Switzer Report
Advice you can trust

Thursday 18 July 2019

4 big picture observations + 3 undervalued LICs

In his article today, Percy Allan stresses the well-known maxim that I totally support: Shares should be held for the long term. As Percy points out, many investors find they can't emotionally cope with regular share market crashes or they're at or near retirement so can't risk negative or low returns over a 10-year period. In his article today, he examines 4 big picture observations for you to consider.

And with our market near its record high and interest rates at record lows, investors need to squeeze every ounce of return from their portfolio. One opportunity is out-of-favour Listed Investment Companies (LICs) that invest in small- and mid-cap stocks. Tony Featherstone has uncovered 3 undervalued LICs that could suit your requirements.

Sincerely,

Peter Switzer

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4 big lessons from stock market history

by Percy Allan

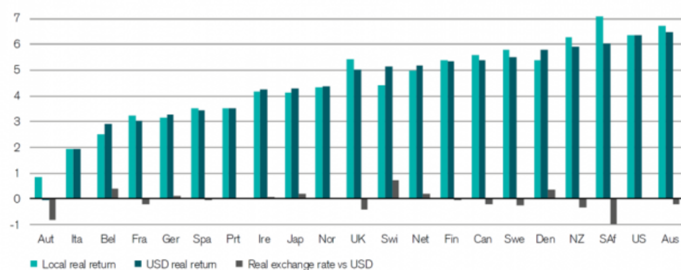
The financial media focuses on daily stock movements. In the process, we can forget the big picture emerging from recent and past history. A longitudinal overview can provide useful insights into what might happen next.

As Mark Twain reputedly said – history doesn't repeat itself but it often rhymes. Here are 4 big picture observations for you to consider.

1. Australia has been the best place to invest in shares since 1900.

According to Credit Suisse Research Institute's Global Investment Returns Yearbook between 1900 and 2018, Australia has been the best place to invest in sharers whether one measures the annualised returns in US dollars or local currencies. See the chart below. Pity the Austrians, as their stock market came last. We are indeed the lucky country since over this period – we even beat the Yanks!

Figure 13: Real annualized equity returns (%) in local currency and US dollars, 1900–2018



Sources: Elroy Dimson, Paul Marsh and Mike Staunton, Triumph of the Optimists, Princeton University Press, 2002, and Global Investment Returns Yearbook, Credit Suisse, 2019. Not to be reproduced without express written permission from the authors.

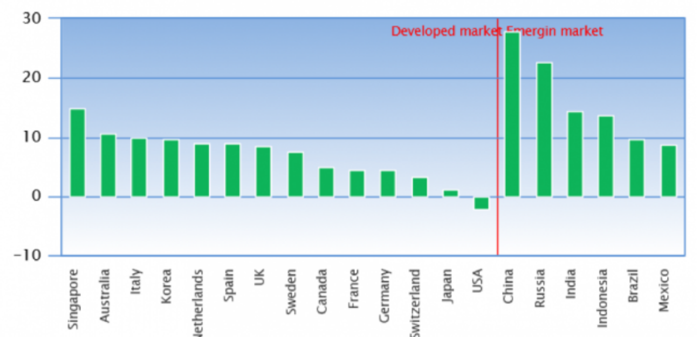
Source: Elroy Dimson, Paul Marsh and Mike Staunton, Global Investment Returns Yearbook 2019. Zurich: Credit Suisse Research Institute, 2019.

But since the end of the last stock market crash in March 2009, America's S&P500 index has grown twice as fast as the All Ords index. If history repeats itself, Australia might not only catch up with America but overtake it. That could happen by America correcting further than Australia when stock markets next crash, just as occurred in the 2000 dot com bust. One reason is that highly priced tech stocks comprise less than two percent of Australia's stock market value, but a quarter of America's.

2. Australia and Emerging Markets may offer the best prospects in future.

According to GuruFocus.com, Australia and emerging markets have the best long-term prospects, based on their past record of economic growth and dividend yields and assuming their market capitalisation to GDP ratios return to their historic norm. By contrast, the USA looks the big loser on this score. Essentially, America's market is overstretched, so needs a big crash or a long period of gyrating sideways while earnings keep growing to restore its fair value.

Projected Annualized Market Return (%)



Source: https://www.gurufocus.com/global-market-valuation.php

Star Capital Research of Germany also uses a reversion to historic mean approach to forecasting future returns of national stock markets. But it prefers using the Shiller CAPE ratio and Price to book Value

Ratio for each market. CAPE stands for cyclically adjusted price/earnings ratio since it divides the share price by the average of earnings over 10 years, adjusted for inflation. Here are its forecasts using these stock market valuation measures. Note that on both measures, Australia is expected to either beat or equal the average return for developed markets. However, emerging markets should be the standout performers.

WHAT RETURNS CAN INVESTORS EXPECT IN THE LONG-TERM (28.06.2019)?

Country	CAPE	Forecast	PB	Forecast	Ø Forecast
Australia	20.0	5.9%	2.1	6.1%	6.0%
Belgium	23.6	4.7%	1.8	7.3%	6.0%
Canada	21.5	5.4%	1.8	7.3%	6.4%
Denmark	32.2	2.5%	3.0	3.9%	3.2%
France	21.4	5.4%	1.8	7.3%	6.4%
Germany	18.0	6.7%	1.6	8.2%	7.4%
Hong Kong	16.7	7.2%	1.6	8.3%	7.8%
Italy	19.0	6.3%	1.2	9.9%	8.1%
Japan	22.2	5.2%	1.2	10.3%	7.7%
Netherlands	24.9	4.3%	1.9	6.9%	5.6%
Norway	15.9	7.5%	1.7	7.7%	7.6%
Singapore	14.2	8.3%	1.1	10.7%	9.5%
Spain	13.8	8.5%	1.4	8.9%	8.7%
Sweden	21.2	5.5%	2.2	5.9%	5.7%
Switzerland	26.0	4.0%	2.7	4.6%	4.3%
United Kingdom	16.3	7.4%	1.7	7.8%	7.6%
United States	29.9	3.1%	3.4	3.0%	3.0%
World AC	23.4	4.8%	2.1	6.4%	5.6%
Developed Markets	24.8	4.4%	2.1	6.1%	5.3%
Emerging Markets	15.4	7.8%	1.7	7.8%	7.8%
Developed Europe	18.7	6.4%	1.8	7.5%	6.9%

The table shows the valuation ratios and the corresponding performance expectations (local currency, real returns including dividends) over the next 10-15 years for different countries. The underlying methodolgy and data is based on our research paper "Predicting Stock Market Returns Using the Shiller-CAPE: An Improvement Towards Traditional Value Indicators?" [2016]. "ø Forecast" represents the average forecast of the CAPE and PB. Source: StarCapital.

Source:
https://www.starcapital.de/en/research/stock-market-expectations/

According to the Credit Suisse Global Investment Returns Yearbook:

- "Looking ahead, expected returns on all asset classes are likely to be low as the authors' research shows that when real interest rates are low, as they are today, subsequent returns tend to be lower.
- "The authors predict that the margin by which equities are likely to outperform cash in future will be lower than the 119-year historical premium of 4.2% per year. Their long run estimate is 3½%. Even with a lower future equity premium of 3½%, equities are still expected to double relative to cash over a 20-year period."

Source: https://www.credit-suisse.com/ch/en/about-us/research/research-institute.html

3. Over time, shares have been the best performing asset class by far.

A recent RBA research discussion paper shows that over the last 102 years Australian shares had an average annual compound rate of return of 10.2% compared with 6.2% for 10-year government bonds and only 3.9% for cash deposits.

Table 2: Total Returns 1917 - 2019
Annualised

	Geometric mean	Arithmetic mean	Standard deviation
All shares[a]	10.2	11.7	19.2
Resources	10.2	12.9	25.6
Financials	10.3	11.6	18.2
Other	10.4	11.8	18.4
10-year government bonds[b]	6.2	6.5	7.6
Consumer price inflation	3.9	4.0	4.8

Note: (a) RBA dataset to 1979, Datastream index from 1980–2019
(b) Or closest available
Sources: ABS; ASX; Author's calculations; Hunter (1958); Lamberton (1958a, 1958b); League of Nations yearbooks; Refinitiv Datastream

Source:
https://www.rba.gov.au/publications/rdp/2019/pdf/rdp2019-04.pdf

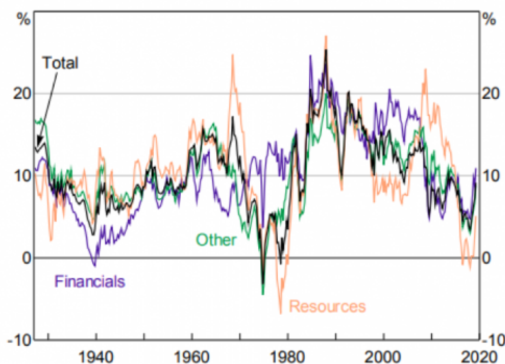
The 4% annual advantage of shares over bonds might not seem a lot, but over time it made a huge difference to returns. If $100 was invested in each asset class in 1917, the share portfolio would now be worth around $2 million, whereas the bond portfolio would be worth just over $46,000. That's more than a 40 times difference and demonstrates the magic of compounding.

Most worrying is that going forward long-term fixed coupon bonds don't have the capacity to deliver the stellar returns they have enjoyed in the last three decades. Look at the next chart that shows what an amazing run they have enjoyed in the last three decades beating even the S&P500 share index. That's because long-term bond yields have been sliding since 1981and have reached historic lows. Should bond yields start climbing bond prices will fall.

Source: The Wall Street Journal, The Daily Shot, 3 July 2019

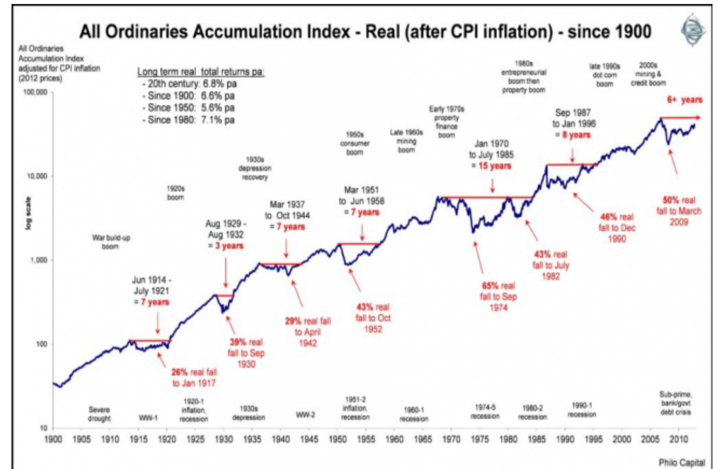
4. Share owners rarely lose money over a 10-year period.

The next chart by the Reserve Bank shows 10 year equity returns for the overall Australian share index and its major asset classes (finance, resource and other) for each year over the last century. Note that a share portfolio (or equity fund) representative of the stock market index would not have lost money over the previous decade in any years except two: 1974 and 1979.

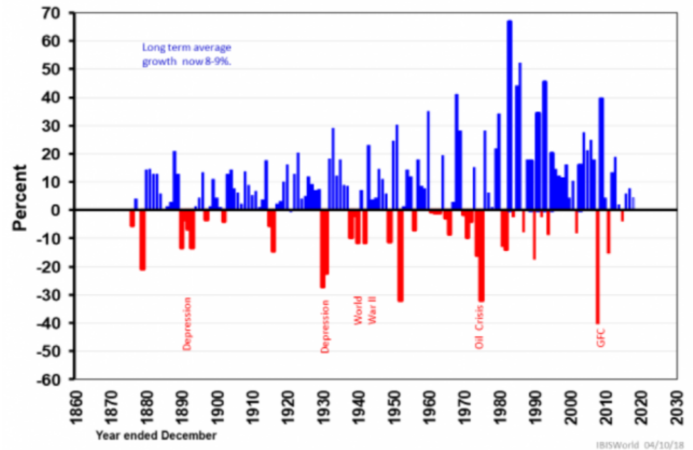


Source:
https://www.rba.gov.au/publications/rdp/2019/pdf/rdp2019-04.pdf

The lesson here is one should hold shares for the long term. However, many investors find that difficult because they can't emotionally cope with regular share market crashes or they're at or near retirement so can't risk negative or low returns over a 10-year period. Here are two charts, the first showing the real (after inflation) falls in total share market returns since 1900 and the second showing the annual nominal rises and falls in share index since 1875.



Source:
https://topforeignstocks.com/2017/06/14/the-historical-average-annual-returns-of-australian-stock-market-since-1900/



Source:
https://topforeignstocks.com/2017/06/14/the-historical-average-annual-returns-of-australian-stock-market-since-1900/

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3 undervalued listed investment companies (LICs)

by Tony Featherstone

Investors need to squeeze every ounce of return from their portfolio with the Australian share market near its record high and interest rates at record lows. One opportunity is out-of-favour Listed Investment Companies (LICs) that invest in small- and mid-cap stocks.

I cannot recall seeing as many LICs trading at such large discounts to their pre-tax Net Tangible Assets (NTA). Even LIC leaders such as Australian Investment Foundation Company (AFIC), Argo Investments and Milton Corporation are trading at decent discounts to NTA.

LICs have lagged the share market recovery this year. Theories for that underperformance include: investor "fatigue" from an increase in LIC floats in the past few years; the poor performance of several LIC floats; rapid growth in Exchange Traded Funds and index investing; the shift away from active fund managers; and waning sentiment towards the LIC sector.

In theory, this should be a good market for LICs. The Australian share market has rallied, dividend yield (which many larger LICs specialise in) is in higher demand as interest rates fall, and there was no change to franking credit after the Coalition's election win.

Whatever the cause of underperformance, a larger-than-usual number of LICs are trading at discounts to NTA that are well beyond the LIC's average five-year discount – a sign that value may be emerging.

To recap, LICs are akin to a listed managed fund. These closed-ended funds manage a fixed pool of capital and investors buy and sell shares in the LIC, not in its underlying portfolio.

In contrast, investors in an open-ended fund, such as a unit trust, buy units in the actual fund. LIC proponents say the fixed capital pool is a significant advantage; a LIC manager does not have to buy shares when fund inflows are strong or sell them in a bear market to meet investor redemptions.

Detractors say the closed-ended model provides "captured capital" for the managers: they earn their fees from a fixed pool of capital. Unlike unit trust managers, they don't earn less fees when the size of the underlying portfolio contracts.

Another issue is discounts and premiums to NTA. Unlike open-ended funds, closed-ended funds often trade at persistent discounts to their NTA, frustrating the LIC managers and shareholders. An LIC with $1 of assets per share, for example, could have a share price of 90 cents.

A strategy to find LIC value

LIC discounts are not always what they seem. An LIC can trade at a large discount to NTA because the market has concerns about its performance, dividend record, liquidity or the asset class it invests in. Or because the LIC, some of which have small marketing budgets, does not promote itself well to investors.

My strategy with LIC selection has several parts. First, I look for LICs trading at a discount to pre-tax NTA. Some LICs trading at a premium have been excellent performers and increased their premium; but paying more for an asset than it is worth is rarely a good idea and relies upon the LIC continuing to have strong future performance.

Second, I compare the pre-tax NTA discount to the LIC's five-year average discount and its

discount-to-premium range. An LIC might be trading at a 10% discount when its five-year average discount has been 5%. The current discount might be at the bottom of its discount-premium range over five years.

Using the long-term discount average is far from foolproof, but LIC discounts and premiums often revert to their mean over time. Those trading at historically large discounts may be an opportunity and those at historically large premiums need extra caution.

The third part of my strategy is vital: the manager. As with any managed fund, assessing the LIC's long-term performance, investment style and its team is key. We're after quality LIC managers trading at historically large discounts to NTA.

The fourth part of my strategy is often overlooked: the LIC's underlying asset class. ASX 200 companies, in my view, are collectively overvalued, so I'm wary of investing in LIC managers that specialise in blue-chip shares and will provide market-like returns over time.

AFIC and Argo are trading at larger-than-usual discounts to pre-tax NTA and tick the box for quality. But I don't want to add more blue-chip Australian share exposure to my portfolio because those shares are pricey after the market rally this year.

Small-cap LICs out of favour

Small-cap Australian equities continue to lag large-caps. The S&P/ASX Small Ordinaries Index's total return of 4.6% over one year (including dividends) compares to almost 12% for the ASX 100 index. Rising demand for blue-chip yield partly explains the gap.

Small-cap companies tend to underperform when the economy weakens because they are more exposed to domestic conditions than large-caps that have offshore operations. So, it's no surprise that small-cap industrials have lagged their larger peers over one year.

The LIC market reflects this. Only two of 18 small-cap LICs – WAM Research and Excelsior Capital – traded at a premium to NTA at the end of June, shows ASX data. Most traded at double-digit discounts to their underlying asset value.

Expect more corporate action in smaller LICs as those trading at persistently large discounts merge with larger LICs. Clime Capital and CBG Capital have announced their intention to merge and Sandon Capital has made a takeover offer for Mercantile Investment Company.

Using Independent Investment Research's excellent LIC data, I compared the current indicative discounts in small-cap LICs to their five-year average (or three-years if there was not enough performance data). Almost every LIC in this category traded at a larger current discount than its three-year average; some discounts had widened considerably.

It is hard to see why well-regarded small-cap LICs are trading at a discount that is more than double their five-year average – particularly in a rising share market. That suggests an opportunity for experienced, patient contrarians who can tolerate risk and understand that buying quality LICs at a historically large discount to NTA can be rewarding.

3 undervalued small/mid-cap LICs

1. Thorney Opportunities (ASX Code: TOP)

The prominent investor in high-growth small-cap stocks, had an indicative pre-tax NTA of 89 cents at July 5, according to Independent Investment Research. The indicative NTA is the research firm's estimate of the LIC's NTA over the month, using the LIC's disclosed holdings. The indicative NTA can vary from the LIC's last stated pre-tax NTA and shares price of stocks held in the portfolio rise and fall.

At the current 69 cent share price, Thorney Opportunities is trading at a 22% discount to its indicative NTA. Its five-year average discount to NTA is 9.5%.

Thorney is exposed to several infrastructure service companies and participated in the recent $115 million acquisition of the Australian Community Media group from Nine Entertainment – a deal that could unlock significant value in more than 170 newspapers and

publications.

Thorney's NTA is rising but its share price went sideways for much of this year, before kicking higher in the past few weeks, no doubt a reflection that the discount for this well-run LIC had widened too far.

Chart 1: Thorney Opportunities

Source: ASX

2. Spheria Emerging Companies (SEC)

Spheria co-founders Marcus Burns and Matthew Booker have a good record in small-caps. They generated strong outperformance in Schroders' small- and mid-cap portfolio before leaving to set up Spheria, a boutique small-cap investor, in April 2016.

Spheria's indicative pre-tax NTA of $2.07 compares to its current share price of $1.85 – an 11 per cent discount. Like Thorney, Spheria's share price has kicked higher in July after drifting sideways for most of this year on low volume.

Spheria launched a $5 million on-market share buyback in July 2019 to arrest its double-digit discount, clearly believing its stock was undervalued.

The LIC's portfolio performance has slightly lagged the Small Ords Accumulation Index since inception, but looks well placed to outperform in the medium term.

Chart 2: Spheria

Source: ASX

3. Westoz Investment Company (WIC)

The Perth-based LIC invests in stocks that are mostly outside the ASX 100 and have a connection to Western Australia. Westoz's largest portfolio holdings include several mining, energy and resource-services stocks that benefit from higher commodity prices.

Westoz's indicated pre-tax NTA at the start of July was $1.33, estimated Independent Investment Research. The current share price of $1.06 gives a discount to NTA of 20%, meaning investors can buy $1 of Westoz's assets for 80 cents.

Westoz's five-year average discount to NTA is 10%. It's hard to see why its discount is double its long-term average at time when resource-sector conditions – and the outlook for WA companies generally – is improving.

The LIC's underlying portfolio has outperformed the All Ordinaries Index for more than a decade, yet the market ascribed a double-digit discount to the LIC. Some discount is warranted given Westoz's focus on mostly smaller WA stocks, but the current gap between the share price and underlying asset base is too wide.

Chart 3: Westoz

Source: ASX

Tony Featherstone is a former managing editor of BRW, Shares *and* Personal Investor *magazines. The information in this article should not be considered personal advice. It has been prepared without considering your objectives, financial situation or needs. Before acting on information in this article consider its appropriateness and accuracy, regarding your objectives, financial situation and needs. Do further research of your own and/or seek personal financial advice from a licensed adviser before making any financial or investment decisions based on this article. All prices and analysis at 17 July 2019.*

Buy, Hold, Sell – What the Brokers Say

by Rudi Filapek-Vandyck

In the good books

1. ARISTOCRAT LEISURE (ALL) was upgraded to Overweight from Equal-weight by Morgan Stanley

Morgan Stanley asserts Aristocrat Leisure does not need to outperform to succeed in digital. The company's land-based success and scale provide a competitive advantage, despite growth moderating in this area. Morgan Stanley adjusts estimates to allow for top-line growth from stronger digital growth, eases back margins to account for digital's lower margins and adjusts for a lower tax rate. All up, estimates for earnings per share are reduced by -1% in FY19 and raised by 3% for FY20. Rating is upgraded to Overweight from Equal-weight and the target is raised to $35 from $29. Industry view: Cautious.

2. ATOMOS (AMS) was upgraded to Add from Hold by Morgans

Following increased working capital flexibility and factoring in the recent launch of the Neon range, Morgans upgrades revenue estimates by 5% across FY20/21. The broker believes the recent momentum in the company's products and the relatively fixed cost base should mean there is upside to forecasts upon successful execution. Given the returns on offer the rating is upgraded to Add from Hold. The broker suggests additional partnerships can move the dial in terms of revenue/earnings uplift. Target is raised to $1.63 from $1.42.

3. ELDERS (ELD) was upgraded to Add from Hold by Morgans

Elders will acquire Australian Independent Rural Retailers for $187m. The acquisition will be funded via cash and scrip. Morgans considers the purchase price reasonable, given the size of the group. This will mean Elders has a presence in the wholesale channel, and the acquisition fills a gap in Queensland and NSW as well as increasing the company's presence in the higher-margin animal health sector. Morgans calculates the midpoint of synergies is 8.9% accretive to earnings per share in FY21. Rating is upgraded to Add from Hold. Target is raised to $7.30 from $6.71.

4. SANTOS (STO) was upgraded to Outperform from Neutral by Macquarie

Macquarie upgrades to Outperform from Neutral following the recent pull back in the shares. Target is raised to $8.20 from $7.60. Several catalysts are expected to de-risk future large-scale development opportunities over the second half including flow-testing of Dorado-3, MacArthur basin drilling, potential Narrabri approvals and the 2019 investor briefing.

In the not-so-good books

1. CARSALES.COM (CAR) was downgraded to Reduce from Add by Morgans

Following a strong share price performance, stockbroker Morgans has decided it's time to downgrade Carsales to Reduce from Add, representing a double-step downgrade in its ratings universe. Looking towards FY20, Morgans finds the company's growth is most likely to consist of single-digit percentage growth and in this context the current valuation is seen as overly rich. Morgans retains a positive view on Carsales' long-term prospects, but succumbs to the observation that, short-term, the valuation seems to have moved well-ahead of fundamentals. Price target $12.49 (unchanged). Forecasts have been left untouched.

2. DATA#3 (DTL) was downgraded to Hold from Add by Morgans

Data#3 has released revised guidance suggesting FY19 profit will be up 28%, 11% ahead of Morgans' forecast. The broker had flagged upside were there to be no election slowdown, and neither the NSW or federal elections produced a slowdown. The broker rates the company highly but after a 52% rally over twelve months, downgrades to Hold. Target rises to $2.48 from $2.25.

3. GALAXY RESOURCES (GXY) was downgraded to Neutral from Buy by Citi

Operations were strong at Mount Cattlin in the June quarter, with spodumene production up 35% quarter on quarter. Full year 2019 production guidance is unchanged at 180-210,000t. Citi believes spodumene has the weakest fundamentals within the lithium supply chain because of low barriers to entry and the dependence on conversion capacity. There is also excess supply in the near term. The company's current earnings are 100% exposed to spodumene which presents a downside risk to forecasts. Citi downgrades to Neutral from Buy and reduces the target to $1.60 from $2.70.

4. NIB HOLDINGS (NHF) was downgraded to Sell from Neutral by Citi

Citi marks to market forecasts to allow for strong equity markets in the second half and the fall in bond yields. The broker now allows for 2.85% rate increases for the next two years but also for a slower reduction in net margins. The broker continues to expect a solid FY19 result but wonders whether the relief rally following the election result has gone too far. Rating is downgraded to Sell from Neutral and the target increased to $7.05 from $5.85.

5. RAMSAY HEALTH CARE (RHC) was downgraded to Neutral from Outperform by Macquarie

Macquarie notes Ramsay Health Care's NHS volume growth in the UK remains above sector average, but strong prior periods will be cycled over the balance of 2019. Earnings growth into FY20 will be supported by incremental brownfield contributions and more favourable tariff outcomes in the UK and France. But it's all now captured in the price, hence Macquarie pulls its rating back to Neutral. Target unchanged at $75.

6. RESMED INC (RMD) was downgraded to Neutral from Buy by UBS

The stock has performed strongly and the company will report its results on July 26. UBS expects a continuation of strong mask and accessory revenue growth in FY20, up 9% in the Americas and 11% for the rest of the world. UBS downgrades to Neutral from Buy. Target is raised to US$122 from US$119. US industry feedback remains positive based on re-supply and the 2021 competitive bidding round is the next hurdle, in the broker's opinion.

The above was compiled from reports on FNArena. The FNArena database tabulates the views of eight major Australian and international stock brokers: Citi, Credit Suisse, Deutsche Bank, Macquarie, Morgan Stanley, Morgans, Ord Minnett and UBS.

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Questions of the Week

by Paul Rickard

Question 1: Your thoughts on Pink Diamonds as a hard asset inside an SMSF?

Answer: I have no problems with "alternatives" such as pink diamonds in an SMSF, as long as you and your trustees understand what you are doing. I don't know anything about pink diamonds (apart from the "hype" I can Google), so I would not even consider the idea.

Three things to consider:

1. The old adage: "don't invest in things you don't understand";
2. If you plan to invest, the Trustees should formally resolve to do so and the Fund's Investment Strategy should be updated to reflect this; and
3. Likely to be a very illiquid asset – so I would caution on having more than 5% to 10% of the Fund's exposure to these assets.

Question 2: In relation to the super limits, did the ceiling remain at $1.6 million at 30 June 2019? There was mention that it would be indexed periodically by $100,000 increments from time to time when it was introduced. Secondly, are funds held in the accumulation stage still not counted when calculating whether the $1.6 million ceiling is being breached? And, has there been any change in the $100,000 p.a. non-concessional limit?

Answer: In order: 1. Yes, no change to the Transfer Balance Cap (the amount you can transfer into pension phase). 2. Yes, amounts held in accumulation do not count against the Transfer Balance Cap of $1.6 million. However, they do count when measuring your overall super balance. 3. In regard to your non-concessional cap, there has been no change to this (i.e. it is still $100,000). If your total super balance exceeds $1.6 million, then you aren't allowed to access this (i.e. you can't make any further after tax contributions).

Question 3: Could you give me some information on jumbo Interactive (JIN)? I hold it. Is it time to sell?

Answer: Congratulations on holding Jumbo Interactive – a super performer this year, up from $7.20 at the start to $20.65. The owner of Ozlotteries, it has recently entered the Lottery SaaS market with the signing of its first customer to use its "Powered by Jumbo" lottery software.

I went to an industry insider who said:

- Tabcorp (TAH) owns 12.5% following its purchase of Tatts – at some stage, they could be a strategic buyer;
- Very strong CEO; and
- There has been a bit of a "purple patch" recently with high jackpots – this drives business and partly explains its growth in 2020.

Only two of the major stockbroking firms cover it – Morgan Stanley with a target of $20 and an 'overweight' call; Morgans with an "add" and a $19.18 target.

I guess I wouldn't be a buyer at these levels. If I was a holder, I would probably put faith in the adage "let your profits run". Maybe sell a portion to put something in the bank, and let the rest run.

Question 4: Wow. Whenever I read one of Charlie's articles, I feel inspired. He is a great writer when it comes to finance. In a recent article, he posited the view that we may be seeing a structural decline in interest rates i.e. they could be low for ages, if not

forever. In other words he is saying "this time it is different". And you know when financial commentators say this, it is usually a sign we have reached the top of the market. What do you think? Do you think this time it is different?

Answer: I am not sure about whether "this time it's different", but I do agree with the central idea that if interest rates are lower for longer, return expectations for other asset classes will reduce. So whereas the "risk premium" for investing in shares might have been 6%, if bond rates stay low, this rate will reduce to (say) 5%. Consequently, market PE multiples will rise over the medium term and shares will get more expensive (which is what we have been seeing).

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regard to your circumstances.*