



Spotlight on the economy – Outlook for 2010

Setting the scene: The global economy

While 2009 is set to be the worst year for the global economy since World War II, it appears the worst part of the global economic recession is behind us. Looking back, the fourth quarter of 2008 and the first quarter of 2009 saw the largest contractions in economic growth since World War II.

Australian economy

Review: The Australian economy continued to show signs of recovery in September as economic data released during the month was largely positive. The Westpac-Melbourne Institute's consumer sentiment survey and the National Australia Bank business survey both recorded strong surges. Retail sales figures for both July and August were released during the month, with July showing a drop of 1.0% but August recording a rise of 0.9%. Australia's real gross domestic product (GDP) for the June quarter was better than expected and rose 0.6%, its biggest gain in over a year.

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Transfer the risk

Just like any other insurance, protecting your income is about transferring risk to someone else. By paying a premium each month, you have the security of knowing that should anything happen - your car is stolen, your home damaged by fire or you suffer a serious illness or accident - your financial loss will be minimised.

Interestingly, almost 90% of Australians consider the cost of car insurance worth having, yet only 6% of us insure our income.

And what about the apparent contradiction that when you buy insurance you hope you never actually have to use it? Does this mean it is a waste of money?

Why take that risk when having peace of mind is worth far more than dollars? Once you have insurance in place, you can get on with enjoying life, and if you do get sick or badly injured, money will be one less thing to worry about.

Sources: HIA / Commonwealth Bank Affordability Report, February 2008 Insurance Council of Australia, Consumer Tracking Survey, January 2006. Roy Morgan Research Insurance Report, September quarter 2006
Source: <http://www.financialwriters.com.au/>

Did you know: Fathers tend to determine the height of their child, mothers their weight.

Source: <http://smileyblogs-amazing-facts.blogspot.com>



Are you wasting money on insurance?

It's the middle of the night and you're jolted awake by extreme pain in your chest. You feel like the life is being crushed out of you...you immediately realise you're having a heart attack. Your partner frantically phones 000 and as you lay clutching your chest waiting for the ambulance to arrive, all you can think about is how your family will be supported if you die.

The pain intensifies.

Hopefully this will never happen to you, but what if it did? Take a moment to think about how your family's living expenses would be met if your income stopped tomorrow.

The average Australian household spends up to one-third of its gross income on mortgage repayments. Most of us would rely on our regular income continuing indefinitely in order to meet such an expense. And at this point we haven't even got to putting food on the table.

Income protection (or "salary continuance") insurance policies usually provide up to 75% of your salary or business income in the event that you cannot work due to illness or injury. Of course, you might have sick leave, other compensation arrangements or perhaps a cash reserve to rely on for a while, but what happens when these run out?

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The Reserve Bank of Australia (RBA) left rates on hold in September but increased the cash rate by 0.25% to 3.25% in October. The central bank justified this decision by highlighting that “the global economy is resuming growth”. However, while the RBA’s Financial Stability Review stressed that challenges remain, the broad picture was consistent with its growing confidence in the economic outlook.

Outlook: The Australian economy is showing signs of improvement ahead of a sustainable recovery from later this year and through 2010, driven by global recovery, a housing upturn, stabilising employment and stronger investment helped by fiscal stimulus.

International shares

Review: The leading measure of global shares performance, the MSCI World (ex-Australia) Accumulation Index, returned +2.9% in local currencies (or -0.9% in unhedged Australian dollar terms). The US S&P 500 Accumulation Index returned +3.7%. In the European region, the Eurostoxx Accumulation Index returned +4.4%; while the UK FTSE 100 Accumulation Index returned +4.8%.

Shares in Asia were mixed as Japan’s Topix Accumulation Index returned -5.1% and China’s S&P/ CITIC 300 Total Return Index returned +6.2%.

Short-term outlook: After the strong rebound, a short-term correction is likely sooner or later. However, global shares are likely to provide good returns on a 12-month plus view, given the likelihood of better economic conditions in 2010 and still attractive valuations.

Australian shares

Review: The Australian share market tracked steadily higher over September. The S&P/ASX 200 Accumulation Index returned +6.6% for the month making it the sixth consecutive month of growth. The market was pushed higher by continuing signs that economic growth is on a more solid footing. Investors appear increasingly convinced that Australia has fared better than most countries during the financial crisis.

Short-term outlook: The Australian share market is vulnerable to a short-term correction. However, shares are likely to provide solid returns on a 12-month view.

Valuations are attractive and interest rates are low, and shares are likely to anticipate better economic conditions and rising profits in 2010.

Australian bonds and cash

Review: Over the course of September, Australia’s bond market was supported by global trends. The yield on the Australian ten-year bond fell 12 bps to 5.30%, while the three-year bond yield fell 13 bps to 4.95%. US ten-year bond yields fell 8 bps (to 3.30%), resulting in a slight narrowing in the Australian and US ten-year bond spread to 200 bps. Bank bill yields were volatile during September. The three-month bank bill rate opened at 3.49 and closed 11 bps lower at 3.38. Six-month bank bill yields also fell, opening at 3.83 and closing 5 bps lower at 3.78%.

Short-term outlook: Bond yields are likely to remain low in the short term on uncertainty regarding the growth outlook and as the inflation outlook remains benign.

Australian dollar

Review: The Australian dollar (A\$) pushed higher again in September, rising against the US dollar (US\$), the Japanese yen (JPY) and the currencies of Australia’s major trading partners (as per the Trade Weighted Index [TWI]). The A\$ closed the month at 88.39US cents (up 4.8% from 84.38US cents) and JPY79.34 (up 1.1% from JPY78.44). The TWI closed the month at 68.2 (up 2.9% from 68.2).

Short-term outlook: Further gains in the A\$ are likely on the back of the improving global growth, strong demand from China, the positive outlook for commodities and the prospect for rising local interest rates.

Source: <http://www.ampcapital.com.au>

Key financial markets

	30 September 2009	Change in one month	Change in 12 months
S&P/ASX 200 Accumulation Index	32,870	+6.2%	+8.3%
MSCI World (ex-Aust Accumulation/unhedged in A\$)	3,391	-0.9%	-13.4%
US S&P 500 Accumulation Index	1,733	+3.7%	-6.9%
Dow Jones Eurostoxx Accumulation	416	+4.4%	-1.4%
UK FTSE 100 Accumulation Index	3,224	+4.8%	+9.5%
Japan Topix Accumulation Index	1,120	-5.1%	-14.6%
S&P/CITIC 300 Total Return Index	2,763	+6.2%	+35.5%
S&P/ASX 200 Property Accum. Index	20,459	+9.8%	-23.7%
UBS Global Real Estate Investors Index	926	+5.8%	-25.3%
Aust 90-day bank bill yield	3.38%	-11 bps	-394 bps
Aust 10-year bond yield	5.30%	-12 bps	-10 bps
US 10-year bond yield	3.30%	-10 bps	-52 bps
A\$ in US cents	88.39	+4.8%	+11.3%
Trade-weighted Index	68.2	+2.9%	+7.6%

Source: <https://www.amp.com.au>



The tale of two brothers

Estate planning is about more than just writing a Will because asset ownership during your lifetime and after your death is dependent upon the type of asset, whose names the asset is in prior to death and the governing documents for each asset. Consider the following scenario:

Jim and Bruce are brothers. They have both been married twice and have children from these marriages. They have each prepared a Will and want to leave their assets to the wife and children from their current marriage with a small bequest to the children from their first marriage.

Both men have exactly the same amount of assets when they die (see below table).

The outcomes from their estate plans are completely different, however:

Jim

- The home and bank account are in joint names with his wife and they will automatically pass to her. The trustees of his super fund will pay his death benefit to his wife and the children from their marriage. The insurance company will pay the sum insured to his wife.
- The term deposit is in his name and will be paid into his estate. His Will instructs the executor to make the bequests to the children from his first marriage with any balance payable to his wife and her children. Probate is simple because a small amount is involved.

Bruce

- The home, investment property and bank account are in his name and will be paid into his estate along with the sum insured from the life policy.
- The trustees of his superannuation fund identify all of his dependants and ask them to 'stake a claim' if they believe they are entitled to any part of his superannuation death benefit. His wife and all of his children respond and the trustees are left with the difficult task of dividing a relatively small amount between competing claimants. Some of the family are dissatisfied with the trustee's decision and complain to the Superannuation Complaints Tribunal. It takes nine months for a decision to be made.
- The executor of Bruce's Will seeks probate from the courts to confirm that the Will is valid and to give permission for the Will to be administered. With a substantial amount in the estate the children from his previous marriage are dissatisfied with their bequests and make a claim under state laws requiring a deceased to make adequate provision for their families. The court costs eat into the estate value, further bad feelings are created amongst the family and a decision is delayed for another 12 months.

Although both brothers were conscientious in building their wealth throughout their lifetimes, Bruce's inadequate estate planning failed to provide for his wife and children in the way he would have liked. This also created a stressful period for his family during which they were unable to access any funds or assets from Bruce's estate.

To assist you in creating an effective estate plan through the use of different structures, such as companies, trusts, superannuation and life policies, make an appointment with your financial adviser soon.

Source: <http://www.financialwriters.com.au/>

Is your investment strategy too conservative?

What Ben did: Ben kept his super in a balanced option achieving an average return of 8%.

What Heather did: Heather switched her super balance from a balanced option to a conservative option 5 years out from retirement with an average return of 5%.

You may be tempted to invest more conservatively when you approach retirement. Before you do, take a look at the chart below. It compares Ben and Heather who are both five years from retirement and planning to use their super to start an allocated pension.

Both Heather and Ben have \$200,000 in a 'balanced' investment option in their super, both will retire at 60 and both choose an income stream of \$20,000 pa.

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Asset	Jim		Bruce	
	Description	Value	Description	Value
Bank account	In joint names with wife	\$10,000	In his name	\$10,000
Home	In joint names with wife	\$600,000	In his name	\$600,000
Superannuation	With a binding death benefit nomination	\$500,000	No nomination made	\$50,000
Other assets	Term deposits in his name	\$50,000	Investment property in his name	\$500,000
Life policy	In his name with wife as a beneficiary	\$200,000	In his name	\$200,000
Total		\$1,360,000		\$1,360,000

Advice delivers \$2,400 savings per year: research

Good financial advisers know this, investors who use good financial advisers know this but, at last, someone finally did some serious number crunching on the value of advice.

Investment and Financial Services Association (IFSA) recently commissioned KPMG Econtech to find out the impact of financial advice on the savings behaviour of Australians.

The results were released in November 2009 using data from over 840,000 individual accounts for the 2007/08 financial year, the firm found that those who do have a financial adviser save an extra \$2,457 each year, compared to those who don't use a financial adviser.

IFSA also took the value of advice debate closer to Canberra by exploring the economy-wide implications of higher national savings. KPMG found that if an extra 5 per cent of Australians accessed financial advice, GDP could be higher by 0.5 per cent in national savings by 2014/15.

Source - IFSA.com.au

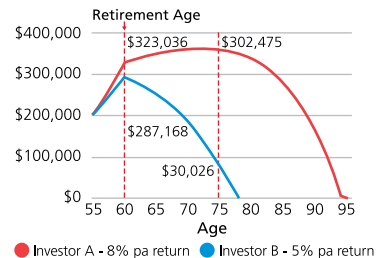
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Ben remains in a balanced option throughout and achieves an average return of 8% pa before fees and taxes.

Heather switches to a cash option five years from retirement and stays invested that way and achieves an average return of 5% pa before fees and tax.

As you can see from the chart, at 75 Ben has much more money left than Heather.

Investment Strategy Comparison



This chart is for illustration purposes only and does not represent actual or expected returns.

Helpful tip Different strategies involve different risks, so it's important to speak to your financial adviser to determine which strategy is suitable to you.

Source: <http://www.colonialfirststate.com.au/>



3 tips for sensible Christmas shopping

Every year, we spend many months saving money for the holidays. From Christmas trees to holiday parties, and the countless number of gifts, it is easy to lose track of spending and unknowingly subject yourself to a year's worth of overwhelming credit card bills. This year, before you head out on your shopping spree consider these 3 tips for sensible Christmas shopping:

1. Use cash whenever possible

Carrying cash allows you to track exactly how much money you have, and how much you've spent. Using cash costs you nothing beyond the price on the label, and it means you won't still be paying it off at Christmas 2014 if you were to put it on your credit card.

2. Kris Kringle Style

Rather than all buying everyone a present, allocate one person to buy for one person. Put a limit on the value of each present.

3. Moderation is key

It's a difficult word to utter at Christmas, but moderation is key at this time of year. You can still have a good time, but you have to be prepared to draw the line. Sensible spenders should arrange to have money debited directly into a Christmas account during the year to take the strain off end-of-year money matters. Don't worry if you didn't do this. Set one up now so you'll be in good form in 2010.

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