Sequencing risk for retirees – the consequences of loss 'late cycle'

Executive summary:

- Many clients, particularly retirees are worried about the consequences of another significant market correction.
- The consensus view is that markets are now 'late cycle'. Most major corrections occur within 8 years, we are now at year 12, the longest on record is 13 years.
- The Financial System Inquiry outlined desirable product features to specifically address sequencing risk – to combine **protection**, **returns** and regular **income** through all stages of the investment cycle (including large market falls.)
- ***The protection element is reflected in the Funds maximum NAV capital draw-down.*** In the case of the Gyrostat Absolute Return Income Equity Fund this has been limited to – 2.2% in any circumstances since our inception in December 2010.
- Pro-active investors and their advisors can address sequencing risk by an asset allocation from unprotected growth assets to the Gyrostat Absolute Return Income Equity Fund (a conservative asset – 'alternative defensive' and **generates higher returns in more volatile 'late cycle' market conditions**.)

Sequencing risk: - the consequences of share market losses in retirement

Many investors, particularly retirees, are concerned about the consequences of another significant market correction.

Share market volatility can make a big difference to your retirement income and is impossible to predict.

If you're worried about another potential market collapse similar to the global financial crisis in 2008, you're not alone. A recent National Seniors Australia survey found that 7 out of 10 older Australians share your concerns.

Source: National Seniors Australia, 2018

Why does share market volatility matter?

When you retire and start to spend your savings, market-linked investments such as shares may increase or decrease in value depending on market conditions.

Market-linked investments generally benefit from positive returns however negative returns, coupled with regular withdrawals to pay for ongoing living expenses, could deplete your savings quicker.

https://www.challenger.com.au/personal/retirement-income/retirement-risks/share-market-volatility

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‘Late cycle’ base rate elevated risk of significant market corrections

The consensus view is that markets are now ‘late cycle’. Most major corrections occur within 8 years, we are now at year 12, and the longest on record is 13 years.

90 Year Historical Chart S&P 500

https://www.gyrostat.com.au/news/gyrostat-absolute-return-income-equity-fund-presentation-equity-income-in-retirement-solution-for-falling-interest-rates/

Sequencing risk is the risk that the order and timing of your investment returns in unfavourable, resulting in less money for retirement.

Desirable product features – combine protection, returns and regular income all stages of the investment cycle

The Financial System Inquiry outlined desirable product features to specifically address sequencing risk (effective risk management) and longevity risk (underlying investment in growth assets). See our Feature Article: Equity Income in Retirement Products (published Aug 12, 2019)

The desirable product features combine **protection**, **returns** and regular **income** through all stages of the investment cycle (including large market falls.)

https://www.gyrostat.com.au/news/feature-article-equity-income-in-retirement-2/

The protection element is reflected in the Funds maximum NAV capital draw-down.

In the case of the Gyrostat Absolute Return Income Equity Fund this has been limited to – 2.2% in any circumstances since our inception in December 2010.

The marketing literature of many funds attracting retiree investors typically show:

- Income feature
- Return feature over specific time periods
- Relative performance vs selected index over specific time periods

Rarely do they report the maximum NAV capital drawdown since inception. Given that the Funds objective is to outperform a chosen index, ***it can be anticipated that the underlying investment may be exposed to large losses in the event of a major market correction.***

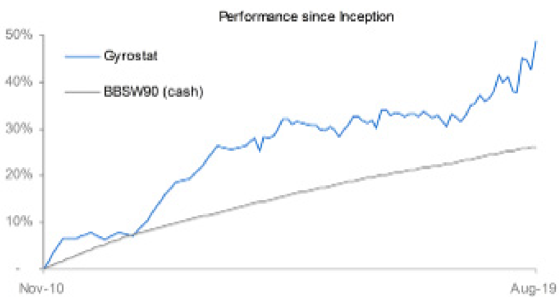
Address sequencing risk through asset allocation

Pro-active investors and their advisors can address sequencing risk by an asset allocation from unprotected growth assets to the Gyrostat Absolute Return Income Equity Fund (a conservative asset – alternative defensive.)

Gyrostat has for 34 consecutive quarters operated within a 'hard' defined risk parameter (no more than 3% capital at risk) always in place, delivering regular income by passing through ASX-20 dividends, and meeting returns guidance based upon market conditions (demonstrating increasing returns with market volatility). The fund buys and holds ASX-20 shares with lowest cost protection always in place with upside.

It is an 'alternative - defensive' conservative asset allocation.

The Fund has increased 4.8% month to date as at 16 August 2019.



Returns: 8.9% pa (12M); cumulative 49% (>8 years)

Income: Minimum 4.2% pa (BBWS90 + 3%)

Protection: No quarterly draw-downs exceed 3%

Also includes 'tail hedge' for gains on large market falls

External Review

"McGregor Asset Consulting has developed a solid level of confidence in the manager's ability to successfully execute on their investment strategy. They have a long history, spanning more than 8 years, and have performed as expected during the various market conditions, ***in particular volatile markets, where the Fund has protected capital and delivered solid absolute returns.*** This is the environment where the Fund is expected to perform, and has been the case, ***providing diversification benefits to long-only equity funds.***"