SPECIAL MARKET UPDATE

7 FEBRUARY 2018

RECENT MARKET VOLATILITY

Yesterday (Tuesday) the Australian share market suffered its biggest one day fall in more than two years, dropping 3.2% and wiping close to $60 billion (and three months of gains) from its value. Big numbers and big headlines!

The recent dramatic plunge came after Wall Street was hit by a second straight session of heavy selling. Asian markets also came off second best, with Japan down 5% and Hong Kong down more than 4%. Negative sentiment can be highly contagious.

It can be very difficult to pin point a single cause for short term volatility. There are complex forces at work with a market of investors all taking different positions for different reasons. The chief catalyst for the sell-off appears to be the release of stronger than expected US labour market data. Ordinarily, strong employment growth figures would be greeted with warm applause. However in this case, the news prompted fears that wage growth would accelerate, with the potential for a spike in inflation and more interest rate rises than expected. Typically, under these conditions equities do not fare well and no surprise, they didn't!

World markets are still in good shape

Overnight the US market staged a recovery of sorts following another volatile day of trading. The Dow Jones finished up 1.8%, and the S&P 500 was up 1.3% at the close of business. Here in Australia, at market close the ASX 200 had staged a mini fight back of its own, with the 'sea of red' now replaced with an agreeable green at the end of the trading day.

Whilst we cannot be certain whether there will be more pain on the way, the prevailing view is that this recent event is nothing more than 'the correction we had to have'. Markets always run in cycles, and what goes up must come down eventually. The US market is at historical highs. It was always a case of when and not if we would see a pullback.

Our objectives based investing approach

From a Profile point of view, we identified the risk of a market correction some time ago. Our approach to objective based investing demands a strong focus on risk control and management - we always consider what can possibly go wrong and we position your investments accordingly.

Specifically for clients with investments in our managed portfolios, both hold a diverse mix of assets including gold and have a relatively heavy weighting to cash at present. These types of assets are effective shock absorbers when markets are under stress. Also supporting these strategies is our dynamic approach to FX management. The Portfolios include unhedged positions which act as an excellent offset to global equity weakness when the AUD falls (as it has). For this reason, we are confident that we have sidestepped much of the recent market volatility and should come through relatively unscathed.