# Axis

MAGAZINE January 2010 | Financial food for thought

# Why super is still super

...and the best place for your retirement savings

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2009: a year in review

New Year's resolutions for your financial health

Asgard

# Axis

Financial food for thought

Issue 20 | January 2010

## What's inside

# New year, new outlook

Welcome to a new year and a new edition of Axis Magazine.

As financial markets finished 2009 strongly – considering a somewhat rocky start to the year, 2010 will likely be a year of continued positivity for investors. Global markets are experiencing a general upward trend, unemployment is stabilising and the Australian economy continues to strengthen.

In order to understand where financial markets will likely take us this year, it's important to reflect on where we've been. Our article '2009: a year in review' looks at how market events unfolded last year, and also considers some of the lessons that investors can learn from them. Market commentary on page 12 by Felix Stephen from Advance Investment Solutions provides a broad outlook for the economy and the major asset classes for 2010.

In this edition, we also take a close look at superannuation in the context of recent market conditions. 'Why super is still super' explores the reasons why super is still the best investment vehicle for our retirement savings, despite the volatility of super returns over recent years.

As we highlight in 'New Year's resolutions for your financial health', the New Year is an ideal time to revisit your financial plan, to ensure your investments are still suitable for your long-term goals, personal situation and risk profile. If you haven't done so already, I encourage you to see your financial adviser to ensure your plan is still working for you.

Best regards,

Wayne Wilson
*Head of Asgard*

# 2009: a year in review

2009 was a big year – and not just in the world of politics, entertainment, sport and the environment. Here we look back at how the year unfolded in financial markets, and we consider some of the key lessons that investors can take from it.

Last year was a year full of big news: Barack Obama was sworn in as the 44th US President; the Black Saturday bushfires swept across Victoria on its hottest day on record; the 'king of pop' Michael Jackson died of cardiac arrest at age 50; the Australian cricket team lost the Ashes to England; and the biggest dust storm in 70 years covered most of NSW and parts of southern Queensland.

But 2009 was also the year we began to see a recovery from the Global Financial Crisis. Despite a poor start, 2009 actually turned out to be a good year for financial markets. The downturn in share markets that started in late 2007 continued into January and February amid ongoing concerns of a lengthy recession, but in March we began to see the first signs of a turnaround.

Markets rallied on news that US banks had become profitable again and this sparked speculation that the worst of the global financial crisis had passed. Growth assets like shares and listed property – the hardest hit

## 2009 timeline of key market events

**January**

Concerns Australia is headed for the first recession since 1991.

**February**

Rudd Government announces a $42 billion stimulus package.

**March**

The US announces plans to purchase banks' toxic assets.

**April**

US banks post better-than-expected earnings.

asset classes in 2008 – came back into favour at the expense of defensive assets like cash and bonds. Around the same time, it became clear that an economic recovery was closer than first thought, and this theme continued for the remainder of the year as data in the US and Europe improved.

So what can investors take from a year that started so badly, yet finished so well?

## Markets really do recover

From its high in November 2007 to its low in March 2009, the Australian share market fell by a little over 50% – the worst bear market in over 20 years. A lot of investors lost a lot of money and there were fears that things would only get worse as the global economy entered recession. But, as is often the case, the market bounced back. Government intervention and interest rate cuts provided the catalyst and as the market recovered, confidence was restored. In fact, since early March the Australian share market has gained 60%[2], recouping much of last year's losses.

## The interest rate trade-off

In October, the Reserve Bank initiated the first of three consecutive interest rate rises as it shifted its focus from growth to inflation. Generally speaking, rising interest rates are viewed negatively by the market because it makes the cost of borrowing money more expensive. However, investors sometimes forget that rising interest rates are a sign that the economy is doing well – that it no longer needs 'easy' money in order to achieve growth. So in a way, rising interest rates are really just a trade off for a stronger, healthier economy.

**May**

The Federal Budget announces key changes to Australian superannuation rules.

**June**

The Australian economy experiences growth in the March quarter and avoids a technical recession.

**July**

The RBA reveals that the downside risks to the economy have diminished.

**August**

Increasing speculation that the worst of the global financial crisis has passed.

## Australia is in good shape

Twelve months ago, talk of a recession in Australia dominated news headlines. And there was good reason for this. The global economy had slowed to a crawl, unemployment was on the rise and company earnings had fallen sharply. But despite all the evidence to the contrary, the Australian economy proved to be remarkably resilient, even managing to avoid what's known as a technical recession[3] after recording positive growth in the March quarter.

The Australian economy is now widely regarded as one of the strongest in the world.

## Like to know more?

For a deeper look at how the markets and the economy performed last year, and for an outlook of the major asset classes in 2010, read Felix Stephen's 'market review and outlook' on page 12. ■

[1] Australian share market measured by the S&P/ASX 200 Accumulation Index

[2] Figure to 31 December 2009

[3] A technical recession is defined as two consecutive quarters of negative growth

**September**

The Australian economy grows further in the June quarter.

**October**

The RBA takes a world leading step to raise interest rates in response to a strengthening economic conditions.

**November**

Gold prices hits a record high above US$1,200 an ounce.

**December**

RBA raises interest rates for a third month in a row to 3.75%.

# Why super is still super

Superannuation returns have struggled in recent years and this has prompted many investors to question the validity of investing in super at all. But when you look past the numbers, you'll find that there are still plenty of reasons why super remains the best savings vehicle for your retirement.

## The recovery of super

Over the past few years, the volatility in financial markets has had a negative impact on superannuation balances. This is because super is generally invested in shares in Australian and international companies, listed property, cash and government bonds, with the amount invested in each type of asset depending on your investment options. So when financial markets around the world started to fall, so too did the value of your super.

But as we've seen following past major market events like the Wall Street Crash of 1987 and the Tech Wreck of 2002, bear markets don't last forever. Since March last year, the local market has gained 60%[1] as the effects of the crisis ease and economies regroup, and this has helped to restore order to super balances. The chart on page 8 illustrates the market's steady climb since early 2009.

It's important to keep in mind that superannuation is an investment vehicle – not an asset class. The negative performance of super funds in recent years is a reflection of the performance of investment markets in the wake of the global financial crisis. It was not a reflection of the Australian superannuation system.

[1] Figure to 31 December 2009

S&P/ASX 200 Accumulation Index – 2 Years to 31 December 2009


SOURCE: Bloomberg

## A long-term investment

For most, superannuation is a long-term investment; sometimes 40 years or more. Any time you invest for the long-term, it's inevitable that there will be a greater number of market ups and downs that will impact on your balance.

For example, we know that on average (taken over 100 years) the Australian share market has five good years for every bad year. 2008 was a bad year. 2009 was a good one. We don't know when the next bad year will be but it's more than likely that your super will experience more ups and downs over your working life. On balance and over the long-term, though, the good years should outweigh the bad ones.

## The tax breaks

Very few investments can top super in terms of tax breaks. Generous tax concessions apply during the accumulation phase when you're trying to grow your savings, and later in life when you start to withdraw from your fund. Importantly, investment returns within super are taxed at just 15%, which is much less than the top marginal tax rate of 46.5% that can apply to investments held outside super.

Moreover, growing your savings through salary sacrifice, that is, making super contributions from pre-tax salary, can deliver considerable tax savings. Deductible (pre-tax) contributions are taxed at 15%, a rate that may be well below your personal tax rate. And as salary sacrificed super contributions reduce your taxable salary, you actually pay less tax on your take home pay.

Additional tax incentives are provided through the spouse super rebate. Add a contribution to the fund of a low income spouse, and you could be entitled to a tax rebate of up to $540 annually. But the real plus with super is that withdrawals from your fund are tax-free from age 60. And if you convert your super to a pension at retirement, you don't pay any tax on investment earnings at all.

## Insurance

We know that superannuation is designed to provide you financial security for life after work, but it can also provide you financial security while you work. Insurance options within super can provide immediate financial protection without affecting your everyday cash flow since premiums are deducted automatically from your super balance.

Not only that, it's often a cheaper alternative than buying insurance outside super since most super funds have the power to negotiate lower rates for their members. In addition, purchasing insurance within super can be tax-effective since you pay your premiums with pre-tax dollars from your employer super contributions.

## Super is always evolving

There is no denying that the government is forever altering the super rules. With the Henry Review of the Australian tax system delivered to the Government in December, and the Cooper Review of superannuation underway, it's very likely that more changes are on the way.

But here's the interesting thing. Australia's population aged over 65 is projected to more than double in the next 40 years, meaning that the government needs to act in order to make super more attractive to workers. The upshot of this is that any future rule changes are likely to make investing in super even simpler – not harder.

## Super and dollar cost averaging

Dollar cost averaging is a smart and simple investment strategy. Essentially, dollar cost averaging means you invest a set amount of money on a regular basis over a long period of time. The intended effect is to lower the average price paid for the investment. Put another way, it lets you buy fewer units when the price is high and more units when the price is low.

You may not have realised it, but the regular contributions that your employer makes to your super fund is really just dollar cost averaging at work.

Consider the following example and the table below. Imagine you contributed $100 each month to a managed fund that had an initial unit price of $10. Over the next few months, the market falls – causing the fund's unit price to drop – before it recovers its original value. At the end of five months you have 65 units now worth $10 each, so you have $650. You invested $500, so your profit is $150 even though the unit price is the same as when you first invested.

## Speak to your financial adviser

The fallout from the global financial crisis has clearly had a negative impact on superannuation returns in recent years, but there is little doubt that super remains the best investment vehicle for your retirement.

Talk to your financial adviser about how you can make the most of your super. Your adviser has the strategies to help you build your super and the strategies to help you protect your wealth and income through your super. ■

**Dollar cost averaging**

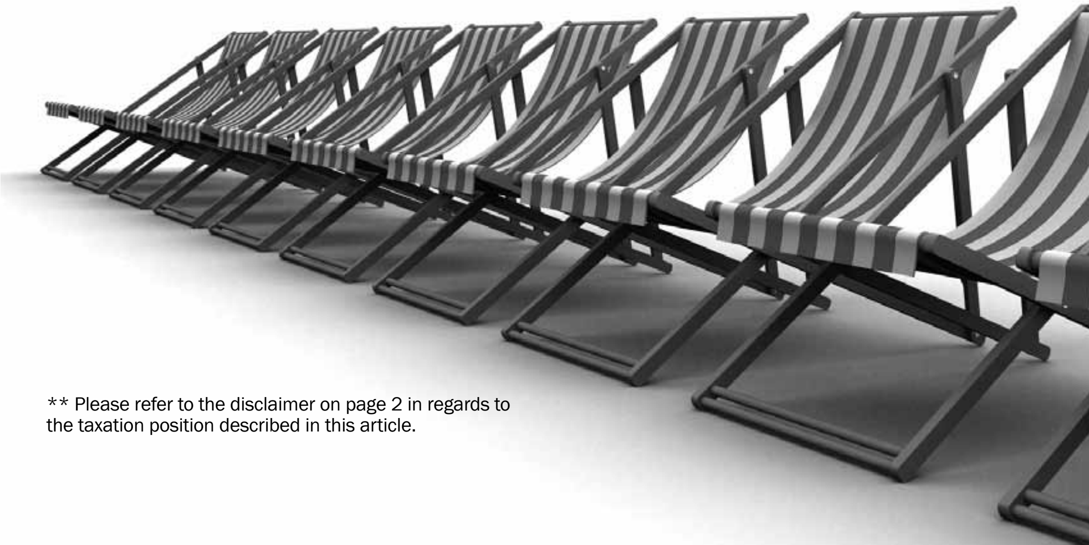
| Month | Investment | Unit price | Units purchased |
|---|---|---|---|
| January | $100 | $10 | 10.0 |
| February | $100 | $8 | 12.5 |
| March | $100 | $5 | 20.0 |
| April | $100 | $8 | 12.5 |
| May | $100 | $10 | 10.0 |
| **Total** | **$500** | | **65.0 (which equals $650 at $10 a unit)** |

Note: This table is for educational purposes only. It is not representative of any particular investment product. No allowance has been made for inflation, taxation, fees or expenses.

## Asgard wins Workplace Super Product of the Year

The Asgard Employee Superannuation Account recently took out the 2009 Rainmaker SelectingSuper Award for Workplace Super Product of the Year – Premium Choice. This award places Asgard among Australia's best super funds which have already earned the AAA SelectingSuper quality assessment rating.

Asgard was chosen from a short-list of top-rated super funds that the Rainmaker research team found to be leaving the biggest mark on the industry through their level of product innovation, industry leadership, and competitive fees.



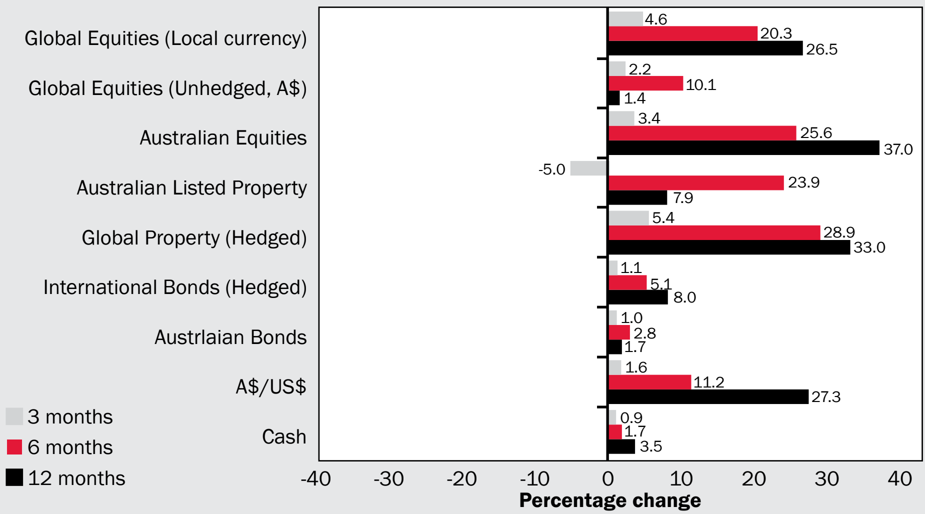
** Please refer to the disclaimer on page 2 in regards to the taxation position described in this article.

# Market review and

**Felix Stephen**
*Manager Strategy and Research*
Investment Solutions

2009 was a mixed one for investors, but ended with overall optimism prevailing. Our outlook for 2010 is for the global economy to continue to recover, but with that recovery tapering off in the second half of the year. For investors, asset class returns will continue to be positive, albeit somewhat more modest than those of 2009.

## Asset class performance to 31 December 2009



# outlook

## Market summary

The chart on page 12 shows asset class performance over the past three, six and twelve months to 31 December 2009.

## Outlook for the asset classes

### Australian shares

We continue to hold a positive view of Australian equities, and anticipate the market to return around 19% over 2010. However, we suspect that the market is likely to be volatile, with the current rally faltering around April/ May once the headwinds to global economic growth are more pronounced.

A forward looking market will, in most cases, react well in advance by discounting the slower global (in particular emerging) economic and subdued earnings growth outlook and become more defensive. Once that phase is over, the market is likely to rally into year-end.

### International shares

We expect international sharesto return around 15% to 19% over 2010. However, we believe that the market will experience pronounced bouts of weakness and strength, which is typical after a strong post recession rally that has produced quite impressive returns in line with similar historic market episodes.

### Diversified property

We anticipate returns of around 9% from the domestic listed property market and around 16% returns from the listed global property market in 2010. We suspect that the full impact of anticipated price declines that are yet to be priced-into the unlisted market will eventually impact the listed property market in Australia while this is not a major issue in other markets. We believe that listed property will be a good investment later this year or early next year.

### International bonds

We anticipate global sovereign bond yields moving higher during the early part of 2010 due to significant supply/ demand imbalances resulting from global monetary authorities rolling-back their quantitative easing and investor preference for growth assets. Our anticipated returns for hedged global bonds for 2010 is around 8.5%.

### Australian bonds

We anticipate Australian bonds returning around 4% over 2010 with an estimated end of year Australian 10-year bond yield at around 5.80%, 5 year at around 5.25% and 3 year at around 5.00%. We expect government bond yields to move higher due to significant global sovereign bond supply/demand imbalances, especially when investors favour growth assets during early part of the year and monetary authorities rollback quantitative easing.

### Alternative assets

We anticipate returns of around 15% to 20% in this sector through nimble tactical and active strategy implementations. Given the profile of market movements anticipated by us – where risky assets do well at the start of the year, retreat around mid year and then rally into year end – both directional and relative value strategies need to be used throughout the year.

### Commodities

The broad structural / macro positive outlook for commodities is still valid. We anticipate commodities returning around 14% during 2010. Commodity prices are expected to move higher in the first half of 2010, led by a sharp rise in base and precious metal prices. Like in most asset classes, a tactical, active and nimble approach is warranted when investing in commodities during 2010.

### Currencies

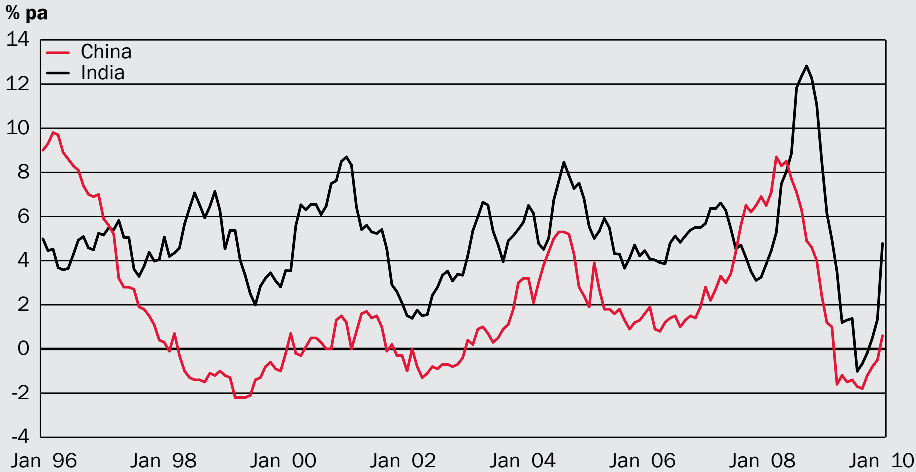
We expect the Australian dollar to move into the US$0.98 to US$0.99 ranges during the early part of this year and then move lower towards the US$0.77 to US$0.82 range when the US dollar gains strength and end the year around the US$0.88 level. Significant investor risk aversion will have a material negative impact on the prospects for the AUD because of the high levels of speculative activity associated with the currency.

## Economic summary

Pessimism heralded in the New Year of 2009, as the global economy was in the midst of what was perceived to be the worst recession since the 1930s. The situation and outlook was bleak and called for drastic measures. Global authorities obliged by continuing their concerted effort to pull the global economy from the brink. Interest rates around the world were cut to historical lows and unconventional monetary policy measures were also introduced. At the same time, governments embarked on one of the biggest Keynesian spending sprees in history.

The results of that stimulus began to bear fruition by the middle of the year. Asset markets were the first to recover as investor risk appetite returned. Global equity markets moved higher, as did bond yields, and credit spreads began to narrow. China and the emerging world led the early stages of the global economic recovery. Business confidence in the developed world followed suit, particularly in the US, Europe and Australia. Economic growth had begun to increase once again in most major economies by the end of the September quarter. China's economy outperformed, expanding by 8.9% year on year.

## Inflation - China and India




SOURCE: Bloomberg & Advance Investment Solutions

## Economic outlook

As we enter 2010, the outlook is generally positive. However, the possibility of inflation rearing its head in 2010 will be a key issue for the global economy and authorities. Although global headline inflation remains currently low at 1.3% (September 2009), the warning signs are flashing for a reasonable pick up in price pressures in 2010. This will be particularly the case in the emerging world, where price pressures are already building, especially in China and India as shown in the chart above. Price pressures in the developed world will be comparatively lower. ■

# New Year's resolutions for your financial health

Join a gym, eat healthier, drink less…If you made a new year's resolution for 2010, it's probably a resolution to help you become healthier and happier. But what about becoming wealthier? Here are six ideas to get your finances into shape this year.

1

## Reconnect with a friend

Speak to your financial adviser. The start of a new year is often an ideal time to meet with your financial adviser to reassess your situation and to ensure your investment strategy is still suitable for your risk profile and financial goals.

2

## Lose weight

Consolidate your super. Consolidating multiple accounts can cut out unnecessary paperwork, and cut down on multiple account fees. Speak to your adviser about rolling your super into your Asgard account, but be sure to check your insurance cover before moving your money out of a super fund.

3

## Plan for more time with family

Retirement might be years away, but how you set up and manage your super now could determine how long you need to keep working before you can retire. Ask your adviser about the appropriateness of salary sacrificing or government co-contributions to grow your super balance.

## 4 Cut your stress levels

Protect yourself and your family with the right level of insurance. Your adviser can help you decide on the right level of Salary Continuance Insurance, Total and Permanent Disablement and Death cover to suit your situation and income needs.

## 5 Break a bad habit

If your investment pays distributions, consider reinvesting them instead of spending them. Automatically reinvesting your distributions can help you grow your investment more quickly and you'll also benefit from 'compounding' – the snowball effect of your investment earning interest, and then your interest earning interest and so on.

## 6 Spend less, save more

Consider setting up a Regular Investment Plan. Your adviser can help you set up regular payments into your investment, which is a great strategy for building your wealth without having to work out the best time to invest - taking the worry out of timing the market. ■

# Logged onto Investor *Online* lately?

You can access your account anywhere and anytime when you log on to Investor *Online* at www.investoronline.info. Here are some of the ways Investor *Online* can help you manage your investments online.

## Get information on your accounts

With Investor *Online*, you can access up-to-date information about your Asgard accounts including balances, investments held, transaction details, pension and insurance details, and your investment asset allocations. You can even access electronic Product Disclosure Statements, Investor Reports and Annual Reports for your investments.

## Update your contact details

To ensure we can reach you, we need your correct contact details. It's easy to change your address, email and telephone details with Investor *Online* - simply click 'Change Contact Details' from the left-hand menu, enter the new details and then click 'Submit'.

Changes will be validated and our systems will be updated within minutes. Your financial adviser will also receive confirmation of this change with an email from us.

## Access news about your investments

By checking your account regularly online, you can also get up-to-date news about your investments, like changes to funds you're invested in, or important changes to legislation that may affect your account. All news is published on the Investor *Online* homepage as it happens. ■

## Contribute to your super faster with BPAY®

Did you know you can make contributions to your Asgard super account using BPAY? Using BPAY instead of cheques and envelopes helps you save time as transactions appear on your online statement, while reducing your impact on the environment.

To switch to BPAY, follow the four steps below:

1. Logon to your bank's website or call your bank's phone service. Select the BPAY option and follow the prompts.
2. Select and enter the Biller Code from the table below:

| Personal contribution type: | Biller Code |
|---|---|
| Personal deducted contributions – super contributions which you can claim as an income tax deduction if you are self employed. | 66043 |
| Personal undeducted contributions – money you want to contribute to super that is not tax deductible. | 66050 |
| Spouse contributions – when you are making a contribution on behalf of your spouse. | 66068 |

3. Enter your reference number. You can find your BPAY customer reference number on the Account Details screen when you logon to Investor *Online*, or on your Asgard welcome letter.
4. Enter your contribution amount. Funds are generally transferred the next business day and deposited directly into your Asgard super account.

### Employer contributions with BPAY

Please note, if your employer is making a BPAY contribution into your account, they will need to use different biller codes:

| Employer contribution type: | Biller Code |
|---|---|
| Superannuation guarantee contribution | 66019 |
| Salary sacrifice contribution | 66027 |
| Employer contribution | 66035 |

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