Dear <Client>

The past four decades have been kind to long term investors. This is a period where many share markets provided solid double digit average annual returns, despite the numerous recessions and crises throughout.

The question for investors is, “Is the future likely to offer the same returns as the past?”

To answer this question, you need to understand where investment returns come from in the first place. In the chart below, returns have been broken down into different return sources such as dividends, growth in company profits, inflation and valuation. Each has then been measured over the last 40, 30 and 20 years to show how they have changed. The chart shows that dividends and growth in profits have been fairly stable across the three time periods. However what has changed materially is inflation which has fallen from 4.7% (over 40 years) to 3.3% (over 30 years) and to 2.4% (over 20 years). Lower inflation alone has resulted in overall returns falling by around 2.3%.

*Source: MSCI, ABS, Morningstar Investment Management*

**Inflation has since fallen in recent decades and so have total returns.**

While short term inflation numbers are hard to predict, the recent commentary and cash rate moves by the Reserve Bank of Australia indicate that inflation concerns in the short to medium term seem to be on the downside. It seems unlikely in the foreseeable future that inflation will return to the levels we have seen over the past four decades. Even if inflation rose substantially, share markets would likely be negatively impacted during any transition to a high inflation environment. This means that total returns are likely to be lower going forward compared to the last 40 years.

With this is mind, I want to restate that a focus on returns above inflation and the cost of living (i.e. Real Return, or CPI+) over an investment timeframe remain more relevant to your financial goals, which we will work together to achieve.

Please let me know if you would like to discuss this in more detail.

Regards,

<Adviser Email Signature>