

EXCITING LiFE

Boring Money

.... and not the other way around

CARE
QUARTERLY
NEWSletter



GLOBAL OVERVIEW

- GLOBAL ECONOMIC GROWTH SLOWED IN THE EARLY PART OF 2019 AND DESPITE MANY ANALYST'S VIEWS THAT IT WOULD STRENGTHEN IN THE SECOND HALF, THE SLOWDOWN EXTENDED AND INTENSIFIED AS THE US-CHINA TRADE WAR ESCALATED.
- THE US CENTRAL BANK COULD ONLY INCREASE ITS FED FUNDS RATE TO 2.5% BEFORE IT WAS FORCED TO CUT BACK TO 1.75%. THIS BOOSTED THE SHARE MARKET.

Reflecting on 2019, global economic growth slowed in the early part of the year and despite many analyst's views that it would strengthen in the second half, the slowdown extended and intensified as the US-China trade war escalated. Coupled with the Brexit turmoil, Hong Kong protests, escalating tension in the middle East and Trump impeachment charges there was plenty for investors to fret about. However, despite this, both bond and share market returns were stellar. It is hard to see market returns of 2019 repeated in 2020, however low, steady growth around the world is likely to persist.

Ten years after the global financial crisis and there remains a large amount of outstanding debt throughout the world in both the consumer and government sectors particularly and increasingly in the corporate sector. High debt means interest rates do not need to rise by much for an economy to slow. This was highlighted by the fact that the US Central Bank could only increase its Fed Funds rate to 2.5% before it was forced to cut back to 1.75%. This low interest rate regime hinders investors that seek income. However, on the plus side, it takes longer for inflation pressures to build, leading to an elongated albeit flat business cycle. Judging from consumer spending patterns, there remains a preference to repay mortgages and credit card debts as opposed to increasing consumption. The world's major economies have arguably reached the end of a debt super cycle

EMMANUEL CALLIGERIS
Chairman of the CARE
Investment Committee



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where they have borrowed to their limit. Without increasing amounts of debt, domestic demand cannot grow faster than trend GDP. As such, the world is locked in a low growth trajectory and low interest rate setting.

Over the last 4 months, the more noteworthy monetary policy shifts have been that central banks have once again increased the amount of money printing. Since the start of September, the Federal Reserve's has increased the amount of printed money by just over US\$406 billion and purchased around US\$170 billion in short-term Treasury bills issued by the US government. This money printing seems to have resulted in the melt up of the share market and caused bond prices to rise. US credit spreads, that is the interest rate at which corporations (like Disney) can borrow, have fallen substantially and now are well below the levels of the past two decades (excluding the global





- IN CHINA, MANUFACTURERS REPORTED THAT THEIR NEW ORDERS WERE GROWING— A POSITIVE SIGN THAT THE EFFECTS OF THE TRADE WAR MAY BE ABATING.
- IN EUROPE, THE CENTRAL BANK LOWERED ITS DEPOSIT RATE TO -0.5% AND THE BANK OF JAPAN ALSO KEPT ITS KEY DEPOSIT RATE AT -0.2%. THE CONTINUATION OF MONEY PRINTING IN JAPAN AND ITS RESUMPTION IN EUROPE ON AN OPEN-ENDED BASIS, HAS SEEN THE ENVIRONMENT TRANSITION QUICKLY FROM NEAR RECESSION (PARTICULARLY IN GERMANY) BACK TO EXPANSION.
- IN AUSTRALIA THE BUSHFIRES ARE WIDELY FORECAST TO REDUCE GDP BY 0.5% IN 2020. HOWEVER, THE SLOWDOWN IS LIKELY TO BE TRANSITORY WITH GROWTH LIKELY TO REBOUND WITH THE REBUILDING EFFORTS.

financial crisis). The spreads are arguably at record lows when adjusted for the much higher leverage of corporate balance sheets than seen previously. It seems that investors are chasing higher returns without due consideration of the underlying risks.

In China, the growth momentum remains weak, however the silver lining in the economic data was the rebound in manufacturing activity. Manufacturers reported that their new orders were growing overall. As a result, the level of outstanding business rose again. On the price front, operating expenses rose for the fourth month in a row, albeit marginally, which underpinned a renewed increase in selling prices. Sentiment remained weaker than the historical trend, due to concerns over ongoing trade tensions, environmental protection policies and intense market competition. There has been some headway on the trade deal with the US. President Trump agreed to a limited trade deal, effectively barring a fresh round of tariffs. As part of the deal, U.S. officials stated that China will purchase more U.S. agricultural products, while the U.S. will remove some existing tariffs in return.

In Europe, the Central Bank lowered its deposit rate to -0.5% and the Bank of Japan also kept its key deposit rate in the negative at -0.2%. The continuation of money printing in Japan and its resumption in Europe on an open-ended basis, has seen the environment transition quickly from near recession (particularly in Germany) back to expansion.

In Australia the bushfires are widely forecast to reduce GDP by 0.5% in 2020. However, the slowdown is likely to be transitory with growth likely to rebound with the rebuilding efforts. Retail sales remained moderate. The 0.9% rise in retail trade in the month was the largest increase since late 2017. The November outcome follows subdued increases of 0.1%-0.2% over the previous two months. Annual growth recorded 3.2% which was slightly above the average of the past two years. Building approvals and ABS job vacancy data also suggest better news for the Australian economy.

On the labour market front, ABS job vacancies were 1.6% higher in the three months to November. This was the first quarterly rise after two consecutive falls. Private job vacancies rose by 1.5% and public vacancies were 3% higher. The statistician did note some businesses had brought forward recruitment from February to November. The number of vacancies remain elevated, but off the highs seen in November 2018. Other leading indicators of jobs have slowed slightly however still suggest decent conditions in the jobs market. Higher levels of people looking for jobs have meant we have not seen a meaningful tightening in conditions and the unemployment rate remains sticky between 5.2% and 5.3%. Overall, Australia

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is likely to remain stuck in a low growth low inflation trajectory in 2020 and monetary policy easing further.

As mentioned, despite a number of headwinds, 2019 generated very strong investment returns. The Australian share market as represented by the largest 300 companies delivered a total return of +23.4% over the year, the highest since the 2009 financial crisis recovery. Shares of global developed markets including the US, Japan and Europe delivered a return of 28.14%, those of developing economies including China, India and Brazil 19.85% whilst Australian Bonds and property trusts increased 7.07% and 19.30% respectively.

The CARE portfolios performed well over the year. In the quarter to December 2019 the CARE Core portfolios did not require rebalancing as growth assets (shares and property) rose in unison keeping the portfolio relativities roughly unchanged during the quarter. The CARE Core portfolios gain exposure to the Australian share market through the VAS and SMLL investments. Whilst the return for the

Australian share market was very strong over the year, the December quarter lagged global share markets due to weakness in the Financial sector which shed -6%. The Westpac share price fell by 18.5% in the wake of allegations that the bank had breached money laundering controls. NAB and ANZ share prices fell also as investors judged that tough trading conditions were likely to persist into the future and that dividends were likely to be cut at some point. In Australia, the Healthcare sector had a strong quarter recording a gain of +14% led by a +16% jump in CSL's share price. The Resources sector delivered a return of +5% for the quarter as expectations for global growth improved after the announcement for the phase one deal on trade between the US and China. BHP, RIO and Fortescue Metals share prices all benefit from the news. A final resolve on Brexit following the British election saw the share price of Virgin Money (formerly CYBG Bank) rise by almost 65% over the quarter.

The CARE Active portfolio remained fully invested in shares and gold over the quarter. The Investment

Committee analysed that the environment remained conducive to remain fully invested throughout the year as domestic and global share valuations in January 2019 were fair to slightly cheap and market momentum turned positive. As was the case in the Australian share market, there was a wide dispersion of individual company share performance globally. Some companies in the information technology (like Apple and Microsoft), and health care and pharmaceuticals (like Novartis and Johnson and Johnson) sectors became more expensive as investors preferred the greater certainty of the growth in these companies' profits than those that were perceived to have greater variability like clothing retailer - Gap Inc. This valuation dispersion triggered a rebalance by the Investment Committee in the enhanced international shares portfolio from Magellan to WDIV to take advantage of the cheaper share prices.

The Magellan investment performed in line with the market over the year which was pleasing. Over the quarter, performance was slightly weaker than the market. The biggest contributors

included the investments in Alibaba, Apple and HCA Healthcare. Alibaba surged after the Chinese conglomerate reported a 40% jump in revenue for the third quarter, its Singles Day online retail promotion reaped a record 268 billion yuan (US\$38.3 billion), and the company raised US\$11 billion via an IPO in Hong Kong. Apple gained after the company boosted sales forecasts, citing the popularity of the latest iPhone 11, new services such as Apple TV+ and items such as AirPods, and the easing of trade tensions between Washington and Beijing meant iPhones avoided tariffs in China. HCA Healthcare jumped on higher inpatient and outpatient surgeries

its methodology. The largest holding remained Swedish fashion retailer H&M 1.79%, telecommunications company AT & T Inc 1.6% and the Power Financial Corp of Canada 1.6%.

Over the quarter, bond yields (longer term government interest rates) in the US increased marginally. This weighed on the property sector which also saw profit taking having increased strongly the previous quarter. The CARE portfolios obtain their exposure to international property via the DJRE investment which reflects this international property return. The asset class includes such companies as Prologis a multinational logistics real

growing, but often more expensive 'growth' stocks, all selected from within the top 200 Australian Companies.

As expressed in our CARE Quarterly Report in October all asset markets – shares, property and bonds, have reacted to the lower for longer interest rate theme globally. Term deposit rates are sub 2% and this is likely to persist through to the end of the year. With inflation rising by less than 2%, the temptation, and compulsion, is for investors to reallocate these funds to investments with a higher interest rate or potential return. This however needs to be balanced off against increased risk. We maintain the view that investing requires a



OPPORTUNITIES WILL AVAIL THEMSELVES TO INCREASE INVESTMENT AT GOOD VALUATIONS SUCH AS THAT PRESENTED IN THE LAST QUARTER OF 2018. RECESSION COULD OCCUR AT SOME POINT BUT ONLY IF INTEREST RATES BECOME RESTRICTIVE WHICH IS UNLIKELY IN THE FORESEEABLE FUTURE.

for the third quarter that removed doubts about the US hospital chain's outlook raised by a disappointing second-quarter result. The biggest detractors included the investments in AnheuserBusch InBev and McDonald's. AB InBev fell after the world's biggest brewer said that a decline in beer sales in Brazil, China and the US slowed profit growth in the third quarter and the company said it expects only "moderate" full-year earnings growth, down from "strong" before. McDonald's fell after sales growth in the US was slower than expected for the third quarter and the company fired its respected CEO.

The WDIV index which seeks to invest in high dividend yielding companies globally returned 2.85% over the quarter and 20.22% over the year. The income produced by this investment was 4.7% over the year consistent with

estate investment trust headquartered in San Francisco, US mall operator Simon Property Group and Japanese property operator Mitsui Fudosan.

Within the Enhanced Australian Shares portfolio Joseph Palmer and Sons remained defensive with a relatively high weight in cash as they wait for opportunity to buy into a better value share market. In your managed portfolio the shares of Santos, CSL, Wesfarmers, BHP, Sonic Healthcare and Macquarie performed very well in 2019, whilst Link Administration, Boral and more recently Westpac were the laggards. Of late, Joseph Palmer and Sons have been buying the shares of Costa Group, a horticultural company share, currently drought affected. The portfolio structure strategy remains an approximately equal mix between economically cyclical 'value' stocks, and faster

rational approach and an appropriate investment time horizon. Financial markets will become obsessed over monetary policy settings, recession fears, trade wars and geopolitics. Opportunities will avail themselves to increase investment at good valuations such as that presented in the last quarter of 2018. Recession could occur at some point but only if interest rates become restrictive which is unlikely in the foreseeable future. The economic indicators in the US are still firm and do not suggest that the interest rate settings there are likely to cause recession. The same is true for Australia. Employment growth is strong and the official interest rate set by the Reserve Bank of Australia is low and shows no sign of rising any time soon, government spending is strong and investment intentions are also firm.

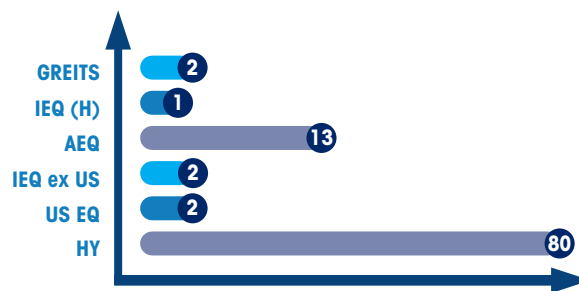
RETURNS TO THE 31ST DECEMBER 2019

GPS CORE PORTFOLIO RETURNS TO THE 31ST DECEMBER 2019

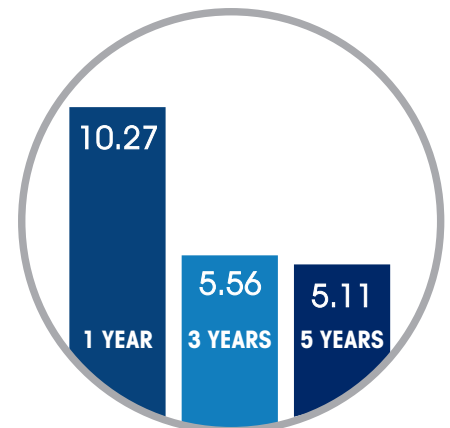
by CARE
Investment
Strategy

	1 year	3 Years	5 Years
CORE Conservative	9.13	5.04	4.72
CORE Moderate	12.38	6.37	5.98
CORE Balanced	15.95	7.69	7.19
CORE Growth	19.45	9.04	8.44
CORE High Growth	22.98	10.33	9.55

YOUR CARE PORTFOLIO CONSERVATIVE



See legend on page 4



50% AEQ – 50% IEQ

LEGEND

International Real Estate	GREITS
International Shares (Hedged)	IEQ (H)
Australian Shares	AEQ
International Shares (ex-USA)	IEQ ex US
International Shares USA	US EQ
High Income	HY
International Emerging Market Shares	IEM
International Small Companies Shares	Small Cap IEQ
Australian Fixed Interest	FI
Australian Corporate Fixed Interest	Corp FI

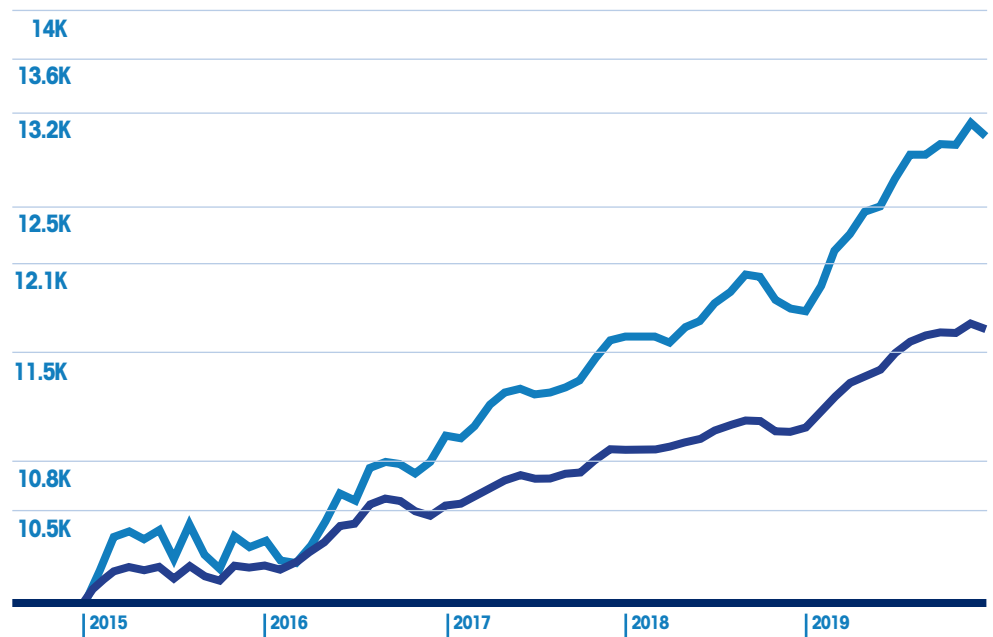
* Returns are based on model portfolio, benchmark allocation & assumes investment over 1, 3 & 5 years ending 31st December 2019. The E (enhanced) component is assumed to be 50% Australian Equities & 50% International Equities. Past Performance is not indicative of future performance.

* The CARE portfolio Returns are before tax, Adviser fee, and Platform Fees however net of CARE Investment Committee Fee.

* Returns are based on: C, A & E only – RESERVES is not factored into the return series.

CARE CONSERVATIVE STRATEGY

Growth of \$10,000 over 5 years to 31 December 2019



INVESTMENT NAME

VALUE

CARE Conservative (50% AEQ - 50% IEQ) (Total Return, AUD13.02K)

Multisector Conservative Investor (Total Return, AUD 11.66K)

Source Morningstar Direct



Vanguard



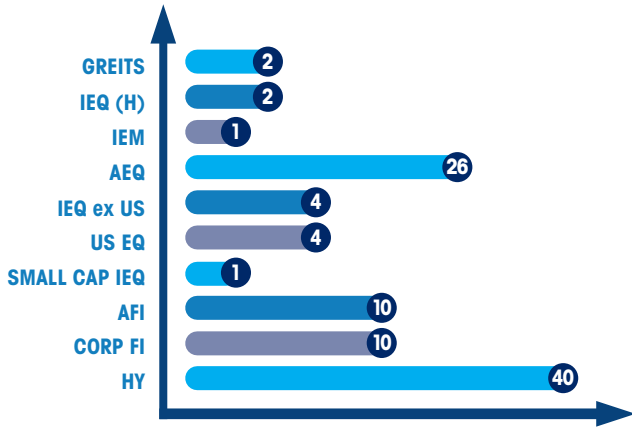
BetaShares
Exchange Traded Funds



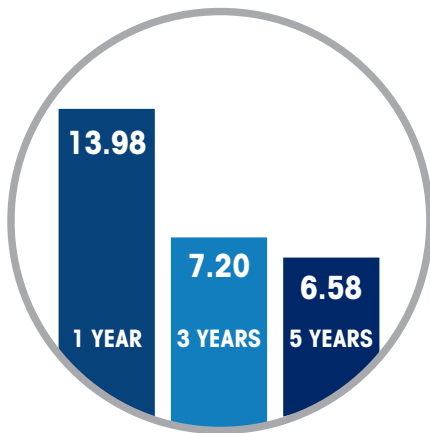
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YOUR CARE PORTFOLIO MODERATE



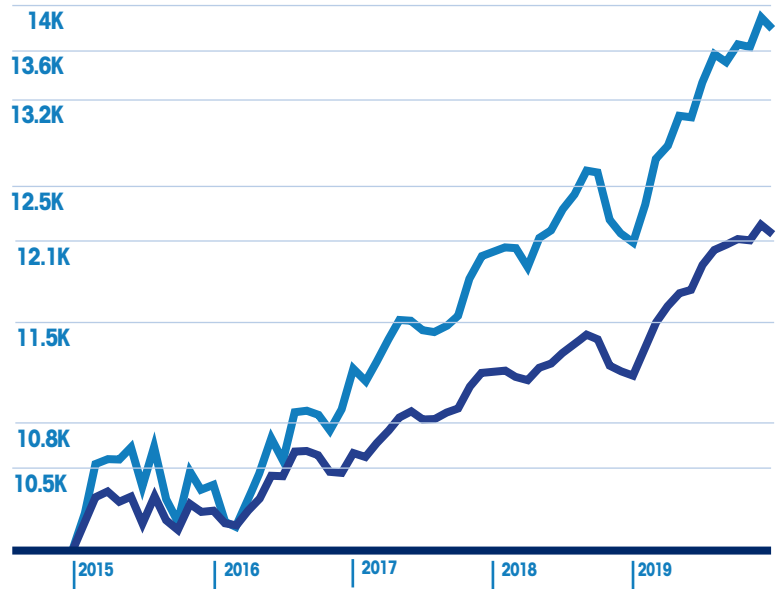
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50% AEQ – 50% IEQ

CARE MODERATE STRATEGY

Growth of \$10,000 over 5 years to 31 December 2019



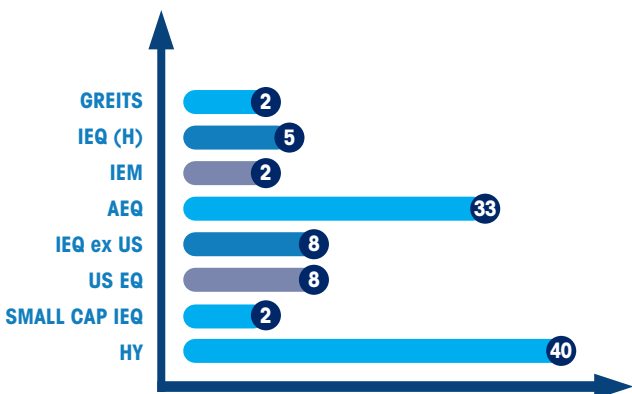
INVESTMENT NAME

VALUE

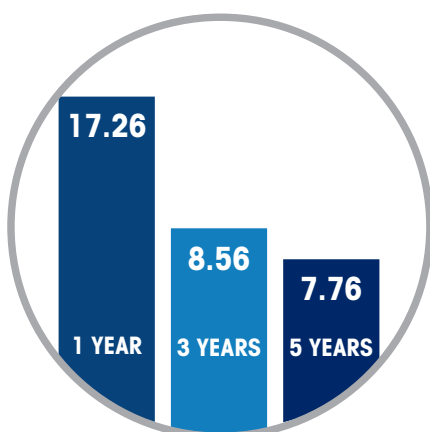
CARE Moderate (50% AEQ - 50% IEQ) (Total Return, AUD 13.79K) Australia Fund Multisector Moderate (Total Return, AUD 12.14K)

Source Morningstar Direct

YOUR CARE PORTFOLIO BALANCED



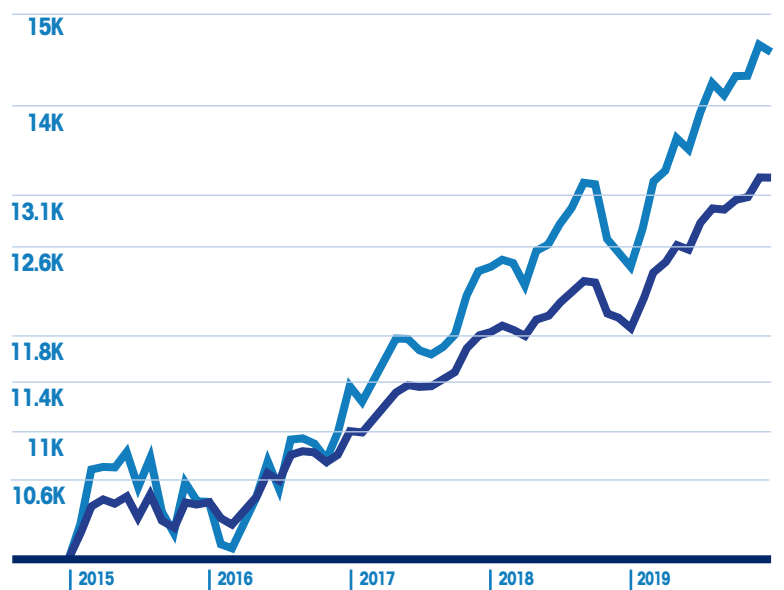
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50% AEQ – 50% IEQ

CARE BALANCED STRATEGY

Growth of \$10,000 over 5 years to 31 December 2019



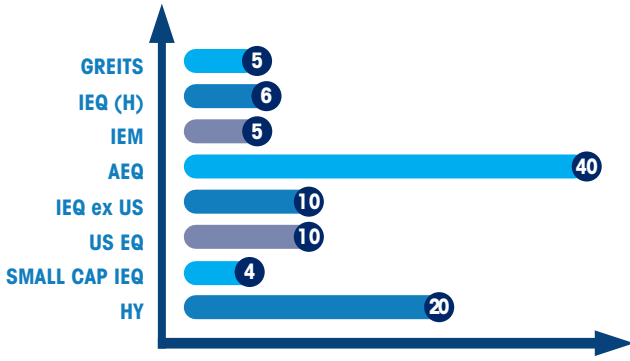
INVESTMENT NAME

VALUE

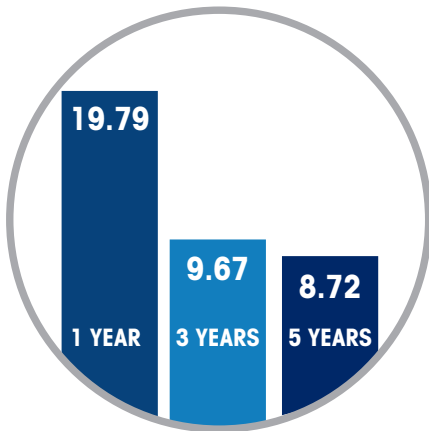
CARE Balanced (50% AEQ - 50% IEQ) (Total Return, AUD 14.57K) Multisector Balanced Investor (Market Return, AUD 13.27K)

Source Morningstar Direct

YOUR CARE PORTFOLIO GROWTH



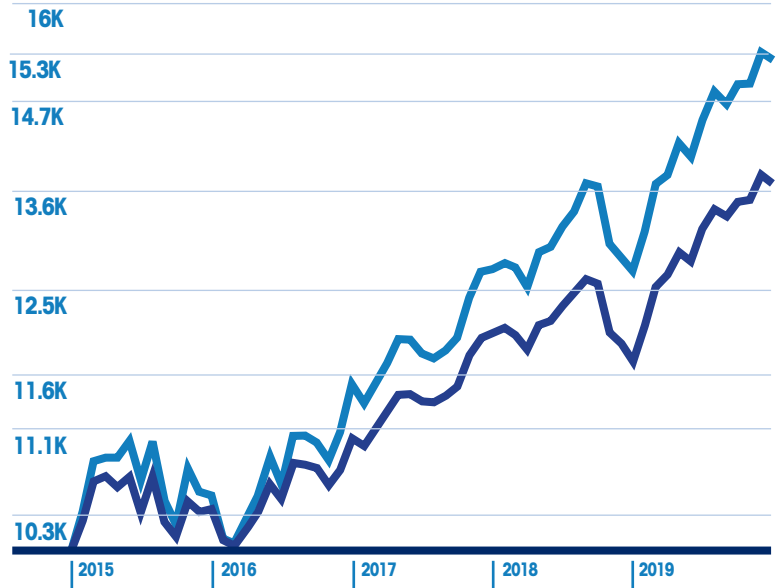
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50% AEQ – 50% IEQ

CARE GROWTH STRATEGY

Growth of \$10,000 over 5 years to 31 December 2019



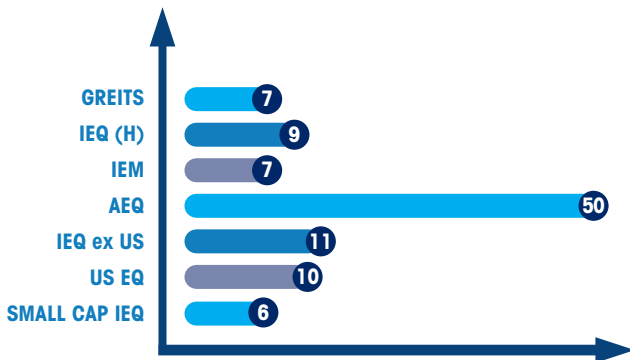
INVESTMENT NAME

VALUE

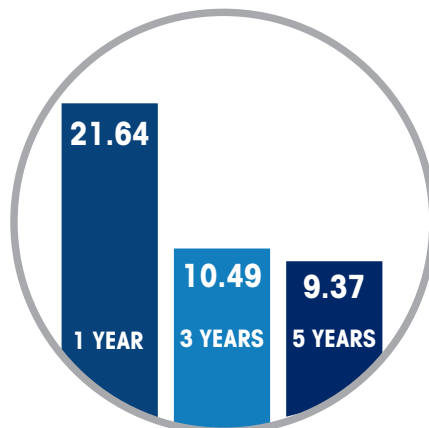
CARE Growth (50% AEQ - 50% IEQ) (Total Return, AUD 15.23K) Australia Fund Multisector Growth (Total Return, AUD, P..13.69K)

Source Morningstar Direct

YOUR CARE PORTFOLIO HIGH GROWTH



See legend on page 4



50% AEQ – 50% IEQ

CARE HIGH GROWTH STRATEGY

Growth of \$10,000 over 5 years to 31 December 2019



INVESTMENT NAME

VALUE

CARE High Growth (50% AEQ - 50% IEQ) (Total Return A..15.69K) Multisector Aggressive Investor(Market Return, AU.. 15.04K)

Source Morningstar Direct



Meet the CARE Investment Committee

Emmanuel Calligeris BEC MBus (Finance)

Emmanuel is Chairman of the CARE Investment Committee. Emmanuel holds a degree in economics and previously had 20 years' experience as Chief Investment Officer for OnePath Investments (the investment arm of ANZ Bank) and was responsible for \$13 Billion of funds under management.



Rob McGregor SIA (Aff) ADFP

Rob was a founder of GPS Wealth, developed the CARE Investment Philosophy over the last 15 years and successfully managed \$100m in clients' funds during the GFC.



Grahame Evans GAICD DipSM MBA

Grahame is the Risk and Compliance member of the CARE Investment Committee. Grahame brings over 35 years of financial service industry experience.



Dr. Mark Brimble BCom(Hons) PhD CPA FFin

Mark is an independent member of the CARE Investment Committee. Mark holds a doctorate in capital markets and is keenly interested in investor behaviour.



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