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April is traditionally a quiet month for local markets as investors mark time ahead of the May budget which has been brought forward a week this year to May 3. March, however, was anything but quiet.

On the global front, all eyes were on the US Federal Reserve's monthly meeting to gauge the direction of US interest rates. Fed chairwoman, Janet Yellen sounded a renewed note of caution and primed the market for just two rate rises this year, rather than the four hinted at in December 2015. The US dollar fell as a result, pushing the Australian dollar above 76 US cents, well above its January low of US69c. Pressure on the US dollar also put an end to the rally in commodities, including the oil price.

In Australia, business and consumers remain positive. The NAB business confidence index and business conditions index both rose in February. The ANZ/Roy Morgan consumer confidence rating eased in March, falling by 1.5 points to 114.5 points in the final week. Even so, consumer confidence is 2 per cent higher than a year ago thanks to low inflation, stable interest rates, some of the lowest petrol prices in over a decade and a fall in unemployment from 6 per cent to 5.8 per cent in February.
As always your FM Adviser and the wider FM team are here to help you with any questions or queries you may have.

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"We're in a new era" was how BHP Billiton chief executive, Andrew Mackenzie explained the decision to cut dividends for the December half year by 74 per cent. While the size of the cut grabbed headlines, the Big Australian is not the only company rethinking dividend policy.

BHP, Rio Tinto and Woolworths were among the big name stocks to cut dividends in the latest reporting season. ANZ has indicated it may follow suit when it reports its half-year earnings in May. The Commonwealth Bank held its interim dividend steady and expectations are that bank dividends will remain flat at best.

Outside the banks and resources sectors, the dividend picture is brighter. According to CommSec, 77 per cent lifted or maintained them, while 23 per cent of Australia's top 200 companies either cut or did not pay dividends for the December half year.

But falling commodity prices, slower economic growth and technological disruption are taking their toll. Companies are responding with cost-cutting programs to shore up their earnings and dividends are one of many costs under the microscope.

The hunt for yield

For the past five years, the hunt for yield has been the main game in town. With interest rates at historic lows and returns from cash and term deposits barely keeping pace with inflation, retirees and anyone dependent on income from their investments was on the lookout for alternative sources of income.

Investors who were prepared to move up the risk spectrum flocked to high-dividend paying shares.

The dividend yield on a share is the value of annual dividend payments divided by the current share price. The average dividend yield of the Australian market is currently around 4.8 per cent compared with the cash rate of 2 per cent.

Popular stocks such as the banks and Telstra have proved even more rewarding. The Commonwealth Bank's dividend yield is currently 5.3 per cent after reaching a peak of 7.7 per cent in September 2011. Telstra's dividend yield peaked at 10.7 per cent in 2011 compared with 5.8 per cent now.

Focus on growth

While the hunt for yield is as strong as ever, there are signs that the pendulum may be shifting from yield to growth.

According to Goldman Sachs, earnings per share of Australia's top 200 companies are growing faster than dividends per share for the first time in five years. Ignoring the resources sector, earnings per share is expected to grow by 3 per cent this financial year compared with 1 per cent growth in dividends per share.

While companies are still keen to pay dividends, they are reducing their payout ratio. That is, the amount a company pays out as dividends as a proportion of earnings.

Payout ratios falling

The consensus among market analysts is that the market's overall payout ratio will fall from the 76.5 per cent this financial year to 73.7 per cent in 2017. Cuts are likely to be most pronounced in the resources sector which has continued to pay dividends despite reporting losses, a situation that is not sustainable in the long run.

Generally speaking, when public companies earn a profit they can pay it out as dividends to shareholders or retain funds to grow the company. If opportunities for growth are limited, it makes sense to tip the balance towards dividends.

But companies need to invest in their business to grow. This is particularly so for miners whose future depends on the exploration and development of new projects. Unless companies grow they will not be able to sustain and grow dividends.

Total returns

In the long run, investors need to balance their need for income with an eye for growth. That's the case even if you are a retiree living on the income from your shares. In order to keep ahead of inflation, you want your dividends to grow over time. Companies with strong earnings growth will be well-placed to deliver.

If you would like to discuss your income strategy, give us a call.

When car-sharing pioneer Uber was born five years ago in San Francisco, few would have predicted the speed and size of the impact it would have on the taxi business. Or that in five short years it would become a business valued at US$50 billion, with operations in almost 60 countries.

Fewer still contemplated the trickle-down effect this success story would have on taxi equipment makers, car fleet manufacturers and even listed company Cabcharge, which has seen its share price halve in 12 months.

From the advent of motorised vehicles killing off horse-drawn carriages, to media streamers speeding up the demise of DVD rental stores, business disruptors have been around for centuries. And while the economic and investment fallout is considerable, so are the potential benefits.

Uber is judged for having taken away fares from the traditional taxi industry, despite the high-profile company having legions of happy passengers all over the world.

Stay informed

The challenge for investors in a time of rapid change is to be aware of what is happening and the potential impact on your investment portfolio, without being swept away by the glamour of the new or burying your head in the sand.

At the outset of a new business or technological trend, it can be difficult to predict which companies will be the Apple or Facebook of the future. Often it is easier to predict which companies are likely to be adversely impacted.

When cars first started rolling off the Ford production line, it was clearly not the time to invest in a blacksmith store.

Similarly, if a company today is struggling to compete with nimble newcomers, its profits are in terminal decline and management has no plan to deal with the challenges facing its industry, then it is worth considering if that business deserves a place in your portfolio.

Winning ways

The three hallmarks of game-changing disruptors in the digital age are a product or service that is cheap, flexible and easy for the customer to navigate on a smart phone around-the-clock.

Unlike the taxi industry, some traditional companies such as airlines and telcos have moved quickly to respond to the threat of efficient, no-frills operators by diversifying into low-budget products themselves.

Faced with cut-price competition from more nimble mobile phone plan players, Telstra partnered with Boost Mobile. Boost matches its cheaper rivals' offering of unlimited calls and texts, data use and cheap monthly payments.

Through the alliance, the giant telco has cast a safety net under its core business by competing with the disruptors in a new space, where existing customers may not necessarily be lost to rivals.

However, other companies will struggle to stay competitive as the disruptors spread quickly from one industry to another, unburdened by large payrolls and expensive technology that weighs down incumbents with high overheads.

Crowd pleasers

Among the new players shaking up old-world thinking here in Australia and elsewhere are online accommodation hub Airbnb, household job outsourcer Airtasker, fast loan provider Nimble, cloud-based human resources specialist Zenefits and car insurer Metromile, whose premiums are calculated according to a driver's mileage.

Each of these disruptors has a customer-focused, high-tech model that challenges the revenue making strategies of some of the nation's largest, household-name companies. But only time will tell which of these trailblazers lasts the distance. You need only cast your mind back 10 years or so to the promising new telco, One.Tel which collapsed spectacularly despite the hundreds of millions invested in it by backers.

And not even the major banks are immune. Research by Macquarie shows that electronic payment platforms, smart phone-based lending products and automated financial advice have the potential to hurt future bank profits.[i]

But before you dump your blue-chip investments in favour of running with the tech bulls, it is worth considering that not all disruptors are capable of sustaining valuations beyond the honeymoon of a spectacular listing.

If you would like to discuss your investment portfolio in light of the opportunities and risks in the new era of disruption, give us a call.

i 'Digital disruption could cost Australian banks $27bn a year' by Stephen Letts, ABC News, 4 July 2014, http://www.abc.net.au/news/2014-07-04/digital-disruption-could-cost-australian-banks-27-billion-dolla/5571948

WIN THE INVESTMENT RACE BY NAVIGATING RISK

It's been a volatile time on global investment markets, as shares and other assets are knocked about. At times like these it's little wonder that more cautious investors decide it's too risky to line up at the start line.

No sensible person would take risks with their hard-earned cash for the sake of it, but the paradox of investing is that there's no avoiding risk if you want to achieve financial security.

Risk vs volatility

Investing is an inherently risky business, but perhaps not in the way you think. While it's common to hear people talk about volatility as a byword for risk, they are not the same thing.

In investment markets, volatility refers to daily price fluctuations. Risk, on the other hand, is the possibility that an investment will provide a lower return than expected over your time horizon or even a permanent loss.

Short-term volatility is only a risk if you need to sell investments after a big price fall. The longer your time horizon, the less important volatility becomes.

Here is a rundown of some of the main types of risk:

General market risk

This refers to the possibility that an investment will lose value because of a general decline in financial markets, due to economic, political, or other factors. Market risk can cause problems for investors who need to sell assets into a falling market, but it can also provide opportunities for bargain hunters.

Economic risk

This refers to the possibility of an economic shock or crisis that will cause panic selling, such as a debt crisis or a credit squeeze.

Interest rate risk

When rates are low investors borrow to buy shares and property, pushing up prices. When interest rates rise it's more expensive to borrow to invest in shares and property so they tend to fall in value, while bank savings accounts and term deposits become more attractive.

Exchange rate risk

Exchange rates add another layer of risk when you invest in international markets or local shares with overseas operations. You can manage this risk to some extent by buying a hedged version of an overseas fund or shares in a local company that hedges its currency exposure.

Country risk

Sometimes particular countries face political or economic upheavals that spook financial markets. The Greek debt crisis and the Chinese sharemarket crash are two recent examples.

Sector risk

This applies to particular sectors of a market or economy. For example, the spread of the internet is disrupting the business model of companies in the media sector, while low commodity prices have hit companies in the resources sector.

Specific risk

This is the risk that a company you own shares in turns out to be a lemon. Or your investment property is in the path of a new freeway.

That may sound like a lot of risk, but without accepting some degree of risk you are unlikely to earn the returns you need to keep ahead of inflation and achieve your financial goals.

Managing risk

The amount of risk you accept depends on your personal tolerance for risk, your investment goals and your time horizon.

If you are close to retirement, you may wish to reduce the overall risk of your portfolio to protect your capital. Even so, it's still wise to keep a portion of your money in higher risk investments such as shares and property to produce the returns you need to last the distance.

You can't banish risk entirely but the good news is that most risks can be reduced or managed with some simple strategies. Diversification across and within asset classes and geographic locations is the best insurance against the risk of poor performance in a single investment or market.

If you would like to discuss your risk tolerance in the context of your investment portfolio, don't hesitate to call.