

## Investment outlook for 2010

Powerful trends could create windfall gains and losses for investors in the aftermath of the global financial crisis. From the Australian population boom to China's continued rise, there is no shortage of opportunities for investors in 2010 and beyond.

"Change is the only constant," said the Greek philosopher Heraclitus, and it seems he knew a thing or two about economics and markets back in 500BC. But the amount of change in AD2008 was all a bit too much: the global economy nearly changed itself to death; the losses were horrendous and the anxiety crushing.

Here is an attempt to list the main things that have changed over 2007-2009 and what they mean for you in 2010.

### Dollar near, or perhaps at, parity

The average exchange rate since the dollar was floated in December 1983 has been US72c. If you exclude the first couple of years, when it was still coming down from the peak of US\$1.08 in 1983, the normal trading range over 25 years has been more like US65-70c. The new trading range in 2010 will be at least US90-95c, possibly US95-100c. This 50 per cent appreciation will bring enormous challenges to businesses and investors.

*continued next page >*



**Did you know:** Honey is the only food that doesn't spoil. Honey found in the tombs of Egyptian pharaohs has been tasted and found edible.

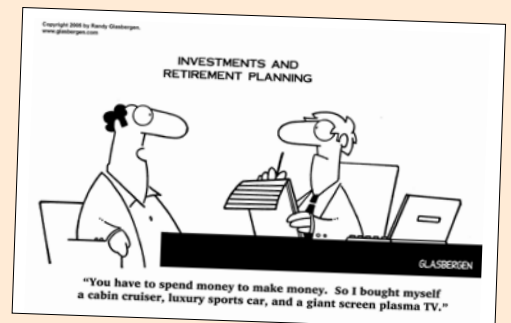
Source: <http://www.world-english.org/facts.htm>

## Laughing your way to good health and fitness

If you hate sayings like "laughter is the best medicine", it's time to lighten up a bit because apart from being true, it shows that you've lost your sense of humour!

It is said that six year olds laugh on average 300 times per day but by the time we reach adulthood we've reduced our giggles down to only 15 per day... If we're lucky! So what, you might say, what's there to laugh at? Well, it's not just a case of what is there to laugh at, but what happens when we forget to laugh... Basically, life becomes a drudge.

It's a bit of a Catch-22 situation - by focusing on all the bad news we're constantly exposed to, it becomes very difficult to raise a smile.



So it might be time to rise above the doom and gloom, turn the TV off and pick up a comic, read a Dr Seuss book or maybe read some of those many jokes your friends have emailed to you but you were "too busy" to read!

Laughter can even help you on your fitness and weight loss campaign:

- Dr William Fry of Stanford University found that laughing 100 times burns off the same amount of calories as 10 minutes on a rowing machine!
- After a good belly laugh, blood pressure drops to a lower, healthier level than before the jocularity began.
- Laughter oxygenates your blood, thereby increasing energy levels, relaxes your muscles and works out all your major internal systems such as your cardiovascular and respiratory systems.

So the next time you're feeling guilty about missing your daily exercise, go and find something funny and have a good belly laugh. It will be more fun, it will cost less and you might just live a longer and happier life!!

*continued from previous page>*

The bottom line: retailers are winners; manufacturers and those with operations offshore are losers. Miners are losers from the currency, but winners from the rising commodity prices that usually go with the rising currency.

### More fixed interest

Last year the strategist for Citigroup in London, Robert Buckland, wrote: "The cult of equity is dead". Reports of the death of shares as an investment were premature, to say the least, but after 11 years of zero returns from shares in the US, global investors are turning more to fixed interest. In Australia the corporate bond market is rising from the dead and the government is now issuing bonds again as well.

Retail investors are snapping up hybrids and super funds are shifting a greater allocation into bonds. Some of the fixed-interest returns can be very handy indeed to rebalance the risk and reward of your portfolio.

### China

China's growth has returned to 9 per cent per annum while most of the West remains mired in recession. China's industrialisation will continue for decades as its 1.3 billion people catch up with the living standards of the developed world. The global financial crisis has dramatically closed the gap in 2008-09 and this will become more evident in 2010.

### Banks

Perversely, even though banking excesses caused the crisis, it has been a boon for Australia's banks. Their market share has increased to total dominance as non-bank lenders have all but disappeared along with the market in residential mortgage-backed securities. At the same time, the expected massive increase in bad and doubtful debts did not materialise, and from next year banks will be writing provisions down, and back into their profits as windfall gains.

Good times never last and eventually the mortgage securities market will return and provide the big banks with some competition, but not for years. Australia's banks are in a sweet spot that will last for a long time.

### Lower volatility, lower returns

Volatility in all markets increased dramatically in 2008 but has now returned to pre-crisis levels as measured by the Vix index of volatility, which is based on S&P 500 options traded in Chicago. But it is unlikely that lower volatility will be accompanied by the sort of returns that characterised the period 2003-2007, in which stable markets produced annual growth of 20 per cent plus.

### Higher interest rates

Australia was the first major country to start raising interest rates in October. It is likely that the official cash rate target will quickly go to 4 per cent and then set sail for 5 per cent - what the central bank calls the 'normal' rate. This will be both momentous and unimportant at the same time. Rising interest rates rarely, if ever, cause sharemarkets to stop rising until they get very high, say 10 per cent.

So the rate rises in 2010 are unlikely to have any impact on the market except indirectly, through the currency. It is momentous because rising interest rates mean the economy is growing and it is worth holding fixed-interest securities.

### Population and housing

In October the Treasury Secretary, Ken Henry, made a landmark speech in which he predicted that Australia's population would grow to 35 million in 2049 based on the current level of immigration - 13 million more than now.

He then asked: "Where will these 13 million people live - in our current major cities and regional centres or in cities we haven't yet even started to build?" In the short term the record level of immigration is resulting in booming house prices, and it is hard to see this ending in a hurry, even though, objectively, houses in this country have become severely unaffordable.

In 2010 we are likely to see a continuation of Australia's strong housing market, as well as an acceleration of the construction boom as the nation tries to grapple with the costs of success.

*Source: <http://www.asx.com.au>*

**Did you know:** *It is impossible to sneeze with your eyes open.*

*Source: <http://www.world-english.org/facts.htm>*



## Superannuation... It's not a case of "set and forget"

Whether you are an employer who has set up a corporate superannuation fund for your employees, or an employee building your retirement nest egg through Superannuation Guarantee (SG) contributions into a corporate fund, you should be aware of the importance of knowing how your superannuation is growing.

As a super fund member it is your responsibility to manage your contributions (over and above the SG), regardless of whether they are being invested into a retail fund, corporate fund or your own self-managed super fund.

Super is simply another investment vehicle and as with any type of financial asset, the fundamental principles of financial planning prescribe that individual tailoring, based on your needs, objectives and personal circumstances, is paramount to ensuring you have enough money to enjoy your retirement years.

It's a recipe for disaster to think that once you have established a superannuation account and your employer's contributions are flowing in, you can forget about it for the rest of working life. Financial markets will change, your own financial position will change and your objectives and retirement plans will change, so it's important you review your super plans at regular intervals.

## To do list to look after my financial independence

- Find lost super
- Buy health insurance
- Take super seriously
- Protect my family (risk insurance)
- Become a sceptic (if it seems too good to be true, it is)

### Super needs are different

Additionally, it's very foolish to believe that a "one size fits all" approach with no personal advice on contribution levels or transfer issues will help you achieve your goals.

Although employers are responsible for the education of corporate super fund members, you, the member, must take responsibility for determining what your needs are and working towards meeting them. That could mean making increased contributions after a certain age to bolster your retirement savings, or making decisions on who your beneficiaries will be if you don't make it through to retirement.

### Super tax

This might sound pretty basic, but did you know that you may attract tax penalties by making substantial contributions to superannuation? However, as long as your strategy enables you to fully utilise funds accumulated to meet your needs, the added tax may not hinder your accumulation strategy.

These are critical issues that you must take the time to discuss with your financial planner. Superannuation is your investment in your future... Individual advice and tailoring is essential.

## You still need insurance when you're older

Although a health crisis can occur at any time of life, the risks significantly increase as we age. Unfortunately, due to the increased risk of illness or injury, the cost of insurance for those over 50 can be high. As a result, people in this age group often drop their insurance cover altogether, just when their need is at its greatest.

If 50 is looming, or you've already reached your half century, it's even more important to protect both your income-earning ability and the financial security of your dependents. This can be achieved with appropriate insurance.

Here are some solutions to consider:

- Life and disability insurance can be arranged through most superannuation funds. Premiums are often lower, and are paid from the superannuation accumulation, reducing strain on the household budget.

- Review your level of insurance. As your investments and superannuation increase, you may be able to reduce your cover and still provide for your beneficiaries.
- For income protection insurance, manage premiums by increasing the waiting period before a claim. Depending on circumstances, this may allow you to retain an important benefit at an affordable price.
- Plan well ahead. Younger people should consider taking out policies with level premiums. The premiums are higher to begin with, but as they don't increase with age, these policies provide more cost-effective cover in later life.

If you're not sure what to do, talk to us before you make any adjustments to your insurance cover.

# Rising Australian interest rates – how far, how fast?

## Australian interest rates have further to rise

The RBA has again increased the cash rate by another 0.25% taking it to 3.75%. While much will no doubt be made of the fact the RBA hasn't increased rates three months in a row since the 1980s, it should be noted that 3.75% is still very low for the cash rate from a historical perspective.

Bank mortgage rates also remain historically low. Assuming the average bank's standard variable mortgage rate moves up by the 0.25% hike in the cash rate, this would take the rate to around 6.50%. Apart from in recent months, the last time it was lower than this was for a brief period just after the 9/11 terrorist attacks, and prior to that was in the early 1970s.

While the latest statement from the RBA is non-committal regarding interest rates going forward, the RBA's generally upbeat tone suggests that more rate hikes are likely if the economy continues to recover as expected.

This is consistent with our own composite leading economic indicator which is pointing to 4.00% economic growth over the year ahead.

While there was a case to hold fire this month, in terms of the big picture there is no need for interest rates to remain at historically low levels provided economic growth continues to head back above trend.

## Interest rates and the A\$

The A\$ is already up sharply from its US\$0.60 low last year. With the interest rate differential between Australia and other major countries getting wider, and commodity prices likely to see more upside, the upward pressure on the A\$ is likely to intensify. We remain of the view that the A\$ will breach parity against the US dollar sometime in the next six months.

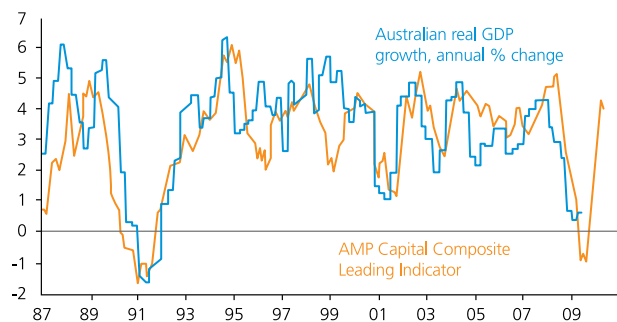
## Concluding comments

Interest rate hikes this year in Australia are likely to be more gradual, taking us up to around 5.00% by year end. Only when rates move noticeably beyond this and US interest rates rise above normal will interest rates be at levels judged restrictive enough to hurt the economic outlook, and hence shares.

Source: AMP Capital Investors

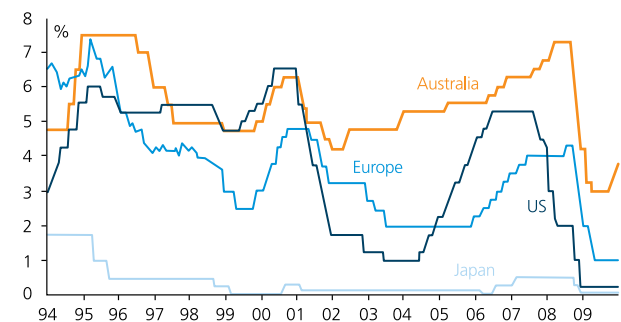


The Australian economy is on track for a decent recovery



Source: Thomson Financial, AMP Capital Investors

Australian interest rates - rising ahead of pack



Source: Thomson Financial, AMP Capital Investors

**General advice warning and disclaimer:** This newsletter has been issued by Consultum Financial Advisers Pty Ltd (Consultum), ABN 65 006 373 995, Australian Financial Services Licence No. 230323. The information in the newsletter contains factual information and general financial product advice only. It has been prepared without taking into account any person's individual investment objectives, financial situation or particular needs. A person should not act on this information without first talking to a financial adviser. This information is given in good faith based on information believed to be accurate and reliable at the time of publication, including the continuance of present laws and Consultum's interpretation of them. Consultum does not undertake to notify recipients of changes in the law or its interpretation. Forecasts and other representations about future matters are based on economic and other factors. These factors can change and this can affect the future outcomes.

This newsletter contains some general tax information. While your Consultum financial adviser can advise you on the tax implications of any recommended strategy, we are not accountants or tax advisers and are unable to provide tax advice as such. We therefore recommend you consult your accountant to ensure that you understand the tax implications for you of any recommended strategies.

While all care has been taken in preparing this newsletter, Consultum gives no warranty of accuracy or reliability, accepts no responsibility for any errors or omissions, including by reason of negligence, and shall not be liable for any loss or damage whether direct, indirect or consequential arising out of, or in connection with, any use of, or reliance on, the information contained in this newsletter.