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PAYSAFE
ADVISORY SERVICES

PAYSAFE NEWS

WELCOME

OTHER GREAT READS INSIDE:

Welcome to 2024.

After a year in 2023 that saw plenty of change, we have hit 2024 and looking forward to a bit of stability here at Paysafe. Having said that, the one thing you can always be certain about is change - everything changes all the time, it is how we adapt to that change that really counts.

The past year has been one of positive change for Paysafe. Obviously, the move from Camberwell to Port Melbourne was the most significant change for us. Now I understand that this move has been welcomed by some and not so welcomed by others. I suppose when you make this kind of move there will be some who love and some who hate.

But, I like to focus on the positives, and there have been quite a few positives. We now have well appointed, roomier office which offers dedicated parking. The move has been positive for our staff, who all have less day-to-day travelling time which is good for morale.

That morale has been critical in us all working together to 're-brand' the Paysafe name. I do hope that you notice the changes that we have made to deliver a superior financial planning serivce to you all, these include:

- Telephones manned during working hours.
- Friendly, accommodating staff who place your interest above theirs.
- Faster reaction times for withdrawals and investment changes.
- Regular reviews.
- A fun environment that gets the job done on time.
- More effective and more frequent communication.

We can now look forward to 2024 with some real enthusiasm.

In addition to the financial planning services we offer we have taken the opportunity to expand those services with some key referral partners:

Aspire Lawyers - the Aspire legal team are in residence in our offices on the first day of every month. They specialise in Estate Planning, Wills preparation, Powers Of Attorney and testamentary trusts. You can book in via reception and use this service all year round.

Craig Knudsen - Property Advocates - if you are selling a property then Craig is the man to see. As an advocate he can negotiate a selling agent for you, advice on advertising, private sale or auction, property valuations - he takes you through the whole process.

We hope to add to this list of referee partners to help make your financial life easier.

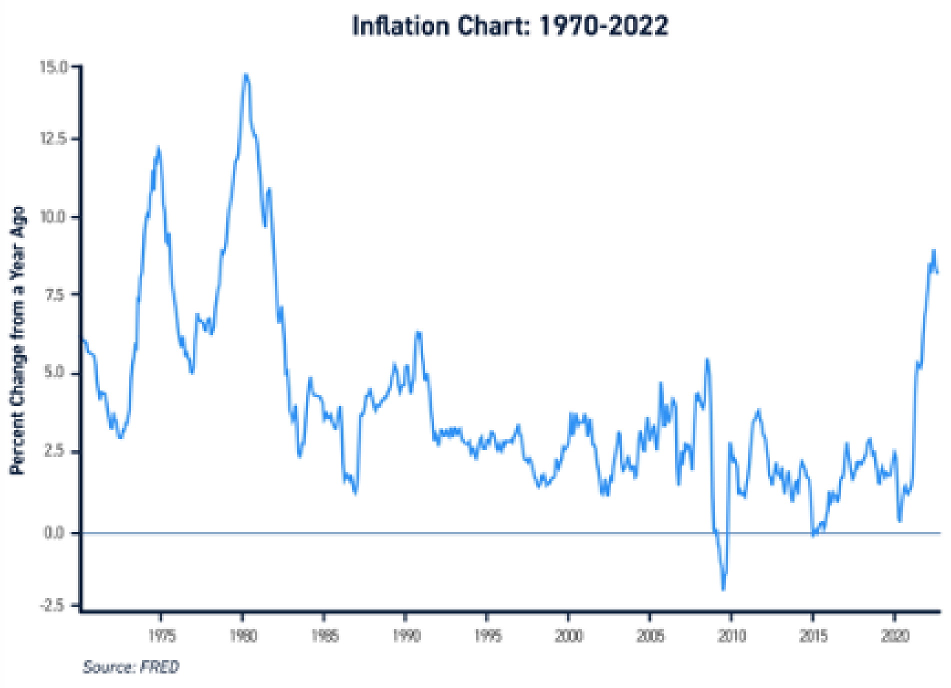
Andrew

INFLATION

Inflation can have a big impact on the stock market, leaving unprepared investors in for a bumpy ride. In this article, we'll explain why inflation impacts the stock market and take a closer look at how the stock market has reacted to inflation in the past.

What is inflation?

Inflation is a broad rise in prices across an entire economy. When inflation is high, prices of everything from food to housing to computers to cars typically go up at the same time, although not necessarily at the same pace. Inflation ultimately means that the purchasing power of a currency - the amount of stuff that, say, $100 can buy - goes down.



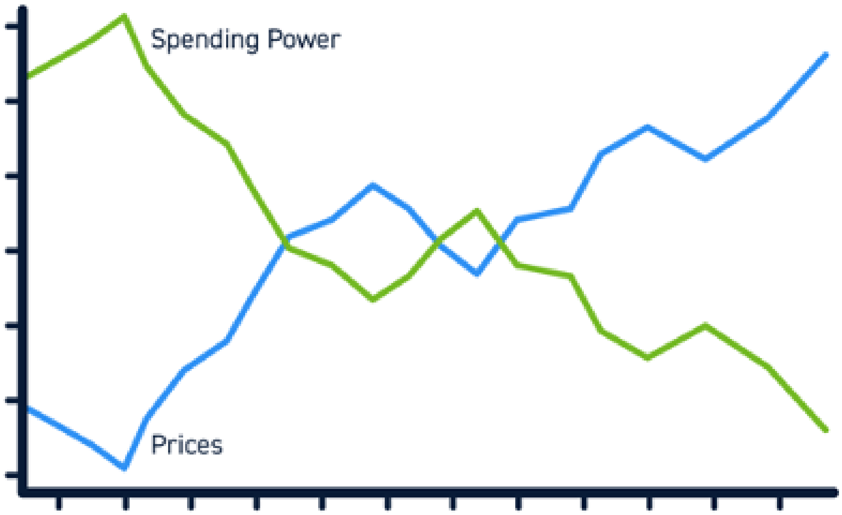
Why does INFLATION impact the Stock Market?

Inflation can have significant impacts on a country's economy, which ripples into impacts on the stock market. Here are two of the key reasons why inflation can rattle stock prices.

<u>Business Impact</u>

Inflation generally isn't good for businesses. Businesses have to pay more for raw materials as prices go up. In addition, if inflation persists, businesses could be forced to raise workers' pay to adjust for higher costs of living. While companies can pass these increased costs onto customers, raising prices can spark backlash and/or decrease demand for a product. So, companies are left to either cut their profit margins or decrease their revenues.

At the same time, spending by consumers tends to fall during periods of inflation. Individuals' purchsing power declines, so consumers may be less likely to spend money on non-essential products and services.



The combination of reduced profit margins and reduced revenue for businesses can be bad for stock prices since it pushes companies' earnings down.

Market Reaction

It's hard for investors to know exactly how badly inflation will impact companies. However, given the potenital cuts to profit margins and revenue, many investors react very negatively to any suggestion that inflation may be rising. Many investors choose to pull money out of the stock market and hold assets like bonds or even cash as soon as inflation starts going up.

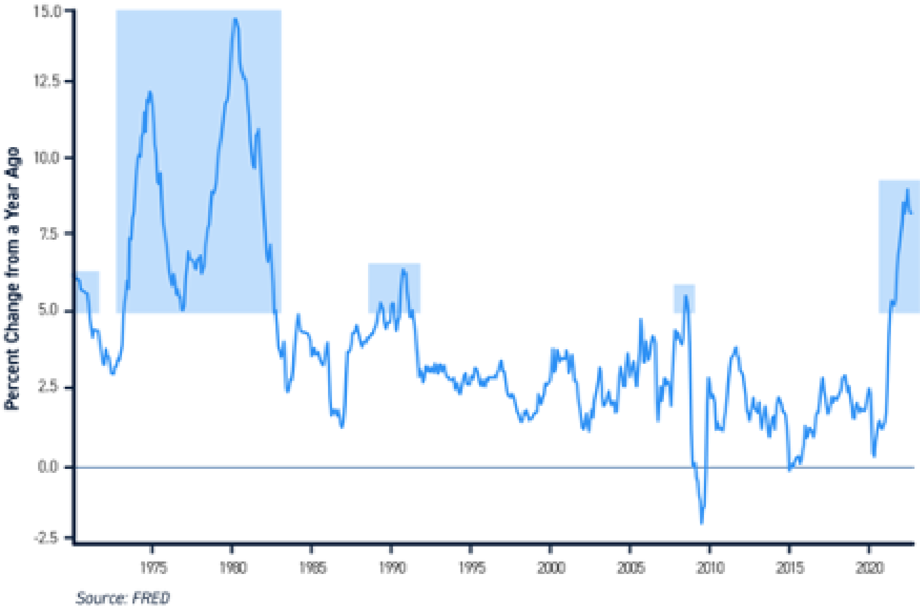
This reaction is based as much on psychology as it is on market reality. But it can be enough to bring down stock prices even if inflation isn't yet having a major impact on companies' bottom lines. In some cases, companies that sell essenital goods which aren't as impacted by inflation also see their stock prices drop because of this market-wide reaction.

How does INFLATION affect the Stock Market?

Figuring out how bad inflation is for stocks isn't as simple as it might seem. A number of studies have looked at whether inflation leads to lower stock prices and come back from conficting results.

The consensus amongst investors, stock anaylsts, and economists is that inflation typically has a negative impact on stock prices. However, the severity and persistance of inflation's impact on stocks can vary widely between inflationary periods. In fact, stock prices can still go up during periods of infation - just not as quickly as they might in the absence of inflation.

Since World War II, the inflation rate in the US has been over 5% only six times: in 1946-48, 1950-51. 1969-82, 2008 and now in 2022-23.



It's important to note that only examining stock prices during periods of high inflation doesn't tell the whole story of inflation's impact on stock prices. Periods of high inflation may precede an economic recession, particularly if measures used to fight inflation - like raising interest rates - have the effect of slowing growth. A recession can then cause stock prices to fall even if inflation drops.

This occurred in the early 1980's. Inflation dropped from nearly 15% in 1980 to less than 5% in 1982. The fight against inflation contributed to a recession from 1981-1982, during which time stock prices fell 7.3%.

The takeaway is that inflation can be negative for stocks, but its effects are mixed and can be difficult to predict. Knock-on impacts of inflation, such as economic recession, can ultimately be more damaging to stock returns than inflation itself.

How long do periods of HIGH INFLATION generally last?

Periods of high inflation have historically lasted only about two years at a time. The only time period in the last 75 years when inflation lasted longer was 1973-1982, and that was partly due to an oil embargo against the US by the Organisation of Petroleum Exporting Countries (OPEC). The last time the US experienced inflation above 5%, in 2008, it lasted only two months.

Conclusion

Inflation can have a negative effect on the stock market because of its impacts on businesses and investors' psychological reaction to inflation. However, periods of high inflation aren't always correlated with market downturns. When periods of high inflation do occur, they have historically lasted only around two years.

SOURCE: CentrePoint Brokers

FINANCIAL PLANNING - UNDERSTANDING BONDS

As you are probably aware most investment portfolios contain an exposure to 'Bonds'. Bonds can be either Government Bonds (issued by State, Federal and Local Government) or Corporate Bonds issued by large companies. They are often summarised in portfolio snapshots as 'fixed interest' investments.

Whichever bonds you hold in a portfolio of investments bonds have an unusual characteristic.

When interest rates rise bonds FALL in value.

When interest rates fall bonds INCREASE in value.

So, you might ask 'how can this be?' So to understand how this happens we need to look at what a 'Bond' actually is.

A fixed rate bond gives its owner a claim on a series of cashflows: they receive a semi-annual coupon payment, and at the bond's maturity date, they will also receive the bond's 'face value'.

Both the coupon rate and the face value are fixed for a specific bond, so let's say for example that the annual coupon rate is 5%, the face value is $1,000, and the bond is due to mature in exactly 10 years. That means every six months, this bond's owner will receive a coupon of $25 (ie: half of 5% of $1,000), and in 10 years' time, they will also receive the $1,000 face value.

Since these dollar payments don't change, an investor holding the bond until maturity knows exactly what they will recieve in dollar terms. What does change over time is the return rate, known as 'yield of maturity' on the bond, and that's because while cash payments from the bond are fixed, the price paid for the bond fluctuates on the open market according to supply and demand, just like the prices of shares, houses or gold bullion.

So, going back to our bondholder (let's call him John) who has his $1,000 bond in hand and it has fixed coupon rate of 5%, and that bond is freely tradable on the open market (ie: it can be sold to someone else). If a new bond is issued and it has a 6% fixed coupon, what does a new investor do (let's call her Janet)?

Janet's choices are as follows:

1. Buy a new bond with a fixed coupon rate of 6% from the issuer for $1,000, or
2. Buy the bond held by John with a fixed coupon rate of 5%.

Clearly, Janet will be better off financially if she takes option 1.

But what if John says "Janet, you can buy my bond for $800" and save $200 off the purchase price. Now Janet has to do some maths.

OPTION 1

Buy from the issuer for $1,000 x 6% x 10 years = $1,600 at maturity, or

OPTION 2

Buy from John at $800 x 5% x 9 years = $1,400 + the $200 she saved = $1,600

So we can see that the price of John's Bond has fallen from $1,000 to $800 due to a rise in market interest rates.

But these changes are only relevant if the owner wants to sell the bond early instead of waiting to redeem it for full face value at maturity. By contrast, holding a bond to maturity effectively locks in the original yield, providing certainty of long-term total return.

So, this is why increasing interest rates are not always good for fixed interest investments.

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