



# Lonsec Protecting against market volatility

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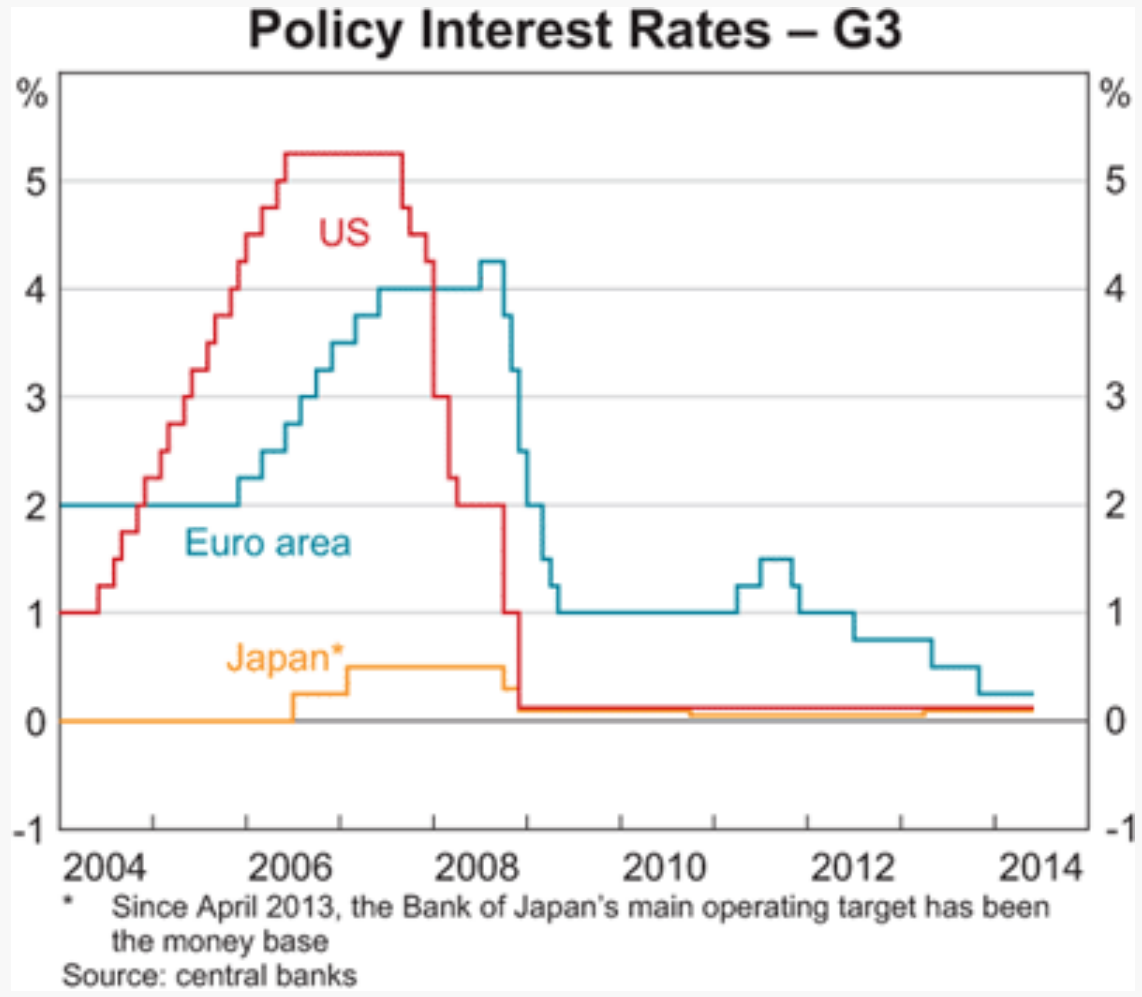
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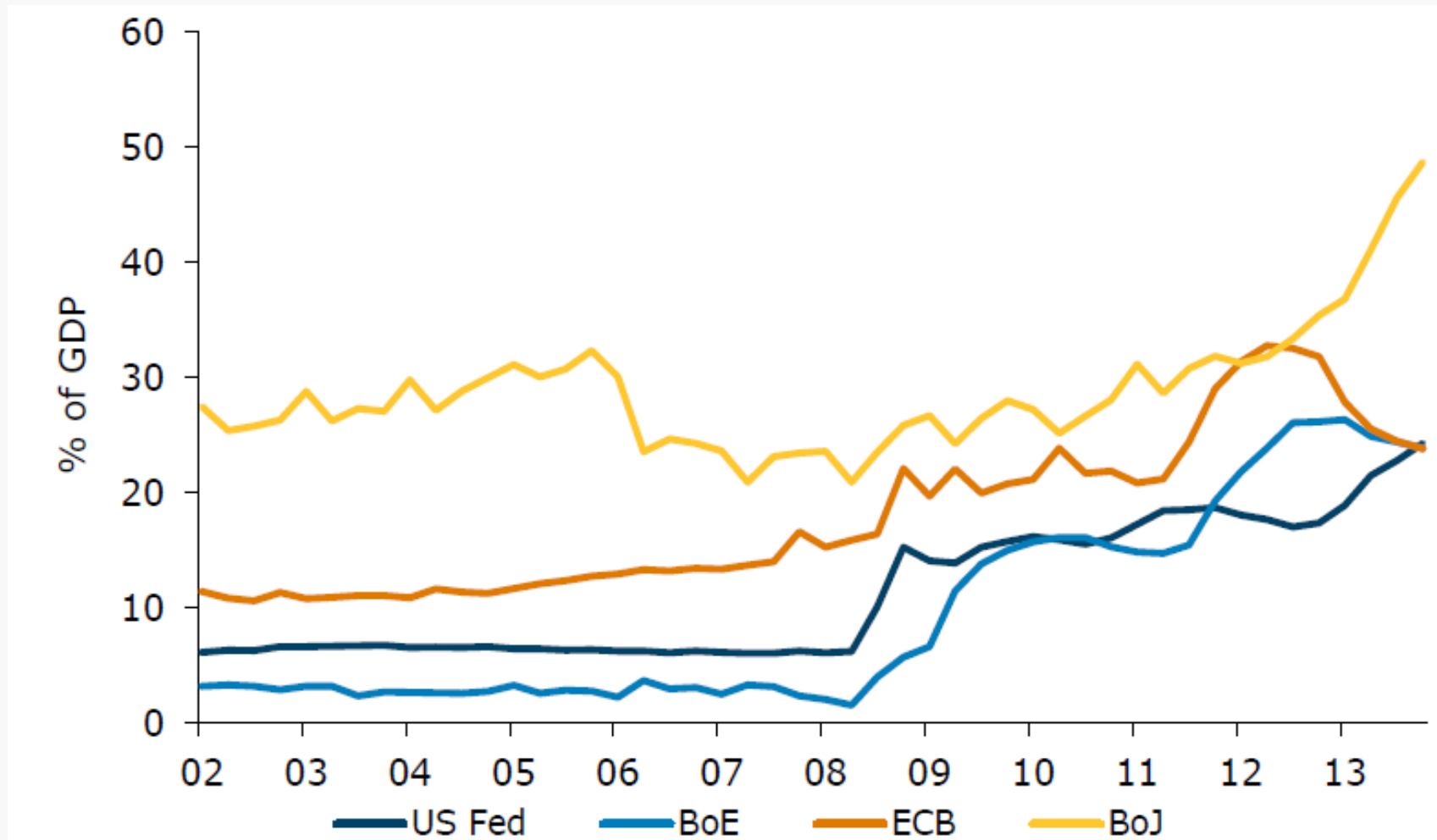
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# Central bank cash rates – zero



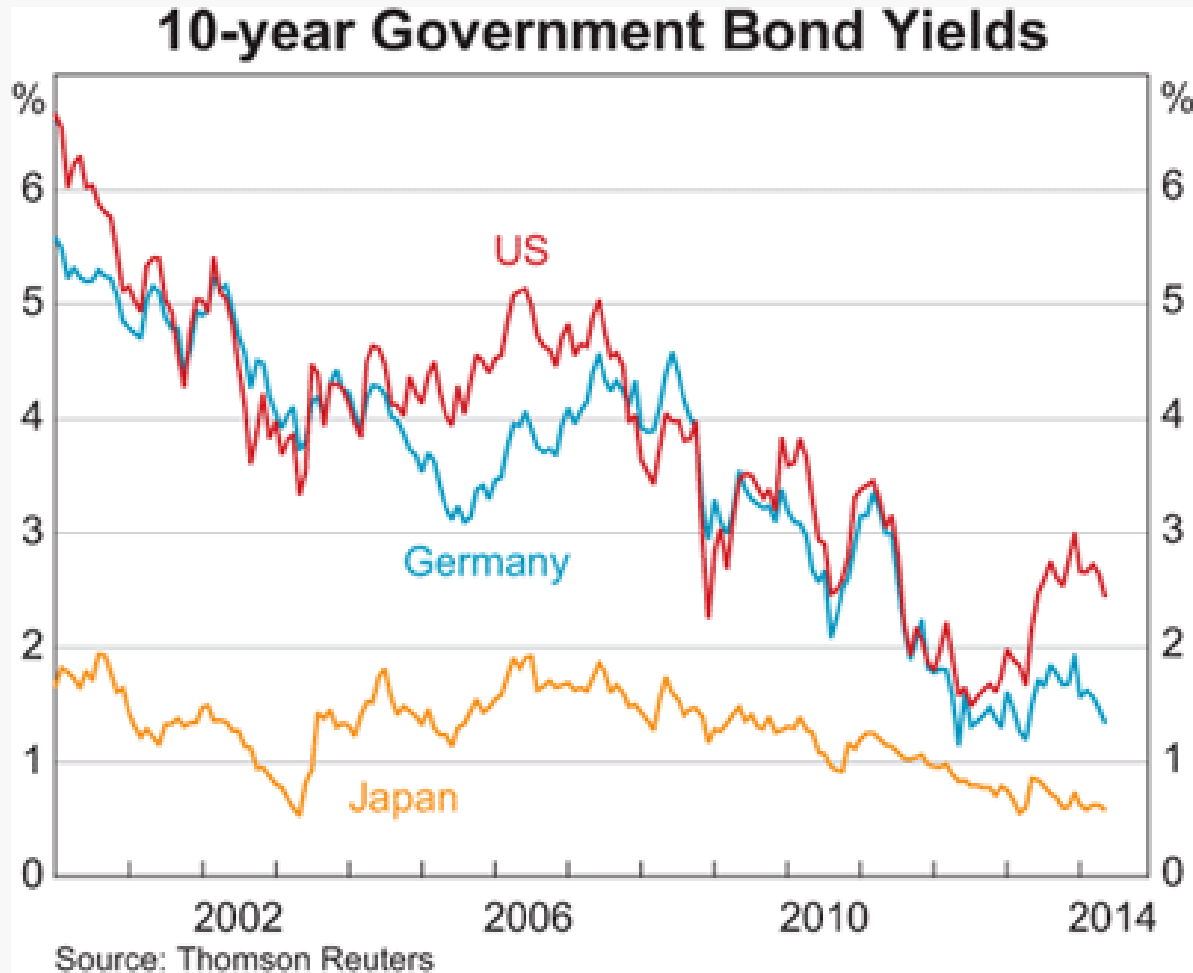
Source: RBA

# Central bank balance sheets - expanding



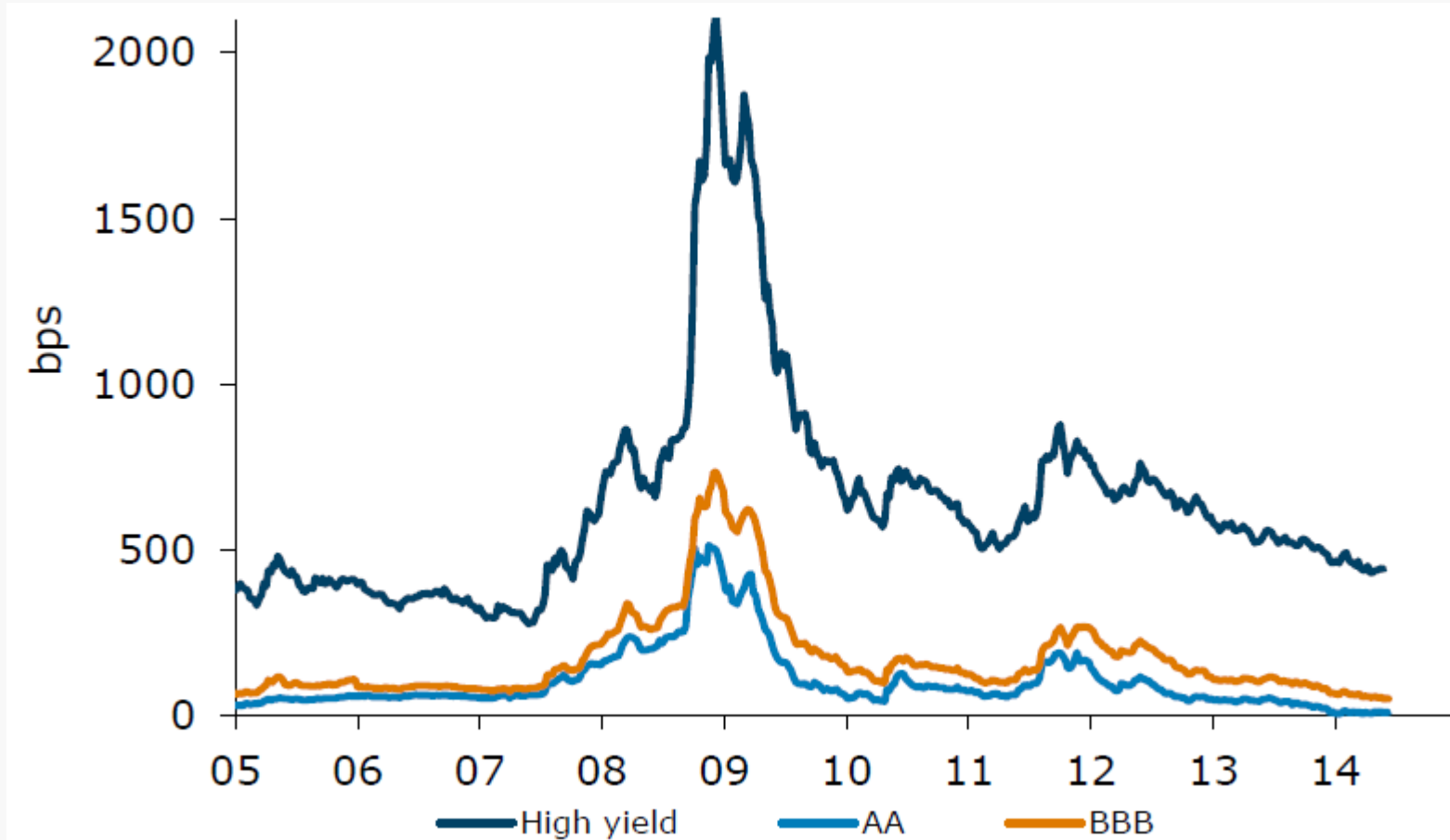
Source: ANZ

# Global Bond yields – very low



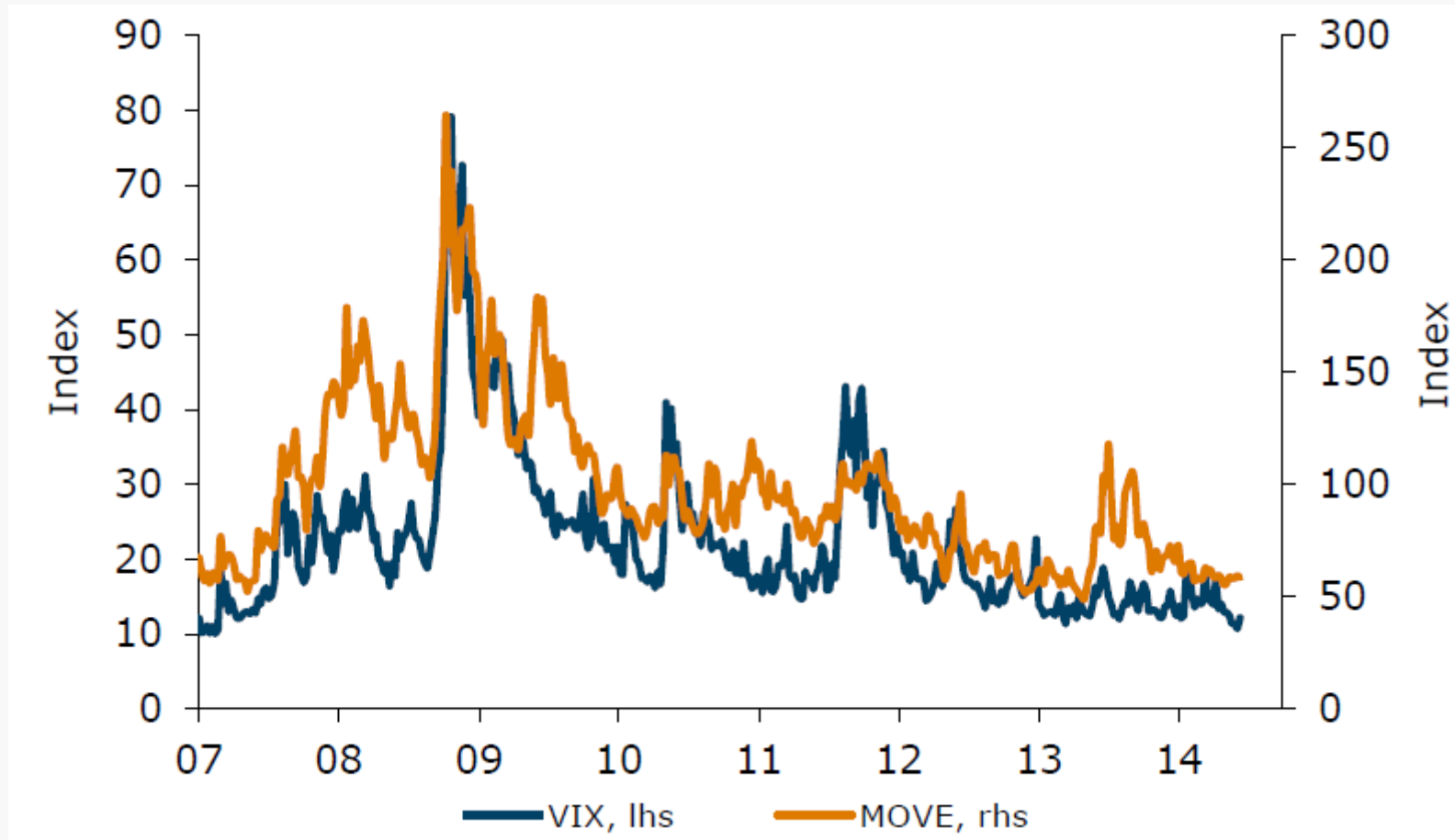
Source: RBA

# Credit Spreads – at 2007 levels



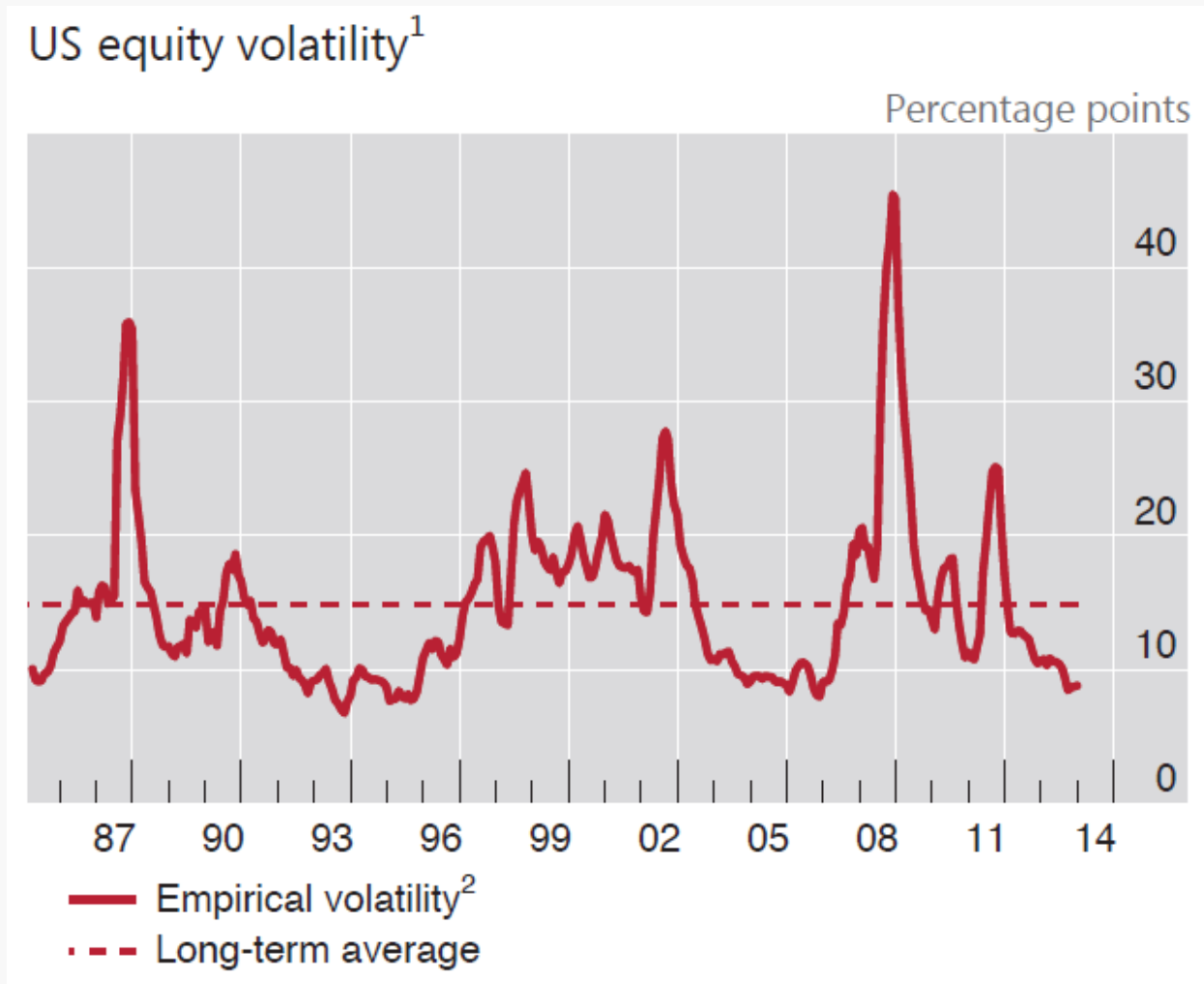
Source: Bloomberg

# VIX – very low



Source: ANZ

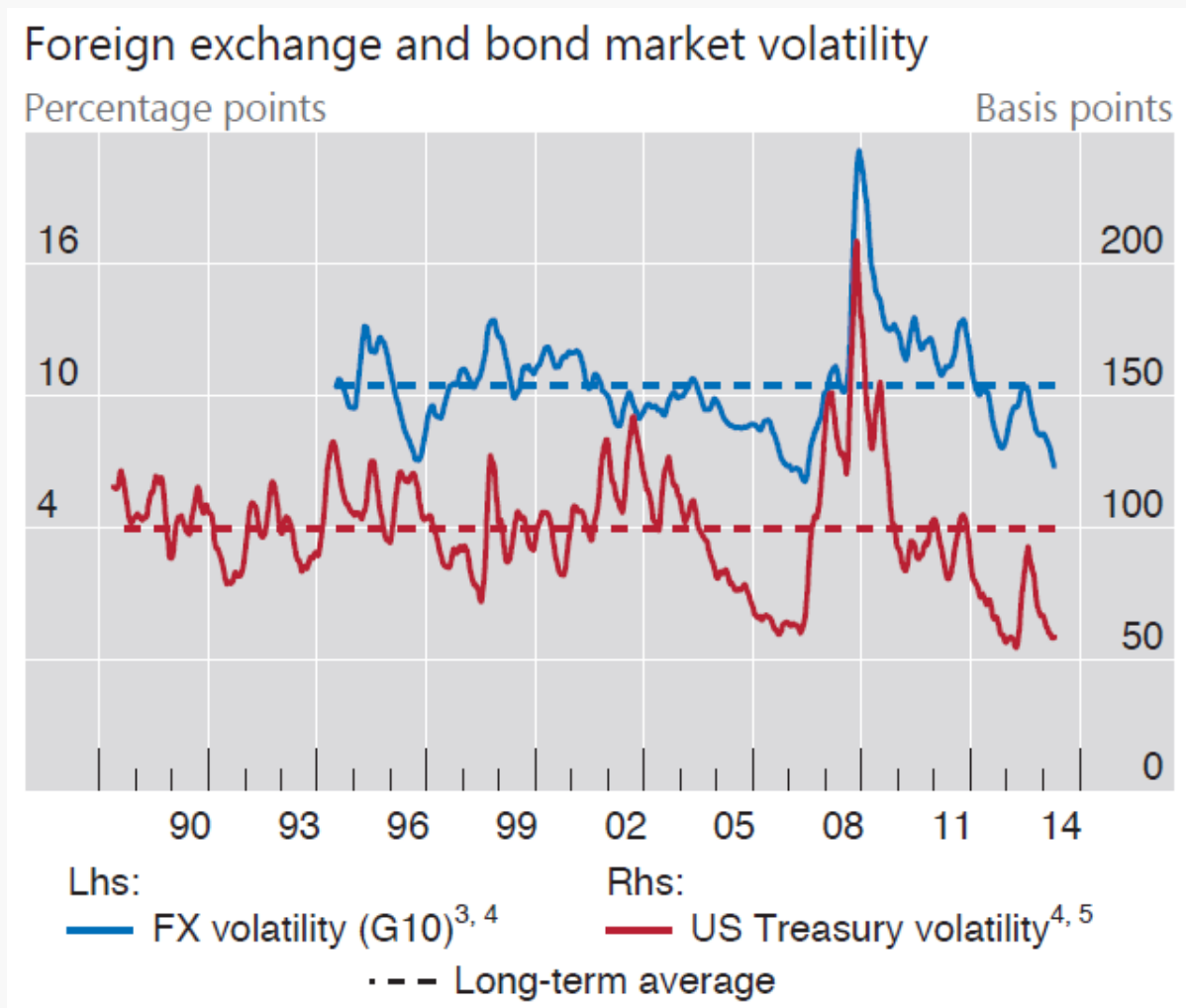
# US equity market volatility – very low



Source: BIS

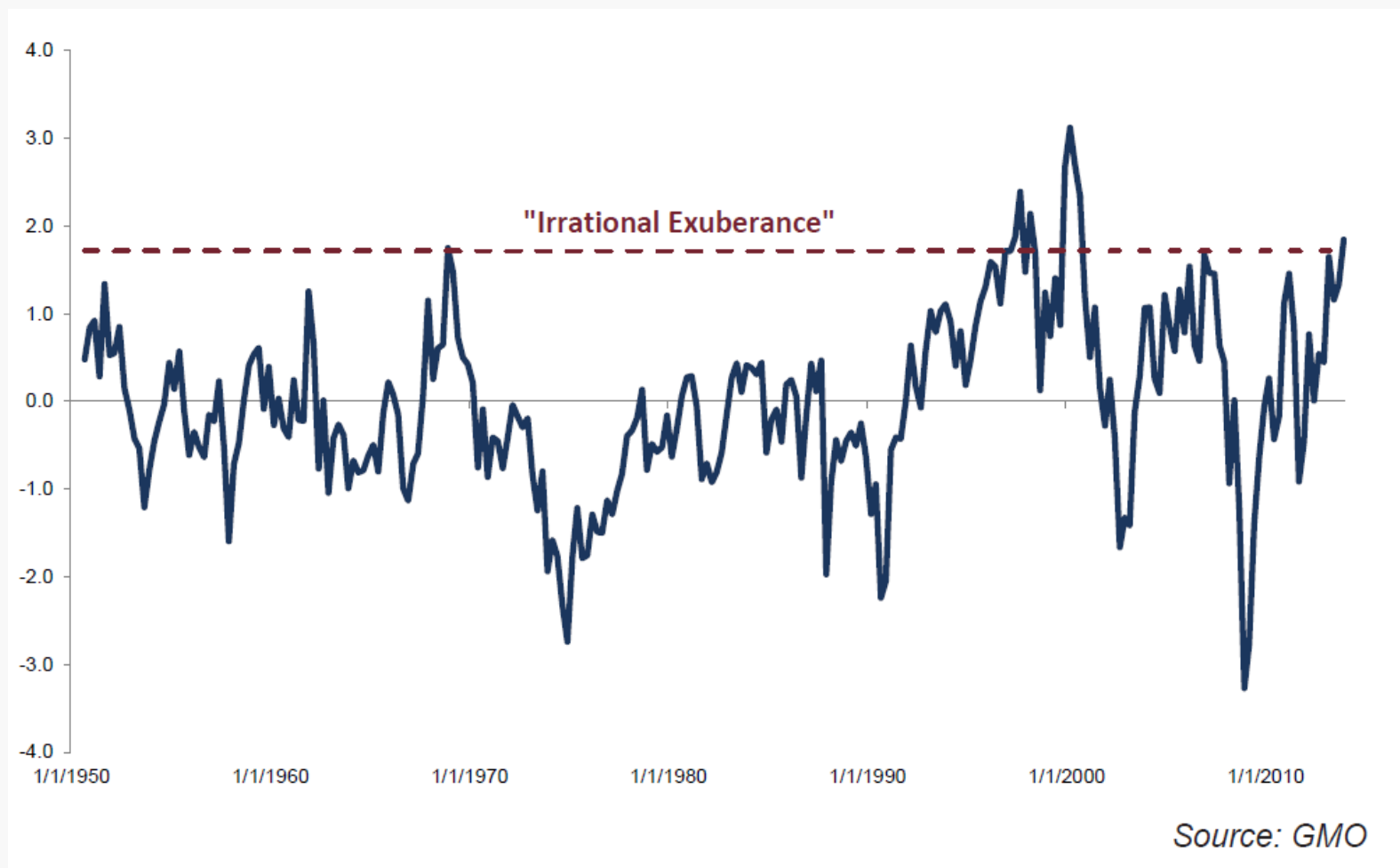


# FX and bond volatility – very low



Source: BIS

# Investor sentiment indicator

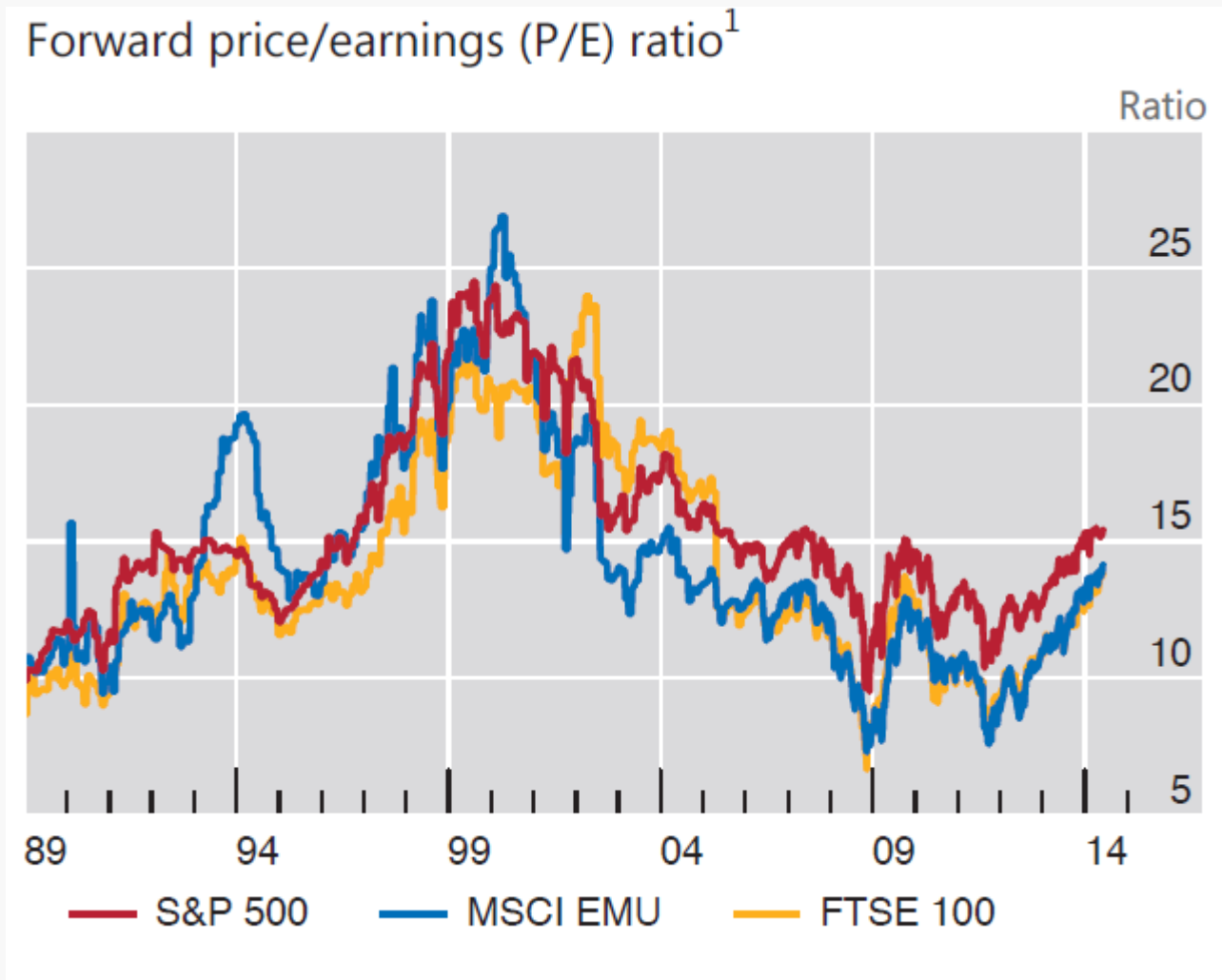


# US Equity market – record highs



Source: IRESS

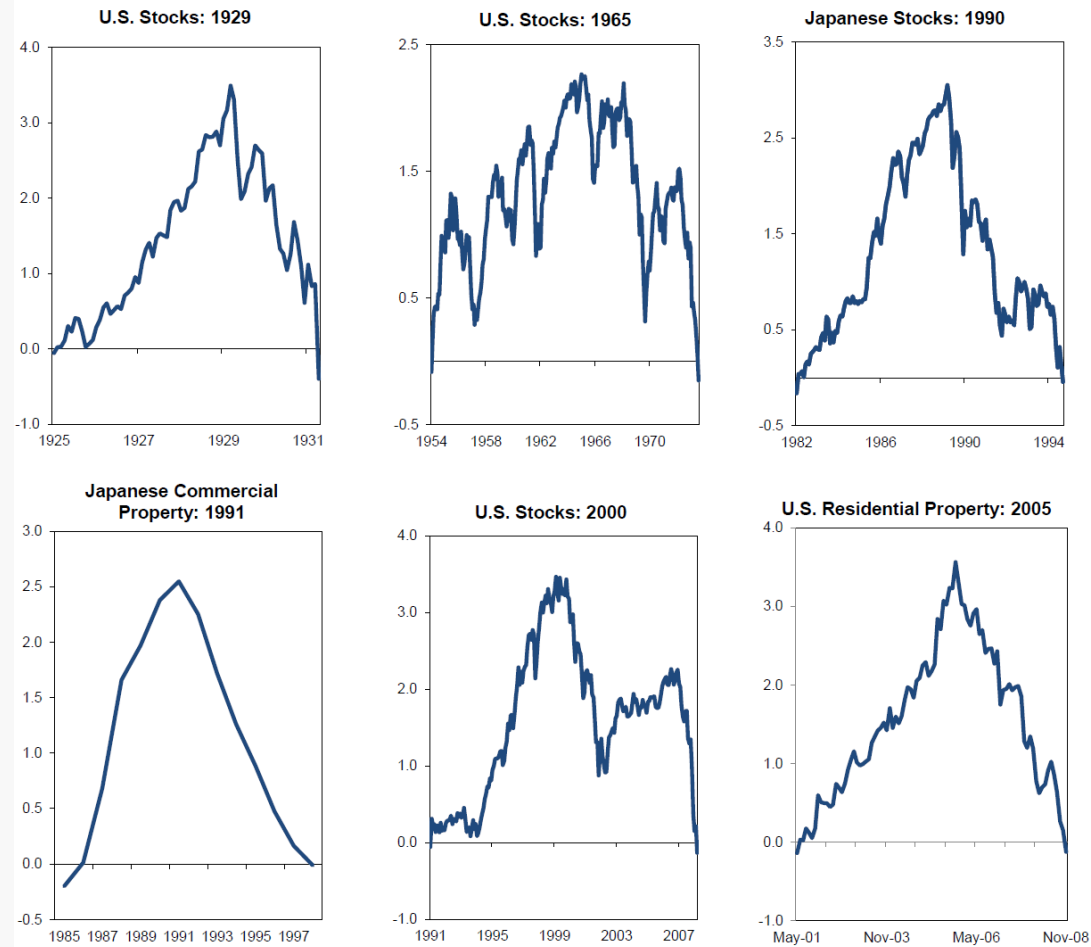
# But PE's look ok...



Source: BIS

# Bubble spotting

: The Six Most Important Asset Bubbles in Modern Times



Source: GMO, Global Financial Data

# 'The Black Swan'

## Nassim Taleb, 2007

- Standard deviation and volatility are not good indicators of risk
- They tend to be the low at the top of the cycle and high at the bottom of the cycle
- So low volatility and sd can be where risks are actually very high and vice versa

# What can we do???



# Three things

Three available options to protect against a market crash...

1. SAA – Strategic Asset Allocation
2. TAA – Tactical Asset Allocation
3. Seek protection



# Strategic Asset Allocation

## 1. Diversify across asset classes

Cash, bonds, shares, property, commodities

## 2. Tailor SAA to age and stage of life

- Accumulation
- Maintain
- Draw down

**Advantages** – lowers market risk, less stress, lowers fee and tax consequences

**Disadvantages** – can lower returns, not full protection from a crash

# Tactical or Dynamic Asset Allocation

Rotate Asset Allocation

Move asset allocation around in line with perceived risk/return measures

**Advantages** – can avoid market crash if timing is good, can generate higher returns and lower market risk

**Disadvantages** – timing is very difficult, high stress, opportunity cost if timing is bad, fee and tax consequences of higher turnover

# Seek Protection

1. Buy puts on SPI or stocks
2. Buy reverse ETFs
3. Write calls against stock held

**Advantages** – can avoid market crash if timing is good, increase returns and lower risk, lower CGT tax consequences

**Disadvantages** – cost of protection, often short term expiry, opportunity cost if timing is wrong and written calls won't fully protect downside

# Key risks to keep an eye on

- Rising inflation in the US
- Rising geopolitical risks (Ukraine, Iraq, China Sea, Thailand)
- BRIC emerging economy issues

**Thank You**

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