AD WEALTH NEWSLETTER
MARCH 2022

GENERAL UPDATE

Dear Clients,

Welcome to the first edition of the AD Wealth Update for 2022. Summer is over as it cools down here in Melbourne and we are heading into Autumn with all our staff officially returning to the office and excited to head into the new year.

With COVID and its challenges (hopefully) behind us, we are looking forward to getting the ball rolling on 2022 with new projects to be announced in the specialised property investment space for the year ahead and our investment committee continuing to generate strong returns for our clients whilst adapting to the current climate of the world beyond the Australian market.

We are looking forward to being able to see more clients in person this year instead of over zoom and to be able to showcase our property projects to investors through site visits and events.

We thank you for your ongoing support and trust in the AD Wealth team, and we look forward to providing further updates throughout 2022.

Matt Morley
Director

CLIENT TESTIMONIAL

An AD Wealth client had $600,000 invested with us in our Blended Portfolio that ended up being worth $969,000 at the end of the 5th year compared to $906,000 had it been invested in the Median Manager. The difference between both portfolios meant that our client who utilised our blended portfolio had an extra $63,000 overall which worked out to be $12,600 per annum that they used to expand their family business - their only regret is that they didn't start investing sooner. If you would like a copy of our benchmarks and returns or to discuss financial planning services please contact kurtt@adwealth.com.au

SPECIALISED PROPERTY INVESTMENTS

HEATHFIELD UPDATE

The Heathfield (Plumpton) development in Fraser Rise is making positive sales progress with the recent release of new lots in Stage 1, all with increased prices to reflect growing demand in the current market. Stage 3 is completely sold out, Stage 2 has only four lots remaining and Stage 1 has only 28 lots remaining.

KYNETON TENANT

The Kyneton mixed-use retail and residential site has secured a large and established fast food retailer for a ground lease in the standalone restaurant space which includes a drive-through and 26 car parks. This well known and loved food chain have signed a Heads of Agreement whilst negotiating the final contract.

SPECIALISED PROPERTY INVESTMENTS CONT'D

AUSTRALIA'S HOUSING SUPPLY CRUNCH

According to Ronald Mizen in the Australian Financial Review, Australia is heading towards a housing supply crunch with demand set to outpace supply within a few years. Philip Lowe, Governor of the Reserve Bank of Australia is arguing that fixing supply bottlenecks is a key element of keeping house prices stable, and whilst over 120,000 detached homes and 66,000 medium-density units will be added to housing stock each year, this is the bare minimum needed to support the projected 180,000 new households expected to form each year between 2025 and 2032. With net migration expected to recover to pre-pandemic levels by 2024-25, this is expected to mean the main level of shortfall in housing will come from units that will face increased demand from new arrivals. However, Ronald notes that the strong demand for detached dwellings also meant there was a lot of price growth in the non-apartment section of the market. In an effort to align investment opportunities with market needs, AD Wealth will continue to source a diverse range of property sector opportunities for our clients.

Source.: www.afr.com/policy/economy/australia-facing-a-decade-long-housing-supply-crunch-20220224-p59z8g

TRADITIONAL INVESTMENTS

WAR IN UKRAINE IMPACTS INVESTMENT RISK, BUT PERHAPS NOT LONG-TERM RETURNS

Share markets, over the longer term, have provided materially higher returns than many other investment categories such as bank deposits and government bonds. The reason share markets are priced in a way to create these higher returns is because investors require a certain level of compensation for taking risks. Generally, share prices will not be bid up beyond a “fair value” that allows for this return premium to be earned. However, when either the perceived or actual risk increases, more compensation is required and share prices adjust downwards, allowing future returns to be higher and provide adequate compensation for the higher risk.

As the past 3 years have demonstrated, risk can come in many different forms and the source of risk is almost impossible to predict. The Russian invasion of Ukraine is the latest such risk to materially impact share market values. For those directly impacted, the fear and tragedy caused by war is palpable. For investment markets, the impact is less clear. Past military conflicts have often been associated with an immediate decline on share markets, as the perceived risk of holding equities is increased. However, this initial sell-off has often been followed by a relatively rapid recovery as investors conclude that the long-term impact on company earnings is minimal.

ECONOMIC UPDATE CONT'D

Arguably, there has been no geopolitical related event that has materially impacted equity markets for any significant length of time since the oil crisis of the 1970s.

Hence, often in the past, investors who have discerned that investment risks associated with military attacks are more perceived, than actual, may have been rewarded by taking advantage of cheaper equity market valuations. However, although historical patterns may provide some reassurance that the latest equity market decline will be quickly followed by recovery, it would be dangerous to assume this as a certainty. The Russian invasion is differentiated from other more recent military incursions in that the intentions of the invading force are largely unknown, with the possibility that their targets may go well beyond just Ukraine. In addition, the breadth of commodity supply impacted by the military conflict is significant – not only covering oil & gas, but also a range of other rare earths and minerals important to many supply chains.

From a broad macro-economic perspective, it would appear that the Russian invasion will add to already high global inflationary pressures, with particularly significant impacts on energy and selected commodity prices. The supply response from other commodity producers may alleviate this pressure over time (and in the case of oil this could happen relatively quickly). However, medium-term inflationary risks are unambiguously heightened by the conflict. Although bond markets are yet to show any material reaction, higher inflation could place further upward pressure on interest rates, even though central banks may be less inclined to take immediate action in a period of heightened uncertainty.

Notwithstanding the huge uncertainty generated by Russia's actions, it is not clear that the invasion will necessarily significantly lower global economic growth, nor be detrimental to broader company earnings. None-the-less, equity markets have fallen over the period leading up to the invasion, as well as declining immediately following confirmation of the invasion. However, volatility has been high across markets and there have already been some signs of recovery and stability. Complicating the assessment of share market movements is the recency of the correction taking place in the second half of January, when rising inflation and bond yields were seen to be the catalyst for decline. However, the gradual Russian military build-up on Ukraine's border may have also been an influencing factor over this period.

Given the significance of the movement on equity markets over recent weeks, much of the risk stemming from the Russian invasion of Ukraine has already been built into share prices. Although further escalation of this associated risk clearly cannot be ruled out, the balance of probability as informed by past experience of military conflict would suggest that maintaining equity market exposure through these periods is the most appropriate course of action. For those investors with a higher risk appetite looking to potentially capitalise on a period of market weakness, the relative risk and return opportunities presented by the Australian equity market, particularly in the mid to smaller company range, may stand out for investment consideration.

Brad Akkerman
Director (Principal Partners)