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OPEN  
FINANCIAL SERVICES



## Now What ?

### Investment Strategies for a new decade

Following the events of 2008 and 2009, many investors have understandably shied away from the share-market. However, don't let the experience of the past eighteen months keep you from achieving your goal of financial security; you can move forward following the worst of the crisis.

#### After the storm

By most accounts, this generation's nastiest financial storm has passed. That doesn't mean skies will be forever blue again, as we may yet see another good drenching or two. Such is the nature of sharemarkets. What it does mean, is that we see glimmers of a brighter tomorrow on the horizon.

Now is the time to make sure your portfolio is well positioned for the recovery and fortified against any future downturns.

#### Fortifying your investment

Nobody knows where the markets will be tomorrow, let alone in a year. What we are certain of is that suitable asset allocation and regular portfolio rebalancing remain two important techniques to help manage risk and enhance your returns.

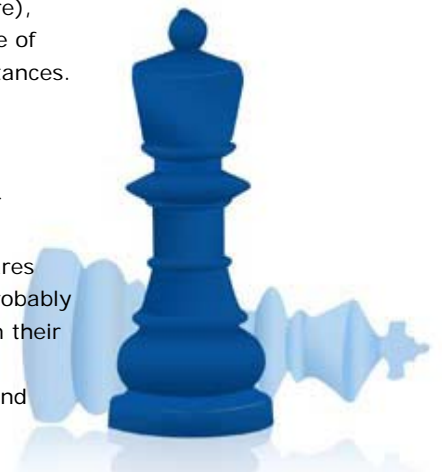
#### Asset Allocation

It's important to have the right mix of shares, cash, fixed interest and other assets for your age, objectives and expectations for returns. As an investor, one of the most important questions to ask is: will my asset allocation provide me with the income to support the standard of living I'm hoping for in

retirement? While it may be tempting to change your asset allocation due to recent market events (either increasing or decreasing shares exposure), it's unwise to do so outside of extreme personal circumstances.

#### Portfolio Rebalancing

When investment markets perform as they have over the past year, one result is that your balance of shares and fixed interest have probably deviated dramatically from their intended target, becoming underweighted in shares and overweighted in cash and fixed interest.



The purpose of rebalancing is to ensure that your portfolio maintains its long-term asset allocation. This is done by periodically eliminating deviations from the target allocation caused by the movements of the investment markets.

With the recent decrease in market volatility, now may be a good time to have another look at rebalancing your portfolio in order to re-establish your optimal asset allocation mix.

#### The aftermath: can you afford not to invest?

In the aftermath of the greatest financial storm since the Great Depression, investors will need to understand that just as past performance was no guarantee of future results in good times, the same holds true in bad. Don't

#### IMPORTANT

We pride ourselves on our performance and service to clients. We are especially proud of how well our clients have performed through recent difficult times. The growth and success of our business is based on our reputation as professionals and personal referrals from our clients. As a consequence we would like to thank you for your ongoing feedback and client referrals as this ensures we can continue to offer efficient service in a cost effective manner. Please feel free to recommend us to members of your family and friends who you believe may benefit from our services— remember our business is built on referrals.

We would also like to remind you that we are always available to discuss any issues regarding your financial well being. If your circumstances have change and you require some specific financial advice or if you simply wish to have us review your financial situation call us on 03 9663 3477 to arrange an appointment.

# Sickness doesn't discriminate, So why should insurance?



Anyone can get sick or injured but when it comes to protecting their lifestyle with insurance, it seems females have some catching up to do.

Historically speaking, insurance was sold to the main breadwinner. More often than not, that was the husband.

Today men still earn more, on average, than women, however the gap is closing fast. Australian women now earn 92% of male incomes with many women now out-earning their husbands.

For this reason, you'd expect more women would be taking out insurance to protect their income and their lifestyle. This is not the case. Despite women making up 45% of the workforce, they still represent only 15 - 20% of all insured incomes.

## It's not just about income

Protecting your income is obviously important however the fact female incomes are increasing only tells part of the story.

Women are often more financially vulnerable than men - mainly because they typically spend less time in the workforce.

This is partly because of children and also because women are more likely to retire early. Women are often the ones who take time off to look after children or elderly relatives.

Less time in the workforce means fewer savings, less superannuation and a decreased ability to recover from financial setbacks.

Since women live longer than men, these setbacks can be even more financially damaging over time.

## What types of insurance should women have?

Income protection typically covers up to 75% of your income if you can't work temporarily because of sickness or injury - making it extremely valuable for working women.

To protect yourself against diseases like cancer, you can take out Recovery (also known as 'Trauma') insurance. It can pay a lump sum on diagnosis - helping you replace your income and assist in covering the costs associated with treatment.

Life insurance can provide a lump sum to your beneficiaries if you die. Total and Permanent Disability (TPD) insurance can provide a lump sum to you or your beneficiaries if you are seriously disabled. Life and TPD insurance can be vital if you have a family and/or a mortgage to look after.

If you're self-employed or run a business you can also cover your fixed business expenses if you can't work temporarily because of sickness or injury.

## Strategies to make insurance more affordable

It's worth talking to Open Financial Service before you take out insurance as there are often a number of ways you can reduce the effective cost of your premiums.

For example, income protection and business expenses insurance premiums are often tax deductible.

You may also be able to reduce the effective cost of Life and TPD insurance by taking it out inside super - using your pre-tax money to pay premiums. Bear in mind there may be some restrictions on your benefit if you insure inside super.

## Get the cover you need

The best way to find out what cover you need is to speak to Open Financial Service. We can help you get the right cover and make sure it's structured in a way that makes it as cost-effective as possible.

# Was the GFC the inflection point for an economic shift from the West back to the East?

China's growth through the Global Financial Crisis ('GFC') has left many asking if we are seeing a shift in economic power from the US to China.

With more favourable demographic trends, a higher rate of growth, higher savings and less regulatory intervention than the developed world, the argument is well made.

Under Deng Xiaoping, the leader of the communist party from 1978, China undertook Gaige Kaifang (Reforms and Openness) - a reform of domestic, social, political and economic policy. It was a suite of economic reforms that combined socialism with elements of market economy. It entailed engaging the global economy, reversing the country's traditional policy of economic self reliance and lack of interest in trade.

It has been reported that in 2008 approximately 85% of China's GDP could be attributed to exports and just 15% to domestic consumption; the US is in the reverse situation, relying on the US consumer to pull them into recovery.



Latest reports forecast that China has recently become the second largest economy in the world, overtaking Japan. Last year, China grew by 9.6%, above the expected 9%, which put the value of goods and services produced at 31.405 trillion yuan (A\$5.21 trillion). Even with this growth, the Government has committed to significant economic stimulus, of which 70% will go towards infrastructure and the state council's recent approval of 882bn yuan (A\$141bn) worth of railway projects in 22 cities. The planned urbanisation will benefit 1.3bn people through the creation of better transport links, including a high speed rail network and resulting jobs growth. The effect on second and third tier cities in the interior of China will be huge, bringing with it growth of the middle class and a rise in consumption.

China also took over the US as the number one automobile market in the world. Sales this year are expected to be 13 million while the US is expected to come in a distant second at 10 million. Alongside this news was the highly publicised purchase by Warren Buffett of a 10% stake in BYD, a company that is becoming a world leader in lithium-ion batteries found in hybrid and electric vehicles.

It is believed the industrial revolution of China will continue for many years to come as the growth of the middle class has seen retail sales achieve year-on-year double-digit growth since 2006. To supplement this growth, Shanghai will again play host to the world as it opens its city to an expected 70 million visitors for the 2010 World Expo, themed 'Better City, Better Life' and promoting its environmental responsibility.



In such an exciting period it could be easy for a country to lose focus or become greedy but in a sign that China has been maturing as a strong manager of economic and fiscal policy, there has been an increase in the required amount of deposits banks must keep as reserves. This is the clearest signal yet that the central bank is trying to tighten monetary conditions to maintain strong and consistent growth without letting markets overheat.

Australian investors tend to gain access to China through funds that invest in multinational companies, such as McDonalds and Coca-Cola. This removes the opportunity for investors to participate in the growth of domestic Chinese businesses that are growing faster than the multi-nationals.



Investing in any emerging market comes with greater political, regulatory, corporate governance and currency risks than investing in either local or developed share markets.

Most agree that amplified growth opportunities match these increased risks.

# The outlook for investment markets

Asset class	Short-term prospects
<b>Listed property</b>	Recapitalised balance sheets, more prudent gearing levels, and a stabilization in both property valuations and varieties have put Australian Real Estate Investment Trusts on a sounder footing. The sector has staged a solid recovery, though investors appear to remain weary, preferring growth opportunities elsewhere. AREITs are currently close to fair value, albeit at bottom of the cycle metrics, which offers some upside from here. Distribution payouts are also lower, though at more sustainable levels. The possibility of rapidly rising bond yields does pose some risk, though generally the outlook for AREITs is sound and could reward patient investors with earnings expected to improve after the June 2010 half results.
<b>Residential property</b>	A growing population and lack of new supply continue to provide a base of support for residential property, which has experienced some recent strong growth on the back of a generous First Home Owners Grant (FHOG) and previously low interest rates. However, the Reserve Bank has expressed its concerns over rapidly rising prices at the expense of new dwelling construction and is likely to act to diffuse unsustainable price appreciation. Already there are signs that the scaling back of the FHOG is deterring would-be buyers, a space where investors are expected to pick up the slack. However, financing numbers suggest this trend is yet to take shape. Supply and affordability arguments will continue to play out. We are more circumspect on the prospects for residential property relative to the broader market especially with the prospect of more interest rate rises on the horizon
<b>Cash</b>	Strong numbers continue to imply upside for the Australian economy. Low unemployment, high levels of confidence, coupled with the hand of fiscal stimulus suggests that interest rates will continue to rise throughout 2010. With the RBA removing emergency settings, rates could hit 4.75 per cent –5.00 per cent by year end. External stocks could temper this number, whereas ongoing upward revisions in the local economy could see the central bank tap the brakes a little more firmly.
<b>Bonds – Australian and international fixed interest</b>	Markets are likely to focus on macro risks over the short term with high public debt and the specter of sovereign default weighing on sentiment. In this environment, it is hard to see credit delivering similar returns as those enjoyed in 2009. Longer term, normalization will likely be global and involve policy removal, higher yields and flatter curves, though any recurrence of risk aversion and speculation on regulatory reform should be factored into market movements.
<b>Australian shares</b>	The strength of the rally has taken the local market close to “fair value”. Some sectors have been clear winners from the rapidly improving fortunes of the economy but more broadly, corporate Australia is in reasonable shape after a satisfactory reporting season. Cost cutting remains a positive, though revenue growth in some sectors has been slow to respond. Telstra, in particular, posted numbers that shocked the market. Uncertainty surrounding negotiations with NBN Company and an uninspiring market outlook saw the stock beaten down. Other sectors though continue to fare better. Expectations for sharp price increases in bulk commodities and ongoing demand from Asia continue to support the likes of BHP and RIO which may be diluted in the short term by the newly announced super profits mining tax. The big four banks have also provided positive guidance, though NAB has lagged its peers. M&A activity also continues to be a strong factor. The market awaits the ACCC’s ruling on AXA APH; an unsuccessful outcome for AMP could possibly put it in play. More recently, Shell’s joint bid with PetroChina for Arrow Energy has breathed new life into the consolidating coal seam gas sector.
<b>International shares</b>	The US economy has posted stronger than expected fourth quarter GDP numbers, though the doubters will point to inventory restocking and the drag of future “fiscal fade”. Unquestionably the US still faces significant headwinds, however, it is a step in the right direction. More recently talk of financial reregulation, along with efforts by China to curtail lending and the debt problems of peripheral European economies have dominated the headlines and hurt sentiment. They also highlight the two-paced recovery taking place between the developed and emerging economies. Fears of China overheating are natural, but possibly overstated at this stage in the cycle. The initial fears in Europe may have been overblown, though the problem will linger for years to come. Corporates, however, continue to paint a picture of improving earnings and there have been some pleasing Q4 revenue numbers in the US. Investors should continue to look to attractively-valued companies with strong market positions and capable of generating solid cash flows.

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