Oakwood®
FINANCIAL ADVISORS

2017
Mid Year Newsletter

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Welcome to the Oakwood Financial Advisors mid-year Newsletter for Summer 2017.

Please find in this publication a brief update on **Investment Market Returns** year-to-date. We provide an overview on **Irish Commercial Property Funds** and also explain REIT funds which have become ever more popular for investors in the property space.

With markets now reaching all-time highs we look at what is required for a successful **Investment Strategy** and the importance of discipline when investing. We look at the potential for a **Stock Market Correction**.

Finally, we review the outlook for markets during the remainder of 2017. Also a comment on reviewing your portfolio too often which can lead to reduced growth due to chasing returns.

Oakwood Financial Advisors is an independent advisory firm where we provide impartial advice and tailored plans to meet our clients specific needs. We would like to take this opportunity to express our appreciation to all of our clients for their continued support.

Market Volatility

While politics can create short-term volatility and uncertainty in the markets, one key lesson from the first half of 2017 is to pay more attention to economic issues and less to political issues. Even with political uncertainty, still to the forefront, markets have continued their upward trajectory for the first six months of the year.

From a European perspective the Dutch and French elections are a thing of the past and the Italian banking issues are being slowly addressed.

Germanys Angela Merkel appears destined to retain her position in September's election. Reports of Europe's demise seems to be have been premature, but there is still an Italian election to contend with before May 2018 and the possible fallout this could bring about.

Events that could cause market volatility are slowly passing. The worst outcomes, to date, have failed to materialise and markets have, in many cases, exceeded previous highs. *Continued in Outlook Page 8*

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Commercial Property Funds Update

Strong Demand

Ireland's Commercial Property continues to be an attractive investment option. The core sectors in the Irish Market of offices, retail and industrial are performing well, with strong demand backing up rent yields and values.

Commercial Property continues to be an attractive investment opportunity. It has historically offered less volatile returns than equities, and has out-performed bonds and cash. From an investor perspective, property offers a solid, tangible investment that also impacts on day-to-day life and the economy.

Hedge against inflation

By virtue of its real aspects, it provides a proxy to real economic activity and also a hedge against inflation. It provides a regular pre-determined income stream secured by leases with tenants. We can verify, in advance, the strength of the occupier and the covenants involved regarding the lease and income.

The Brexit gloom has provided some positives for the Irish Commercial Property sector with UK firms sourcing possible office space here in Dublin. While some of these enquires have been tentative to date only a small number are required to buoy the Irish Market in the short-term. From an investor point of view it is enough to keep the positive returns flowing for this asset class for the next 12 to 18 months.

Foreign Investors

In addition to this, we have seen an increase in foreign institutional investors entering the Irish Market. Several European Pension funds are investing directly in Irish Commercial Property in order to benefit from the attractive yields on offer.

Key Fundamentals

The key part of any Commercial Property exposure is to ensure that the fundamentals are sound - *location, length of lease and quality of tenant* are key. All three of the main life assurer Commercial Property funds (Irish Life, Friends First and Aviva) are still ticking these boxes – *see below for performance figures*.

Irish Commercial Property Fund Performance 30th June 2017					
Fund Provider	**Year-to-date**	**1 year**	**3 Years**	**5 Years**	**10 Years**
AVIVA	4.70%	9.75%	65.03%	101.08%	--
Irish Life	2.70%	7.49%	52.61%	85.19%	-38.81%
Friends First	3.91%	8.53%	64.83%	164.25%	13.15%

Presented by: MoneyMate

Summary – The above funds offer solid growth potential

Whilst we have seen a strong recovery in values of +80.5% since the trough, this is from a low base. Prices still remain 40% off peak levels. There is still further scope for growth, particularly in sectors that are forecasting rental growth. The three funds outlined above offer solid growth potential for the next 12 months and possibly longer.

Commercial Property – REITs

Real Estate Investment Trust (REIT) - explained

A REIT is a public listed company whose main activity is the ownership and management of property-related assets.

These can include offices, shopping centres, warehouses as well as commercial sites for development opportunities. More recently REIT funds have ventured towards the residential sector due to the opportunities available.

A REIT is designed to generate investment returns in two ways: firstly, through exposure to the value of the properties that the REIT owns and any accompanying capital growth; and secondly, through rental income.

Individuals can invest in REITs either by purchasing their shares directly on an open exchange or by investing in a mutual fund that specializes in public real estate – *see below*.

An additional benefit to investing in REITs is the fact that many are accompanied by dividend reinvestment plans (DRIPs). An Irish REIT must distribute 85% of its property related income, net of management charges, by way of dividends to shareholders.

Some REITs will invest specifically in one area of real estate - shopping malls, for example - or in one specific region, state or country. Investing in REITs is a liquid, dividend-paying means of participating in the real estate market.

REITs receive special tax considerations and typically offer investors high yields, as well as a highly liquid method of investing in real estate.

Equity REITs invest in and own properties (thus responsible for the equity or value of their real estate assets). Their revenues come principally from their properties rents.

To invest in REIT funds contact us…..

Invest directly in REIT funds through a share dealing account or alternatively through the

Fund of REIT's with Zurich Life.

Please note this is a volatile (high risk) investment asset.

(REIT)

Real Estate Investment Trust

Apartments

Shopping Malls

Office Buildings

Hotels

Warehouses

Stock Market Corrections

Markets Fall

A question that regularly occurs at client reviews is the topic of a Stock Market Fall. Bad news travels and eventually *"pessimists"* will get it right sometime.

However, for those with a plan - the patient, disciplined, goal-focused, long-term investor – market slumps tend not to be an issue.

Market Correction is inevitable

All stock market corrections in our lifetime - and long before - have been temporary. So have all of the economic recessions, as have all the bear markets in stocks. They have all been temporary setbacks, and each has given way in time to the resumption of a major long-term uptrend.

The US market Experience

Let's look in isolation at the US index – the Standard & Poors 500 - during the 70 years 1946-2016. There were 57 stock market corrections. These are usually defined as declines in the S&P 500 Index of ten percent or more. That's an average of about one every fifteen months.

Average decline lasts 11 months

During the same period, there have been eleven economic recessions, usually defined as a decline in U.S. GDP lasting for at least two calendar quarters. That's an average of about one every six and a half years. The average time the economy was in decline during these recessions was 11 months; the average contraction was 2.3% of GDP.

Another way of looking at this is to consider that there were 840 months in the 70 years under discussion, and that the economy was in recession for almost 120 of them, or 14% of the time. The other 86% of the time, the economy was growing, as indeed it is at the moment.

An increase of over 150 times

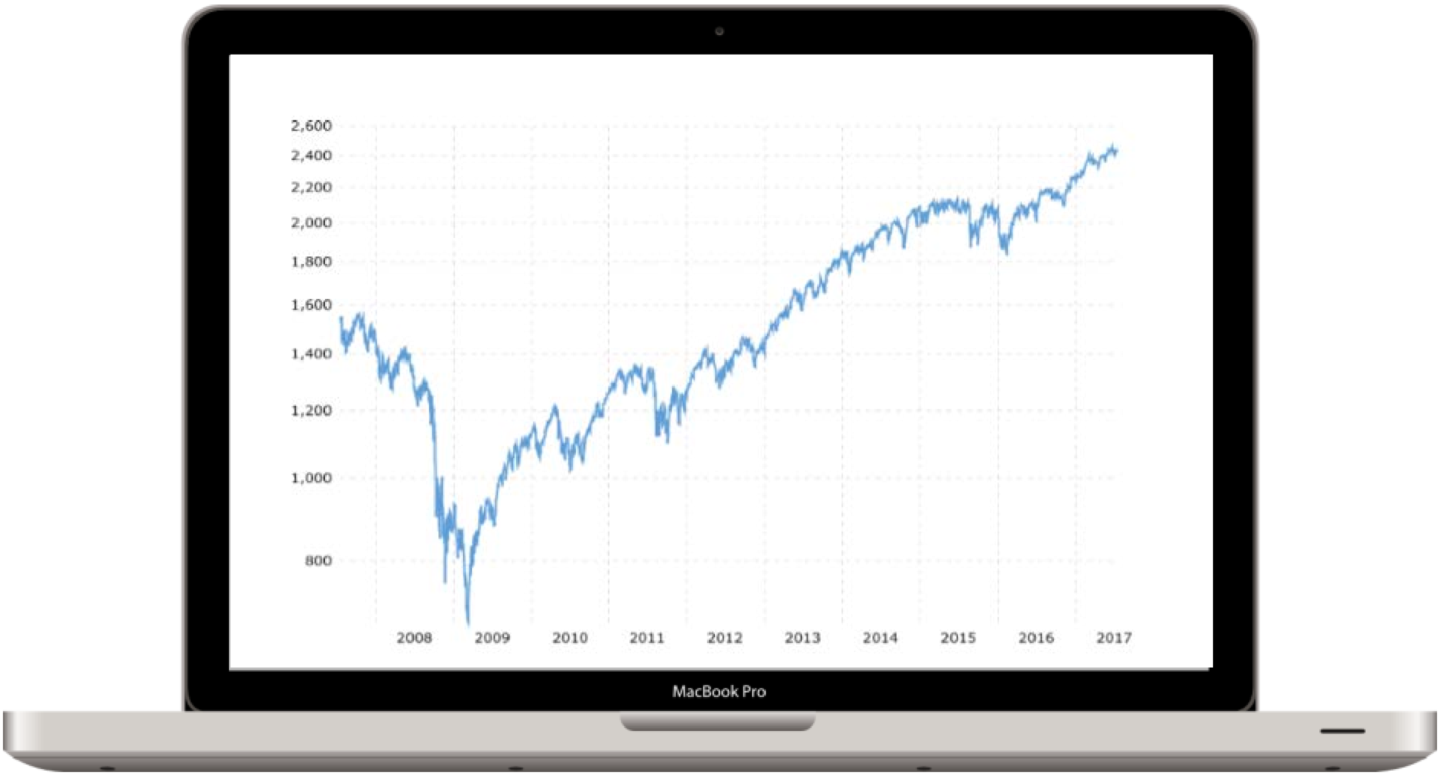
During these 70 years, when stocks were correcting 57 times, and experiencing 14 bear markets, the S&P 500 Index went from 15 to 2,240, an increase of over 150 times.

S& P 500 - 10.72% p.a. Return on Investment

What can be learned from the above, is that over these 70 years, if an equity investor stayed focused on the long-term trends they enjoyed an average annual return of **10.72%.**

Stock Market Corrections

S&P 500 – 2008 to 2017



Market Dip
As a more recent example of market dips and recoveries we can look at the S&P 500 index (the S&P 500 index has became synonymous with the term "U.S. stock market").

220% recovery
In 2008 the S&P 500 fell 38.49% ***its worst ever yearly percentage loss*** (in September 2008, Lehman Brothers collapsed as the financial crisis spread). To the end of June 2017, it has had a recovery of over 220%.

Choosing Your Investment Strategy

Stay on track

Successful investing is based around a solid and disciplined investment plan. With so many confusing strategies to choose it can be difficult to know the correct approach. In reality there are a few fundamentals you need to adhere to in order to ensure you stay on track.

Many of us, when reviewing investment options are bombarded by a wave of information about markets, the economy, manager ratings and past performance of a fund or strategy. Typically this usually creates a sea of confusion and overlooks the fundamental and practical principles which we believe give you the best chance of success with your savings.

While these are all the external factors which can impact on investments, one of the major factors which impacts on returns is our own behaviour. In the main, investors do not like volatility and are averse in the extreme to multiple periods of negative returns.

Reliable Guidance

Guiding investors through the inevitable ups and downs along the journey is part of our job as advisors. Having a disciplined investment strategy is key.

In essence there are 4 Key principles we need to adhere:

1) Identify Your Own Investment Goals

We need to define our goals clearly and be realistic about the ways to achieve them. For many investors, emotions tend to override investment decisions and that is why a sound investment plan is essential to protect us from making poor investment choices.

Financial Plan

Without a financial plan, you can be tempted to build a portfolio based on transitory factors which will impact on your long term returns.

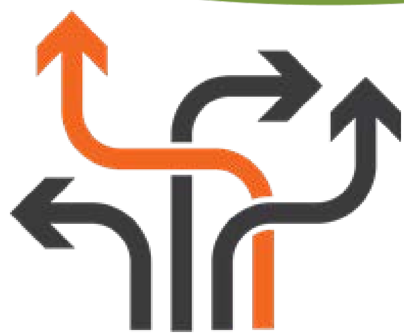
Because most objectives and financial goals are long-term, the plan should be designed to endure through changing markets and personal circumstances. It should also be flexible enough to adjust for unexpected events that can arise along the way.

If you have multiple goals (for example, paying into a pension/retirement pot / saving for a child's education) you will be best served accounting for and planning for all scenarios as opposed to picking one over the other.

Once the plan is in place you should evaluate it at regular intervals but not so regularly that it becomes a chore or a concern.

Discouraging results often come from chasing unrealistic targets. An unsound and daunting strategy can un-nerve investors, who lack well-grounded plans to achieve their investment goals.

Choosing Your Investment Strategy



2) Diversification

Equities have done the best over the long-term for the simple reason that businesses, in aggregate, generate the best returns.

But investing exclusively in equities does not suit all clients. This is due to the volatility which may be involved. Varying economic states (recession, deflation and inflation) can impact on there values. The financial needs of a 30 year old, saving for retirement, are quite different to those of a 70 year old, who needs a regular "income flow" from their retirement pot.

A sensible investment strategy starts with an asset allocation suitable to your objectives. The allocation should be built upon realistic expectations for risk and the returns needed. A diversified portfolio will help avoid exposure to unnecessary risks. Risks which could cause you unnecessary stress and concern.

Both asset allocation and diversification are ultimately about balance and keeping things on an even keel. All investments which provide opportunity for growth involve risk. You really must manage the balance between risk and potential return through the sensible selection of assets.

A diversified portfolio's proportions of equities, property, bonds and alternative investment types can reduce the likelihood of ups and downs. If you have lots of equity you will likely have lots of volatility, simple! However, if you are investing for the long term you need some exposure to equities to get positive returns.

3) Costs – choose wisely

The lower your costs, the greater your share of an investment's return. When it comes to investing there is no reason to assume that you get more if you pay more.

4) Discipline

A disciplined approach over the long term will pay dividends. Investing can provoke strong emotions, particularly when markets fall. This can have a knock on emotional impact on an investor and may cause them to think irrationally. In the face of market turmoil and media speculation some investors may make ill-judged and short-term-focused decisions.

Discipline and perspective, through periods of market uncertainty, are the qualities that help investors remain committed to their long-term investment goals.

Market Outlook

Those investors bullish on markets generally argue that the current low level of long-term interest rates have helped make other assets – like equities or property – look cheap.

Those bearish on markets argue that the asset prices have been hyped up by the various Central Banks intervention. They fear that when the liquidity that has fuelled these excesses is removed asset prices will fall back significantly in bear markets (when markets fall).

From a global point of view debt levels are far higher than at the onset of the Credit Crisis in 2008 and this has be a concern.

In summary, it is hard not to be concerned at the latter two points but overall markets are still positive. From a Eurozone perspective the return of Greece to the bond markets and momentum towards a resolution of Italy's banking problems will further reduce investor anxiety.

Based on these points European shares are attractive to investors while property is still positive from an Irish perspective thanks to the Brexit fallout.

The withdrawal of central bank monetary stimulus will be an issue but *"cautious optimism"* would be the suggested approached.

Main Equity Market Returns Year to Date - 01.07.2017	
Index	Returns (€)
S&P 500 (US)	0.0%
FTSE Europe Ex. UK	7.1%
Euro Stoxx 50	5.2%
UK FTSE 100	-0.4%
ISEQ (Ireland)	4.8%
FTSE 100 (UK)	- 0.3%
TOPIX (Japan)	1.8%
FTSE World Index	3.2%

Comment – Reviewing Portfolios

Investors tend to chase investment returns of whatever has been hottest and to shun whatever has gone cold. Research by the renowned psychologist Paul Andreassen showed that people who receive frequent news updates on their investments earn lower returns than those who only look at periodic updates.

As the founder of security analysis, Benjamin Graham, wrote in ***The Intelligent Investor*** in 1949:

"The investor's chief problem – and even his worst enemy – is likely to be himself."

My job, as a financial advisor, is to steer clients away from making mistakes. At times this entails saving them from themselves…..*a disciplined investment approach over the long term will pay dividends!!*

Oakwood Financial Advisors Announcement

After five years of steady growth we are delighted to announce another addition to our team with Bronagh Lynch who joined us in February 2017. Bronagh completed her degree in UCD in 2016 and is now pursuing a career in financial services. We would like to welcome Bronagh and wish her the very best in her career.