand Kurt's farming stories!) She is currently studying for her Masters in Commerce (Financial planning).



In other staffing news, Senior Financial Planner **Rick Capel** has decided to retire from active client work, having recently reached a certain milestone birthday. It has been two years since Rick took the decision to merge his previous business

(Capel and Associates) into Profile, and in that time he has impressed us all with his pure focus on his clients' interests and deep financial knowledge and expertise. Rick is a true gentleman and will be very much missed. We wish him all the best in the next chapter - a long and refreshing break combined with an overseas adventure!



Not exactly a staff member but a very important part of our team, **Peter Coleman** has recently joined Profile's board as Non-Executive Director and Chairman.

Peter is a highly experienced executive in the financial industry, with many years in senior roles, including COO of Michigan National Bank (in the US), Head of Business Banking for Yorkshire Bank (UK), and in Australia General Manager with NAB, and Head of Macquarie Private Wealth. Peter is also an experienced director including having been on the boards of Macquarie Equities, OzForex, Tolhurst and Financial Index Australia. Peter is also an in-demand executive coach. He is a member and graduate of the AICD, holds a Bachelor of Economics from ANU, a Bachelor of Business and Accounting from UTS and has completed the Harvard Program for Management Development (PMD). We are very happy to have Peter on the board, and he is looking forward to meeting Profile's clients at future functions!

INVESTING IN A RISK FREE WORLD, OR A WORLD WITHOUT A RISK FREE RATE

By Jai Parrab, Portfolio Manager

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Period returns to 30 April 2015 (%)

ASSET CLASS*	1 MTH	3 MTHS	1 YR
Australian shares	-1.7	5.1	10.1
International shares (\$A)	-1.5	4.7	26.4
Fixed interest	-1.1	-0.1	8.9
Cash	0.2	0.6	2.7
Gold (\$US)	0.1	-7.7	-8.3

It may be a truism, but the investment environment we find ourselves in has *never* existed before. It's not a scenario where you can seek the advice of wizened investors to explain "what happened last time", but rather one where not only current investors are left wondering what next, but also one where the policymakers setting the rules are in exactly the same position.

I would understand if you were starting to feel a touch concerned right about now. I know I am.

In reaction to the global financial crisis, major central banks around the world have taken their benchmark short-term interest rates to zero, and in some cases, negative.

This essentially means that short-term money is free. Of course, a majority of the market does not borrow at overnight levels, but instead at time periods ranging through to 30-years plus. But the simple premise remains that the starting point is zero. And this starting point in turn influences the entire risk spectrum ranging from long-term interest rates right through to stock market valuations and currency levels.

Most recently, the European bond market has stretched deep into negative territory, with Switzerland the first government to ever issue a 10-year bond at a negative interest rate. Investors are willing to lend money to the Swiss government for 10 years at a guaranteed negative rate of return - that is, they will guarantee themselves a loss over that ten-year period (even before inflation). German 10-year bonds nearly touched the negative as well, and many other periphery European government issuers were not too far behind. By the by, only four years ago markets were asking for significant premiums to invest with these governments because they were thought to be set to fail, or go bankrupt. Now markets are essentially paying them to invest!

There are many reasons being suggested by the market as to why investors may now be willing to accept such dismal rates of return. These primarily include: fears of deflation (thereby rendering the 'real yield' positive), regulatory motivations (capital provisioning required by banks and insurers), speculation (they're going even lower) and finally... desperation.

At first glance, desperation seems like a bit of a far-fetched idea. After all, if the interest rate on a long-term bond is negative, why wouldn't an investor just hold their money in cash (on deposit) instead? Well if you're living in Switzerland, or you're a non-Swiss European investor holding cash in Switzerland, your rate of return on that deposit is -0.25%. And why would a non-Swiss European investor move their money into such a weak return climate? Very simply, to escape currency effects. Their own central bank may be determined to weaken their own currency, essentially undermining any wealth they do not transfer to another currency domicile.

While some investors are prepared to accept a small negative rate of return on bonds versus a larger negative rate of return in cash, others have decided to take on more risk. This includes ventures into corporate bonds, junk debt, real estate, low-volatility equities, and eventually anything with a positive yield. Given the interconnectedness of global capital markets, this behaviour tends to impact all asset classes and across all regions. There is no escaping investment tourists' insatiable appetite for yield.

Other than a minor setback in 2011, which was quickly recouped, bond, credit and equity markets have been on a tear since 2009 when the U.S. Federal Reserve embarked

on its first round of quantitative easing (QE). Since then, markets have accustomed themselves to this persistent flow of cheap liquidity, which soon came to be known as the 'Bernanke put' (named after the then Fed Reserve Governor Ben Bernanke). This description implied that the central bank was standing behind the market and that if it wobbled it would step in via enhanced liquidity provisions. While the U.S. ended the "expansionary stage" of its QE policy in 2014, the baton was then passed on to Mario Draghi at the European Central Bank (ECB) and Haruhiko Kuroda at the Bank of Japan (BoJ). This passing of the baton (at different times) resulted in weaker currencies for these two regions and ensuing significant moves higher in their equity markets. The central banking 'put' continued.

So what is an investor supposed to do in today's world of modest growth, excess liquidity, stretched valuations, and very little on offer sitting in cash? There are two good reasons to stay long risk. One is that investors will maintain their view that the new 'risk-free' rate, as determined by the 10-year government bond, is sufficiently low so that current equity valuations can be justified, and sustained. Or two, that investors maintain their belief that central banks will continue to have their backs and that any modest pullback in the market is only a reason to buy even more - essentially, that markets have become risk-free. Both of these seem rational in some form or another - at least in the short-term.

On the flipside, there is an equally convincing reason to cut risk. Even ignoring the important fundamental premise that markets are highly priced compared to historical averages (equating to low expected long-term returns), there remains the very simple point I made at the start of my piece: not only do investors not know how this game ends, but neither do the policymakers who are doing all the experimenting.

The world cannot continue to print money indefinitely and expect it all to sort itself out without consequence. For every credit there is a debit and right now the market has tallied up a significant number of credits. I'm not sure whether these debits will come in the form of high inflation, illiquidity-induced asset market collapses, or very high levels of two-way volatility, but I am confident that eventually something will break.

In the meantime, I am happy to hold some cash while we see how this develops. At least in Australia we can get paid while we wait. The rate isn't great, but it's safe and it's a lot better than other investors are receiving elsewhere in the world. Staying invested in other quality assets (equities and credit) with strong potential cash-flows also has merit, as these investments should remain well supported in the short-term and through bouts of uncertainty. Overall, however, a cautious approach is certainly warranted.

To reference Rumsfeld for the umpteenth time... at least this one is "a known unknown", so the market won't have any excuses when the house of cards comes falling down.

THE FUTURE OF FINTECH (FINANCE TECHNOLOGY)

By Sarah Abood, CEO

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 During the first week of March this year I was part of a study tour to the US exploring current and emerging trends in financial services, with a focus on technology.

The tour was organised by Macquarie Bank – although I hasten to add, Profile (and all 12 members of the tour) funded their own costs! While we paid our own way, Macquarie was able to use its global clout to organise meetings for us with many firms and individuals we would not have been able to access on our own.

The tour was very high quality and relevant, and I have brought back many ideas which I hope to be able to implement to improve services for Profile's clients in the future. In this article I'm focusing on a few of the household names I visited that might be of particular interest to you – however I would be very happy to share more information and detail on the tour if you would like to contact me.

New York

We started our tour in the "Big Apple" where many of the US financial services giants are headquartered.



Of particular interest was our meeting with EY's innovation division. Previously known as Ernst & Young, it has recently made several substantial investments in technology startups. Warby Parker was a standout – a firm selling high-quality and reasonably-priced glasses online that has taken the opposite

to the traditional route. Having started as an online venture, they now sell glasses in traditional retail shopfronts and have achieved sales/ m² bettered only by Apple and Tiffany & Co.!

EY also gave us much food for thought about the rise of the 'robo-advisers' – online websites which offer portfolio construction and management without a personal adviser.

The two best-known robo-advisers are Wealthfront and Betterment (with many others starting to spring up).




Both have a very similar proposition: you enter some information about your investment risk

preference, and they propose an 'appropriate' low-cost passive investment solution using Exchange Traded Funds (ETFs). They tend to appeal to newer investors who have not yet accumulated substantial funds, with their average balance being just under \$US 20,000.

Although neither has made a profit yet (reportedly), they are growing rapidly and each now has in excess of \$US1 billion in assets. Similar Australian websites have either recently launched or will shortly.

The technology is still pretty new and the advice relatively unsophisticated, and I think they are unlikely to appeal to those with substantial balances for some time yet. However, as the two aspects are likely to improve over time we will be keeping a close eye on whether some of the technologies could be useful to our clients.

Another firm we visited, JP Morgan Chase & Co., is  planning to invest substantial

amounts of money in re-focusing their client strategies on Objectives-Based Investing! I saw this as a positive development; at Profile we have been advising clients this way for many years now and we think it's by far the most effective way for people to manage their assets. It will be interesting to see how they go – they have much larger scale than we do and can invest much more but it will be much harder for them to change. We are keeping in touch with JP Morgan, in the hope that our clients might be able to benefit from some of the initiatives they develop with their very deep pockets.

We also visited Vanguard. This firm is known in Australia for offering index (passive) funds but in the US they also have a large active management business and

hundreds of financial advisers. They are also re-focusing on Objectives-Based Investing! They have been piloting this approach with advisers and clients for two years, and plan to roll it out across their entire network very soon. They have also invested a substantial amount in technology supporting both their planners and clients. I was very impressed by the way they have integrated technology into their processes, while keeping people very much in the forefront. We will be looking at ways we can provide better portfolio technology to clients as a priority.

While in New York we also visited Boston Consulting Group, Pershing, The Wall St Journal, Audible, and Fintech Collective, before jumping on a plane again to head across to the West Coast.

San Francisco



Our visit to LinkedIn headquarters at Mountain View was an absolute highlight of the trip for me. We completed the same innovation program as ANZ CEO Mike Smith and his board.

LinkedIn now dominates business-focused social media with over 347 million members globally. It is also the only US-based social media allowed in China. They were very generous in sharing not just their insights into innovation in Silicon Valley, but also their internal strategies for attracting talent, staff engagement and innovation. With over 10,000 staff around the world now, this is an area of huge focus for them. A high priority is on ways to engage with the 'millennial' generation which makes up the majority of their workforce, and is notorious for its short-term focus and tendency to want to change careers every year or so! The idea of a career as a passport, not a ladder, changes a lot about the way employers and employees can and should interact for mutual benefit.

We can learn from many of their strategies, although I think it will be a while before we can offer a gym, playroom, tech vending machine and free café in every office to clients and staff! I also came back with some ideas on finding some smarter ways to connect with our clients and prospects.

Along the way we spent some very interesting time at Stanford University, then our last stop was the Googleplex. What can I say about Google – an amazing experience and an extremely impressive organisation!



While most of us know the history and about Google's absolute dominance of internet search, the breadth of their operations is now truly mind-boggling. From business software to smartphones to chromebooks to driverless cars, you start to wonder if there is any aspect of life they won't infiltrate. How to stay innovative and have a culture that genuinely supports and enables innovation are core skills of Google and there were many useful learnings for us here.

We had many conversations about improving the experiences of our clients and prospects online, and this visit also reinforced the need for us to update our website. In particular, more and more people are accessing the web via mobile devices, and Google has now changed its search algorithm to advantage 'responsive' sites which automatically readjust depending on the type of device from which they are viewed. Profile's updated website, due to relaunch very shortly, will be responsive.

In summary

This was a wonderful and very practical trip. The firms and people we met all had such high energy and an optimism about the future which was very infectious and inspiring! The company cultures were very powerful and with such a consistent focus on the vision and mission of the firms, there was almost a cult-like atmosphere in some. They were all very genuinely obsessed with the customer and organised around client needs rather than product or service offerings. Not surprisingly, digital is absolutely dominating, as both a potential competitor to advice (such as the robo-advisers) and an enabler of faster and more efficient advice delivered via the traditional personal (ie, real human) adviser.

I am looking forward to sharing with you some of the changes we plan to make in Profile to take advantage of new technology in the weeks and months to come – starting with our website upgrade.

CLIENT PROFILE – ERIC & JILL DRURY

By Laura Donovan, Associate Financial Planner

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Profile is a firm that helps clients build wealth and security, so most of our conversations are naturally about finances and associated topics. Sometimes it can be easy to forget why in the end we want to build our wealth – to have the opportunity to make choices.

Eric & Jill Drury are a great example of some clients who have been able to make choices with uplifting and fulfilling results. Eric and Jill began working with Profile in 2002, when they were both still employed by the Uniting Church. Retirement thoughts were beginning to come to the fore, and they wanted to ensure they would be doing all they could over the next 10 years to ensure they had the retirement they desired.

Fast forward to 2015, and while now "officially" retired, they are kept very busy indeed. Eric is continuing doing ministerial work when required, along with voluntary work such as helping families in need of food vouchers, and Jill also runs pastoral courses.

In 2014, Jill and a friend chose to undertake the 800 kilometre Camino de Santiago walking route through Spain. The original trail began as a pilgrimage to the relics of the Apostle James, interred in the Cathedral of Santiago de Compostela. Ever since his grave was discovered in AD800, hundreds of thousands have chosen to walk the path across northern Spain, making the Camino the most famous pilgrimage in the world.

Jill has shared her experience with us in her own words - what brought her to it, what inspired her along the way and the life lessons learnt.



In the past 10-12 years of my life (I was 67 when I walked the Camino) I have been very open to my spiritual journey and its meaning. I cannot remember when I actually first heard of the Camino but I was attracted to it because of its potential for physical and spiritual renewal.

I live in Port Macquarie with my husband in retirement. In 2013 a community college there advertised a seminar about the Camino. My husband wasn't interested in doing the walk but a high school girlfriend who has also retired in Port Macquarie was interested and came with me to the seminar.

We were hooked and although we were not walkers we were passionate to do the necessary training as well as research around footwear, light clothing, back packs etc. We were fortunate to be mentored by two other women our age who had walked the Camino five years previously.

For eight months we trained around the beaches and walkways of Port Macquarie. Curious onlookers wanted to know why these two women with boots, back packs, walking sticks, long trousers and shirts were hiking all over Port Macquarie in summer! Each week we would increase the length of our walk and when we were able to do twenty five kilometres, as well as walk up North Brother Mountain at Laurieton we felt ready to go.

We left for Spain at the end of March 2014 and commenced the walk at Roncesvailles on the Spanish side of the Pyrenees like two excited school girls heading out on a great adventure. It reminded us of when at twelve years of age we went on an excursion from Taree to Cairns by train with the Young Australian League. It felt so good. We were not nervous about making the distance - we had agreed if one of us had to stop for any reason we would both stop and that would be fine.

We walked approximately 800 kilometres over 42 days. We had two night stops in Burgos and Leon, two of the major cities on The Way. Although there was much to see in these beautiful old cities, it was the Way that called me - I felt a strong affinity with being on the actual walk, a sense of belonging there to its beauty, surprises and challenges.

We walked an average of 20 kilometres per day. At the commencement we walked shorter distances and gradually built up our fitness. We were ever grateful for the training we did, especially when the track was rough, stony and mountainous.



Being older women we had decided where possible to find accommodation in private rooms. We only stayed in an albergue twice, which was like a municipal dormitory with shared facilities. We didn't book accommodation ahead so we never knew when walking into a village where we would be sleeping for the night.

Trusting that the Way would provide became a natural thing to do. We always found adequate clean, comfortable accommodation and met some beautiful hosts as well.

Villages were six to ten kilometres apart and pilgrims were welcome as they had been for thousands of years. Our main meal was in the evening - 'menu de dia' - consisting always of bread, wine and three courses. We were usually starving after a strenuous day of walking and looked forward to a hearty meal for around twelve euros. Breakfast and lunch might consist of yoghurt, orange juice, buns, cheese, nuts, fruit.

At the commencement of our walk there were fewer pilgrims but as we got closer to Santiago de Compostela the number of pilgrims walking grew considerably. We met pilgrims along the way from so many countries including Australia. It was so easy to strike up a conversation, never about one's job, status or wealth but simply about the day, the scenery, the blisters, the food, the accommodation and just the respect and acceptance that comes from being on the same journey together.

We didn't see many female pilgrims our age; most people would have been in their thirties, in groups of two to four, but many walking alone. It was a very safe place to be. Fortunately we never suffered pain except for a couple of blisters and a sore ankle on the last day when I missed my footing descending a hill. This was not so for many of the pilgrims who would be seen attending blisters and even for some who had to stop because of shin splints and other muscle damage.

The favourite part of the journey for me was just being out there walking. Most days the sound of the cuckoo bird would travel with us and we never seemed to be far away from the sound of running water. The bird song walking through the scrub of an early morning was magnificent. Our daily walk often took more time because of our frequent pausing to take photos of the scenery, especially the wild flowers growing along the route.

I think the best part was the sense of freedom to 'be', it was so invigorating. And the belly laughs! I would just have to look at my friend walking along with all her gear, watching her move quickly to squat behind a bush to relieve herself from all the water she was trying to drink. At times it seemed unbelievable that at this age we were doing something so liberating as this that all I could do was laugh.

My biggest take away's from doing the Camino would be:

- The freedom to be
- The importance of laughter
- The ultimate meaning of finding and knowing my unique self, accepting this life-giving gift and living a life true to the gift by showing joy and gratitude in the way that I live
- That life can be very difficult
- That The Way will provide
- That The Way will bring unexpected surprises both good and bad
- To trust The Way
- To respect others for who they are, for their values and beliefs even if different to mine
- To try and live in the moment and be present to it
- To support, maintain and develop relationships and friendships that are important to my well being
- To only be in activities that support the above

As John Brierley states in his guide book for Camino de Santiago:

Within the crucible that is pilgrimage a remarkable alchemical reaction takes place that burns away the dross we have collected in our lives – so that, over time, only the purest gold will remain.



BUILDING WEALTH + SECURITY

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 Proudly delivering measurable strategic value
 Using solid principles to underpin tailored financial and investment strategies

GETTING TO KNOW THE TEAM AT PROFILE

Laura Donovan, Associate Financial Planner

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Laura fell in love with Sydney when she arrived from Ireland in 2007 with plans to stay for one year but ended up putting roots down here almost immediately. Since then she has done her best to see as much of Australia as possible - travelling with friends on a number of occasions and being lucky enough to travel the East coast with her family when they have come to visit.

“I just love Australia. It is a beautiful place and the people are great,” she says.

Laura joined Profile Financial Services in 2012 from Moody’s Investors Service. She says she has thoroughly enjoyed her time so far, from getting to know clients to understanding what it means to be an advisor she is excited at the prospect of her own growing client base and the help with which she provides them.

“I like to bring an organisational skill set to my clients. I want them to have their financial lives in order, the right insurance in place and any budgeting help they may need.”

She has completed Advanced Diplomas in both Accounting and Financial Services, and is currently studying towards a Masters of Financial Planning and eventual CFP Designation.

Laura lives in the beautiful eastern suburb of Clovelly with her partner Steve. She enjoys running and was very pleased to complete the Sydney City2Surf in 2014. A half marathon is now in her sights!

When not running she enjoys eating out with friends whenever possible (to make up for any calories lost through running).



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