On a precipice — look beyond the negativity

Ronan McGrath of Oakwood Financial Advisors offers advice to general practitioners on how to deal with all the talk of potential economic recession when preparing for retirement and investing

"May you live in interesting times" is known in English as the "Chinese curse" which the Chinese were reputed to wish upon their enemies. It would have been an apt comment for Theresa May to Boris Johnson on her recent departure from 10 Downing Street. Times are most definitely interesting at the moment and the fear of a global recession seems to be in every newspaper or headline.

Negative news

Right now, even with all the negative news in the media (Trump v China trade wars, threat of a no-deal Brexit, global warming) things are pretty good in terms of the markets and main economies of the developed world. But because the global financial crisis (GFC) of 2007-2009 was so severe, many investors have been worried about the next recession since the day the last one ended.

On a precipice

Looking back towards early 2009 the financial world was seemingly on the precipice of falling apart, now relatively speaking we are in a much better place both on a domestic and global level. When it comes to investing you need to look beyond the noise and negativity and take in the bigger picture.

Concerns

First, there were double-dip recession fears. Next, we had the sovereign debt crisis in Europe. European economic growth concerns and a soft landing in China has been a worry for years. Then it was Trump's surprise win in the 2016 US presidential election. Now we have trade wars and Brexit.

Global recovery

There will always be something to worry about because negative headlines sell. They attract more clicks or sell more newspapers. I would have found it hard to believe in 2009 that 10 years later the Irish and global economies would in the following positive state:

- Irish employment rates are at historic lows;
- Inflation is at very low levels (despite unprecedented monetary policy actions from the European Central Bank to try prop up growth and spending);
- Government bonds are now offering negative long-term returns;
- The main stock markets, have in some cases doubled and trebled (from the lows in March 2009).

Ireland and the US – best performers

At a micro level the Irish economy is the best performing in Europe while on a macro level the world's largest global economy – the US – is now in the longest-running economic expansion in modern US history. It is also displaying historically high levels of employment. Global companies will continue regardless as they have done for generations and continue to generate profits and dividends to their shareholders/investors.

Fear of recession – seek growth potential

Recessions are always difficult from an economic perspective because people lose their jobs, businesses slow or shut down, and families get hurt from the financial strain. But from a market perspective, investors spend too much time worrying about the next big market dip. You cannot constantly remain in the defensive position simply because you know the economy and markets eventually have a downside. You have to take on some level of risk (namely equities) or you will have no growth potential.

Investors

When I refer to investors, these are our pension clients, our retired clients with their Approved Retirement Funds (ARFs), and our investment clients. A very broad range of individuals with different financial needs and goals at different points in their lives.

Since 1989 (30 year investment period)	
Irish Consumer Price Index (inflation)	S&P 500 Share Index * increased
2x	8x

€1,000 invested in 1989 in the S&P 500 * would be worth today €11,834 allowing for share growth and dividend reinvestment each year. A 9% p.a. compounded return.

A basket of goods and services that cost €1,000 in 1989 would today cost €1,905. **

Conclusion: Mainstream equities are an extremely effective way for the long-term investor to build and protect their wealth and purchasing power both while building up their pension funds and in retirement.

* The S&P 500 is the stock market index that tracks the stocks of the top 500 large cap U.S. companies by reporting the risks and the returns.
** Source CSO Website

Table 3 – S&P 500 Share index growth versus inflation

Ronan McGrath, Oakwood Financial Advisors

Specialist knowhow

If you are a 30-year-old starting out in general practice, you have a very different need than a general practitioner (GP) at the other end of the spectrum planning for retirement in the next couple of years. We tailor our client's portfolio requirements to align and accomplish their specific needs and goals.

GMS smoothing of returns

For a GP looking towards retirement in the next couple of years it can make sense to take a defensive position with some of your funds in order to maximise the lump sum opportunity retirement offers. For those invested in the General Medical Services (GMS) scheme it has the smoothing of returns over a four-year period (see Table 1 with bonus figures declared for last five years).

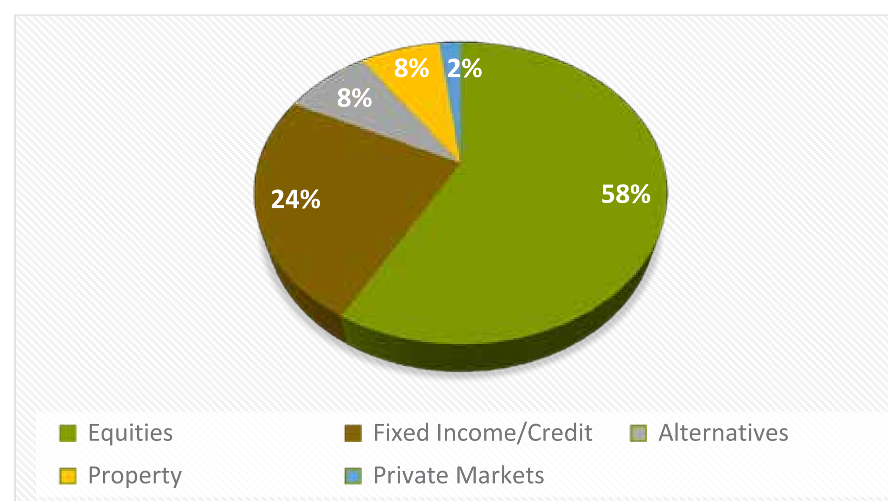
Any significant shock to the fund is spread out as a result. In Table 2 are the actual fund returns for the scheme investment year.

In a prudent move, the trustees also recently removed the Lifestyling option in order to protect those coming up to retirement from a shock to bond market values.

Maximising lump sum

If you are very close to retirement (i.e. this may be the next 2-3 years) you could consider the option of moving part of your fund to cash. This is in order to maximise your lump sum drawdown. It ensures no negative turn in the markets will significantly impact on this. It is important though to note that cash funds, in the main, are yielding a slightly negative return.

GMS Fund Asset Mix



Year	Bonus on Active Member Accounts
2014	7.6%
2015	8.4%
2016	7.6%
2017	7.2%
2018	3.1%

Table 1 – Bonus to GMS policies

Year Ended	Investment Returns
30th June 2014	13.9%
30th June 2015	11.1%
30th June 2016	(0.8%)
30th June 2017	11.4%
30th June 2018	4.9%

Table 2 – Investment Returns

Approved Retirement Funds – maintaining capital

However, in order to maintain your capital over time in an ARF (and ensure you have sufficient funds to live a happy and content retirement) you need to have equities (company shares) in your portfolio.

Typically, in the long-term, you will need a minimum of between 50-60 per cent in equities (along with other growth assets).

This helps to achieve the growth required to maintain your capital, after annual withdrawals and charges. Equities, historically, offer the potential for the highest returns and to have any opportunity to maintain their capital (see Table 3).

Avoid extremes

While we cannot ignore economic downturns, investing under the assumption that the next one is always right around the corner means you will always be positioned too defensively. If you build your portfolio under the false hope that there will never be another downturn, you are going to overreact when the inevitable pullback does occur.

As an investor (either with a lump sum or an ARF / Pension Fund) it makes little sense to think in extremes because markets are rarely at extreme levels. This means avoiding investment positions that take on a **high level of risk** because it can lead to unnecessary or avoidable mistakes.

Simple steps to protect your position

We cannot time the markets. But we can look at equity markets and value. If they are expensive reduce equity in the short-term! When better long-term value is available, increase your equity exposure.

Be provident – diversify

We could be at the onset now of the next recession, or growth could shuffle along for another year or so. No one knows. Those that state otherwise are guessing. The way that you plan for this inherent uncertainty is by diversifying your portfolio.

This will allow your funds to withstand a wide range of economic and market environments that may occur. IMT

• Oakwood Financial Advisors are specialist financial advisors to the medical profession with a unique understanding of both the GMS Pension scheme and also the Health Service Executive Pension benefits.

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