Keystone Wealth

Investment Philosophy

FPAA | FINANCIAL PLANNING ADVICE AUSTRALIA

An investment philosophy provides a set of investment beliefs and guidelines to help guide the decision-making process. This document will outline Keystone Wealth's key investment principles and our approach to investing.

Keystone Wealth core beliefs:

- Diversification is critical
- Don't time markets
- Understand where we are invested
- Asset allocation matters
- All investments carry risk so it must be managed

Diversification is critical

Diversification helps to smooth out returns and helps ride out the ups and downs of markets. We will invest in a wide universe of investments across various industry sectors, geography regions, and asset classes.

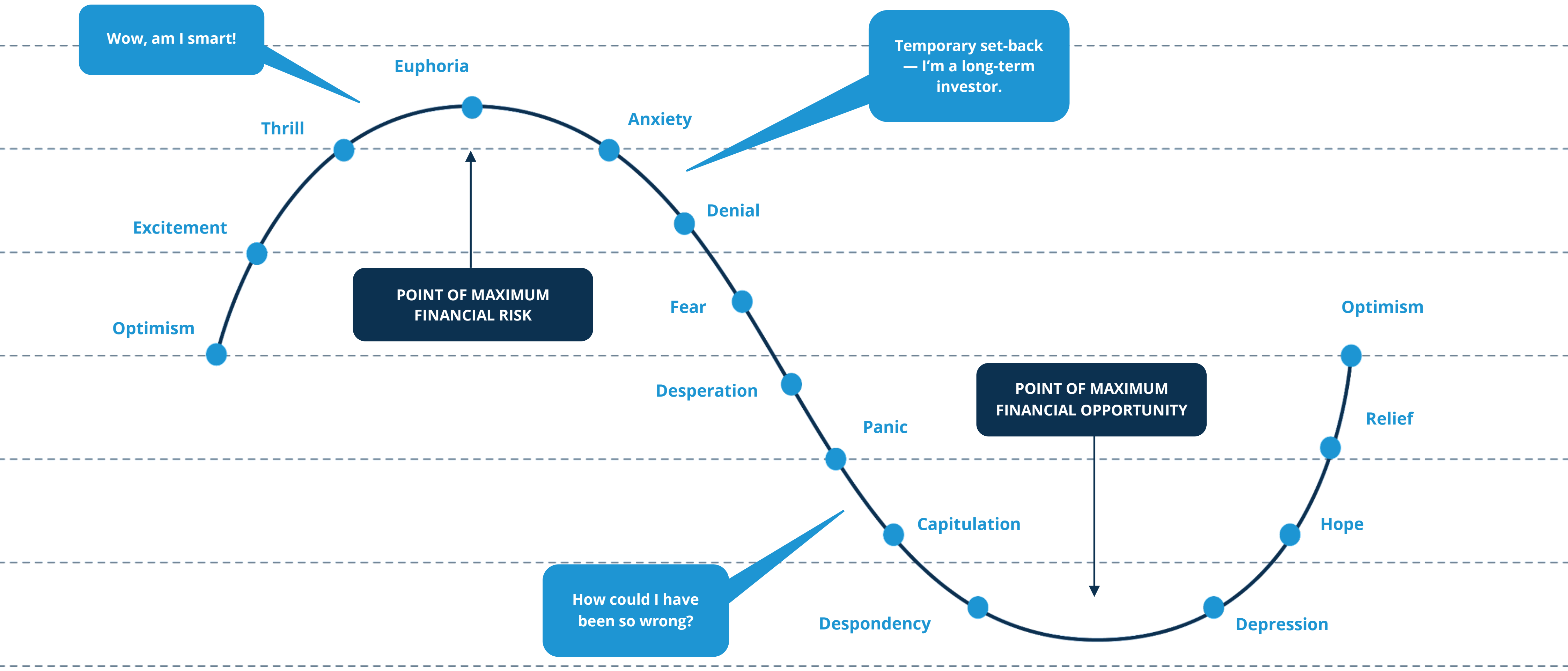
Time in the market, NOT market timing

Markets are inherently impacted by investor behaviour. Biases such as fear and greed could mean that markets can be volatile in the short term. This creates opportunity as over time markets will move according to fundamental values. We will always remain focused, disciplined and patient when making decisions. We ignore investment noise and emotion. This helps avoid costly mistakes.

Understand where you are invested

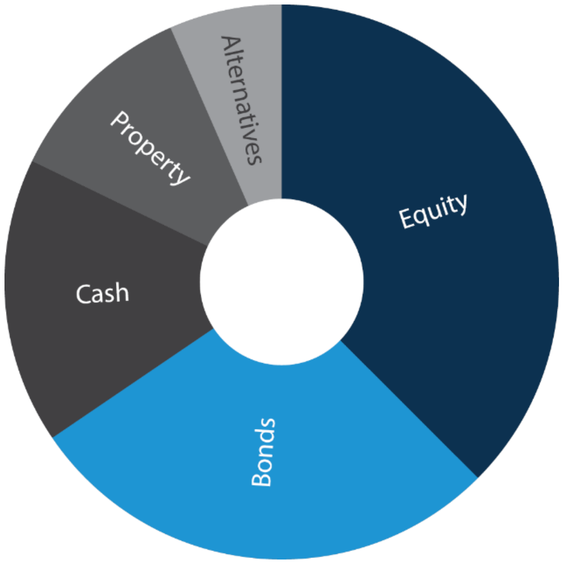
We research numerous options, then combine them in a portfolio so they complement each other. This approach helps manage risk by utilising a range of different investment options. We understand the role of each investment in a portfolio and ensure it contributes to appropriate risk and return attributes. Once a portfolio is constructed it is continually monitored, reviewed and measured.

The Cycle of Market Emotions



Asset allocation matters

It's important to understand all investments carry risk. In most cases the higher the expected return, the higher the expected risk. It's important you get a reasonable return for the level of risk you take. Asset allocation can play a significant role in your returns. Your portfolio will match your risk tolerance and goal objectives. Portfolios are monitored and regularly rebalanced to manage the appropriate investment risk.



> **There are no shortcuts to investing success. The combination of high returns and low risk doesn't exist.**

Source Australian Securities & Investment Commission

Defensive investments

Are lower risk investments. They aim to provide income and protect the capital invested. Defensive investments include cash and fixed interest investments.

- Cash – Includes bank accounts, high interest savings accounts and term deposits.
- Fixed interest – Includes government bonds, corporate bonds, debentures and capital notes.

Growth investments

Are higher risk and offer a higher potential return compared to defensive investments. They aim to give capital growth and some provide income (for example, dividends for shares or rent for property). Price of growth investments can be volatile over short periods of time.

- Property – Includes investing in residential and commercial property
- Shares – Investing in a company. You share in the profits both capital gains and income (dividends)
- Alternatives – Includes private equity, infrastructure, commodities and other investments that don't fall into the investment classes above.

Risk Profiles

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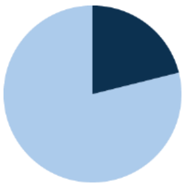
Conservative

Suits investors that have a minimum two year investment timeframe or investors who prioritise capital preservation and are typically risk adverse (while understanding loss is still possible). The portfolio is invested in primarily interest bearing assets, with a small proportion to growth assets. Given the priority of capital preservation this investor is willing to accept lower potential returns, consequently the portfolio holds an 85% exposure to defensive assets.



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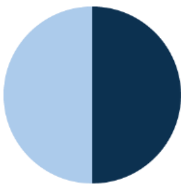
Moderately Conservative

Suits investors that have a minimum three year investment timeframe or investors pursuing a lower level of volatility (valuation movement). Although this investor is generally a low risk taker they are reasonably comfortable with the concept of risk and as a trade off for potentially lower volatility the investor is willing to accept lower potential returns. The portfolio will be diversified with an higher allocation to defensive over growth assets, consequently the portfolio holds 70% exposure to defensive assets.



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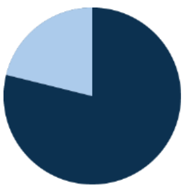
Balanced

Suits investors that have a minimum five year investment timeframe or investors who are willing to accept moderate investment volatility in return for appropriate potential investment returns. This investor typically holds a reasonable understanding of investment markets and therefore is willing to accept some level of volatility.
The portfolio is diversified with equal allocations to defensive and growth assets.



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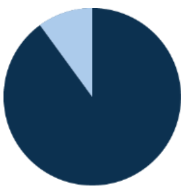
Growth

Suits investors that have a minimum seven year investment timeframe or investors who are willing to accept higher levels of investment volatility when compared to more defensive portfolios as a trade off for potentially higher returns. This investor understands that markets can and will fluctuate and that different market sectors present differing levels of risk, income and growth returns. The portfolio is diversified with 70% exposure to growth assets.



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Aggressive

Suits investors with a minimum nine year investment timeframe or investors who are willing to accept high levels of investment volatility as they seek potential higher returns. This investor typically has a high tolerance to risk and is aware of the cyclical nature of markets. This investor has a low priority on capital preservation in return for higher potential performance. The portfolio is diversified with 90% exposure to growth assets.

Types of investment options

Managed Fund

When you invest in a managed fund, your money is pooled together with other investors. A fund manager then buys and sells assets, such as shares or bonds, on your behalf. You don't own the underlying investments, you own 'units' in the fund. The value of the units in the fund will rise and fall with the value of the underlying assets. Some managed funds also pay income or 'distributions'.

Exchanged Traded Fund (ETF)

An ETF is a managed fund that you can buy or sell on an exchange, like the Australian Securities Exchange (ASX). In Australia, most ETFs are passive investments that don't try to outperform the market. The role of the fund manager is to track the value of an index, for example the ASX200 or a specific commodity, such as gold. The value of the ETF goes up or down with the index or asset they're tracking.

Managed Account

Is a portfolio of individual securities or assets managed on an investors behalf by a professional investment manager. The individual securities or assets are held in the investors account, often on a super or investment platform, to provide control, transparency and potential tax benefits.

Direct Shares

Each share the investor owns represents a portion of ownership of a company. That means the more shares they own, the larger the direct ownership of the business they have. They may also be entitled to sharing profits via dividends.

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