

Your money Your future



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Do you want a guaranteed level of retirement income for life?

Australians are looking for certainty and control in their retirement so they can have confidence that they won't outlive their savings. There is one question that crosses everyone's mind - that is, will the money you have saved last for as long as you live. The global financial crisis has shaken Australians faith in their ability to provide for their retirement, whether providing for a modest or comfortable lifestyle. Many Australians are now concerned about the effect of the market downturn on their retirement funds.

Whether you are approaching or in retirement, there are two major issues: longevity risk and market risk. Contact our office to discuss your situation on 03 9580-6463.

Protecting your capital

History tells us that investing for the long term pays off, as markets have invariably rebounded following a downturn.

But with share prices almost halving in the space of a year, this knowledge is understandably offering cold comfort for investors.

You may have heard about capital protected products as a possible solution. Some enable you to insure against market downturns while remaining fully invested in the share market to capture sudden recoveries.

Some capital protected products guarantee that you never lose the investment over the period of the guarantee. After paying an 'insurance' premium that will protect the capital value of your investment, your funds can be invested safely in a diversified portfolio with various mixes of shares, property, fixed income and cash.

The right capital protected product can help in situations where:

- You are sitting in cash, but don't want to miss the market rebound.
- You have accumulated wealth – especially superannuation and pensions – and want to protect it from capital loss.
- You need to be a more aggressive investor to achieve your investment goals, but are wary of increasing your risk tolerance level.
- You have leveraged your existing assets using a gearing strategy and you are looking for capital protection.

Protection at every stage of life

Regardless of your individual circumstances, capital protection is a potentially useful strategy for all investors.

If you're approaching retirement, your priority is to safeguard your future savings. Capital protection allows you to ensure what you have built up remains intact.

And, if you are currently drawing a pension from your superannuation balance, a capital protected product can guarantee a fixed level of income each financial year, even if the underlying account balance declines. The level of fixed income is generally set each financial year based on the underlying account balance.

If retirement is still some time away, capital protection can help to avoid any unpleasant surprises which could delay your retirement plans.

If you are concerned about market volatility and would like to find out more about protecting your investments, please call us today.



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Taking stock after a turbulent year

The 2008/09 financial year saw unprecedented market turbulence, but ultimately served to reinforce the timeless principles of investing.

The 2008/09 financial year was a rollercoaster ride for Australian investors, who had to endure plunging sharemarkets, volatile asset prices and liquidity issues.

Overall, Australian shares lost 26 per cent of their value* – the fifth worst year on record†. It would have been even worse without a late rally which saw the market recover 28 per cent from its low point in early March to post four consecutive months of gains‡.

Australia wasn't alone, with sharemarkets around the world suffering abnormally large losses as shockwaves reverberated through the global financial system. The credit crisis erupted when the property bubble burst in the US, and borrowers who couldn't afford repayments were left with loans worth more than the value of their homes.

The situation escalated in September 2008 when some well-known financial institutions failed, while others were bought out or even partly nationalised. Global share prices slumped and the problems quickly spread, with some of the world's major economies going into recession. Governments and central banks took early action to cut interest rates and boost their economies, with the Australian Government issuing stimulus packages totalling \$52.4 billion.

A strong regulatory regime and relatively conservative lending practices have helped Australia weather the storm better than most comparable countries.

Timeless lessons

So what can we learn from the tumultuous 2008/09 financial year?

1 Invest for the long term and avoid chasing short-term returns

Investing requires time and patience. It's difficult not to react when short-term volatility erodes the value of your assets. But those investors who transferred their investments into cash at the height of the market downturn missed out on the substantial gains later in the year. Trying to time when to exit the market is a high-risk strategy and means you could easily miss out on potential gains when reinvesting.

* All Ordinaries Index

† <http://business.brisbanetimes.com.au/business/wotif-you-could-defy-the-global-financial-crisis-20090701-d51b.html>

‡ <http://www.abc.net.au/news/stories/2009/06/30/2612884.htm>



2 If you don't understand it, don't invest in it

One of the most important lessons of the global financial crisis is that if it looks too good to be true, it probably is. Many of the problems were derived from sub-prime mortgage loans repackaged into various forms of 'securities', often with even more debt, and sold to investors around the world. It wasn't clear where the debt was and who held it. If you don't understand an investment, you can't understand the risks. It is vital to understand the nature of an investment so you can decide whether it meets your circumstances and objectives.

3 Match your investment strategy to your individual risk profile

Investors who take inappropriate risks can be left exposed in the event of a market downturn.

A successful investment strategy is built around individual tolerance to risk. Each investment offers varying potential returns with varying degrees of risk – from defensive assets such as cash and fixed interest to growth assets such as shares and property. Your risk profile will depend on how long you are able to invest. The longer your investment timeframe, the more time there

is for your investments to recover from any market downturn.

4 Diversify to reduce risk

'Don't put all your eggs in one basket' is a proven way to manage risk. Diversification involves spreading your investments across asset classes and industries. This market downturn was unusual in that it affected most types of investment. But investors holding a portfolio diversified across growth and defensive assets remain best placed to take advantage of market opportunities.

5 Valuation is temporary, value is permanent

Investing with reference to daily share price movements is a high-risk strategy. You need to look at the underlying quality of your investments – individual companies' balance sheets and earnings forecasts, and the long-term trends and economic developments affecting overall asset classes.

If you have any questions about your investments or about the state of play in the investment markets, please call us today for further information.

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