Investment Solutions

Summer 2009

Wary or wily? Is it time to review your investments?

What's inside:

Snippets

Confidence on the up

Investor confidence continues to grow slowly according to the IFSA/CoreData Investor Sentiment Index[1] dated 9 September 2009.

The Investor Sentiment Index takes into account investors' expectations about the performance of the investment market, their perception of the current financial situation and their future investment intentions. A score of 0 means investors are neutral about the market. A score of +100 is extremely positive while a score of -100 is extremely negative.

Not surprisingly, the global financial crisis sent the index into negative territory back in 2007. For the first quarter of 2009 Investor Sentiment was still in the red at -22.3. The index crept back into the black at +2.3 in the second quarter for the first time since 2007 and stood at +5.0 as at 27 August 2009.

The table summarises some other key findings of the index for the second and third quarters of 2009.

2009	2nd qrt	3rd qrt
Satisfaction levels with existing investments	+7.8	+13.6
Outlook for investments over the coming three months	-10.7	+11.9
Level of financial security	+7.1	+11.2

If you're interested in what other investors are feeling, read the full research report on the IFSA website www.ifsa.com.au.

Keep an eye on your Super Guarantee

If you're employed, you probably take for granted that your employer is paying the compulsory Super Guarantee (SG) contribution (which forms part of your salary package) into your nominated super fund.

A key objective of the SG system is to help you build savings to generate income for your retirement. If your employer goes out of business and you discover your SG contributions haven't been made, it can be devastating — especially if you're close to retirement.

For the majority of Australians, this SG contribution is paid without a hitch. However, last year, the Australian Taxation Office (ATO) received around 20,000 complaints from people whose employers had failed to pay their SG contributions.

This has prompted the ATO to review the SG scheme as part of the wider Australian Government review into Australia's superannuation system. The ATO administers the SG system, including collecting SG contributions from those employers who don't meet their obligations.

The Association for Superannuation Funds of Australia (ASFA) has made a number of recommendations to improve the SG system, including expanding the requirement that employers provide details of SG contributions on payslips. ASFA recommends that details should include the date that contributions are paid so that employees can monitor the receipt of payments into their super fund.

So keep an eye on your super fund to make sure your SG contributions are being paid. It may be too late for the ATO to get outstanding payments if your employer goes out of business.

[1] Investment & Financial Services Association Ltd/CoreData Quarterly Investor Sentiment Research Report September 2009.

Wary or wily?

We may not be able to predict how each asset class will perform in the coming months, but cash almost certainly won't be the best performer.

You want to make sure you're making the most of current investment opportunities, especially if you're relying on the return on your investments to provide you with a regular income stream.

Months of market volatility may have understandably made you wary of taking investment risks. You may have opted for safety and moved some or all of your investment into cash to protect your capital.

If you're a seasoned investor, you'll know that investment markets tend to be cyclical. Cash may have been king for the last year or so, but now it's possible that other asset classes will take their turn in the spotlight.

While there is still some uncertainty in investment markets, it could be time you took a step back from the turmoil to review the pros and cons of different asset classes with a clear mind.

Are you ready for risk?

It's increasingly unlikely that returns from cash will keep up with inflation in the short term, especially if you're a tax-paying investor. If you want to get back to growing your wealth, you may need to consider other investment options — and that may mean moving your money into more risky assets.

Before you consider any changes to your investment strategy, you should talk to your financial adviser. Your adviser can help you reassess your tolerance for risk and help you decide which investments are best suited to your investor risk profile, your investment timeframe and your other needs.

Time to review?

The old adage of 'don't put all your eggs in one basket' still holds true. No one can predict which asset class will be the next top performer, so investors who move out of cash will be looking to spread their investment across a range of assets.

So what are your options? When the cash rate falls, the opportunities presented by fixed interest investments come into their own. Well-managed bond funds are one option. In a difficult fund-raising environment, bond issuers must increase their yields to attract investors, so that quality government and corporate bonds such as Commonwealth Government bonds and 'triple A' rated products could provide sound returns.

It could also be time to consider getting back into the sharemarket. Equities have had a tough time, but there are likely to be opportunities for long-term investors who stay in the market.

Some industry sectors such as healthcare may hold opportunities for growth. And there are companies both locally and internationally that have made it through the tough economic conditions in one piece, strengthened by the collapse of their weaker competitors.

An alternative approach

If you're not ready to invest a lump sum in the more volatile assets, a regular investment plan could be the answer. Drip-feeding a regular amount into a share portfolio, for example, will help smooth out any short-term volatility because you'll be buying fewer shares when prices are high and more shares when prices drop. Over the long term, this approach has the potential to generate better returns than cash alone.

If you think it's time to review your investment strategy, talk to your financial adviser.

Financial IQ

Building your future wealth is a two-pronged affair. It's about being financially literate and taking action to change bad spending habits.

Older generations, it seems, grew up appreciating the value of money. That's possibly because there wasn't much of it around when they were younger. And there wasn't much to spend it on if you had it.

If you have some degree of financial security today it's more than likely you worked hard and saved hard. Having saved the money, you've gone on to use some sound investment strategies to help you get there.

Easy money

Money has arguably come easier to Generations X and Y than any other generation before them. The common perception of these younger generations is that they characteristically have a 'spend now, worry about it later' attitude. Many may be lucky enough to get financial support from their parents when they need it.

As a result, many 'youngsters' may not have learnt how to manage money or the importance of setting a goal and saving for it.

To make matters worse, living in constant debt has, for some people, become the norm. You can apply for credit online and then shop to your heart's content. You can even pay a taxi fare, buy a can of drink or a get a movie ticket using your mobile phone.

But spending without considering how much it's going to cost to pay it back could set you up for a lifetime of debt instead of looking forward to a comfortable retirement.

It's important to start early

For some members of the younger generations, before they can consider investing for the future, they may need to get back to basics and learn how to better manage money.

Developing financial understanding at an early age is vital. Setting goals and then budgeting and investing to help reach those goals is the most important lesson you can learn in terms of building your wealth and enjoying a certain degree of financial success. And it's never too late to start!

Get serious about saving

Take action! Take a good hard look at your spending habits. Are you buying the things that you need or are you an impulsive buyer? Is your wardrobe full of clothes you never wear or your room full of gadgets that you've grown tired of?

Try spending money on only the things you really need for a couple of months and look at the difference it makes.

Read all about it

The Australian Government Financial Literacy Foundation report entitled *Australians Understanding Money* makes for fascinating reading. It summarises the findings of a survey on how Australians manage their money, what they think about money, and attitudes and behaviour towards money.

The research shows that a lot of people think money is 'boring' or isn't important to be happy in life. It also shows people put off doing something about it because they think it's just too hard.

The research gives a good idea about what you could consider doing to manage your money better, and what might be stopping you from taking the few simple steps that can make such a big difference.

Read the full report and get other tips on how to better manage your money at www.understandingmoney.gov.au.

Get advice from a professional

If you're really serious about building your financial security for the future, advice from a professional is always best. So talk to your financial adviser.

Hanging out for your investment

With many mortgage funds still frozen, investors are impatiently waiting for the thaw. What does the future hold for mortgage funds?

Mortgage funds have been a popular source of income for many years, combining the advantages of having funds at call with returns that are generally higher than term deposits.

Australian mortgage funds provide loans to small commercial borrowers on terms that have an average maturity of about three years. This means their assets have a medium-term maturity while their commitment to meet redemption requests is relatively short term.

In times gone by, these funds had sufficient liquidity from a combination of new money coming in and loans paid out to meet all redemption requests. That all changed last year when investors started to take their money out of what was fundamentally still a sound investment.

The knock-on effect

It all started when the sub-prime crisis in the US brought about the collapse of some established US financial institutions. The panic spread worldwide and investors started to worry that their money was no longer safe in the bank.

The Australian government responded by introducing a guarantee on deposits held by banks and other approved deposit-taking institutions to help safeguard the Australian banking system. However, this guarantee didn't cover mortgage funds.

The fact that mortgage funds were not guaranteed prompted many investors to move money out of mortgage funds into a guaranteed deposit. The result? Mortgage funds didn't have enough cash to keep up with redemption requests. The managers were forced to restrict or freeze redemptions altogether.

This move was an attempt to treat investors fairly, trying to strike a balance between selling the fund's assets to create liquidity for those who wanted to redeem, while at the same time not accepting depressed prices for those who wanted to remain in the fund.

Mortgage funds today

Australian mortgage funds generally lend on conservative loan-to-valuation ratios and actively manage any loan arrears. Morningstar data shows funds have paid returns in a range between 5.5% and 7.8% for the year to March 2009.

So apart from its current liquidity problems, in general, the mortgage fund sector appears to be in surprisingly good shape.

Although many funds are still frozen, most are offering quarterly redemptions paying out their available cash on a pro rata basis. Many larger funds are still paying distributions.

...and tomorrow?

At a recent briefing held by Investment and Financial Services Association (IFSA), managers said their structure of funds was under review.[1]

It seems likely that the structure of mortgage funds will change and we could see them offered as a fixed-term investment in the future. In the meantime, IFSA is trying to get government support for the sector, lobbying Canberra to make temporary investments in mortgage funds through the Australian Business Investment Partnership.

1. Source: Sydney Morning Herald 10 June 2009.

To help people hardest hit by the freeze, the Australian Securities & Investments Commission has amended the law so that investors meeting hardship guidelines can make up to four withdrawals per calendar year to a maximum of $100,000 for the year. Contact your adviser if you have any questions or concerns about any mortgage fund.

Care when it counts most

Your health will play a major role in your lifestyle as you get older. The good news is that Australia has one of the most advanced aged care systems in the world.

Australians have one of the longest life expectancies in the world. Currently 2.8 million Australians (around 13% of the population) are aged 65 or older.[1]

However, getting older often means losing an independent lifestyle. Last financial year, 61,739 older Australians received care at home through a community care or flexible care package while 208,079 people used nursing home or hostel care.[2]

What price aged care?

If you are going to need care in the future, what it costs will depend on a number of factors: your income and assets; whether or not you are a pensioner at the time you enter aged care; and the level of care you receive.

Income and assets

Centrelink assesses the value of your assets to determine what you'll pay for aged care. This assessment and how it is worked out differs from the way Centrelink calculates asset values for social security purposes. Your family home counts as an asset for aged care purposes but may be excluded if your partner, dependent child, carer or a close relative live in it.

Concessions for pensioners

To be eligible for pensioner concessions, you must be receiving an Australian Government means-tested pension, not have owned or part-owned a home in the past two years, and your assets must be less than 2.5 times the annual single basic age pension.

Level of care

There are different levels of care to suit a range of needs. Low care facilities (as the name suggests) provide a relatively low level of care, while nursing homes provide a higher level of care. Some low care facilities and nursing homes may be approved as an 'extra service facility' which means they provide higher standards of accommodation such as private bathrooms or better quality food. Some aged care providers can care for you at home but this option may not be available to you.

Cost

Costs shown in the table are indicative only and what you pay will depend on your individual circumstances.

	Accommodation bond[3]	Daily accom charge	Basic daily fee[4]	Daily income-tested fee
Low care facility	This amount is unlimited, but you pay no bond if your assets are less than $36,000	Na	Up to $36.94	Up to $59.38
Nursing home	Na	Up to $26.88	Up to $36.94	Up to $59.38
Extended aged care at home	Fees are subject to the Service Agreement negotiated between the service provider and the recipient. For older people on the maximum basic rate of pension, fees must not exceed 17.5% of that pension ($6.87 per day as at 20 March 2009). People on a higher income[5] may be asked to pay additional fees (limited to 50% of any income above the maximum pension rate).			

[1] Source: $150 million — 1,455 nursing home beds and community care packages for older Australians in areas of high need — election commitment (Minister for Ageing media release 17 September 2008).

[2] Source: Aged Care Providers Recognising Community Care — 10-To-One Oversubscription in 2008-2009 Aged Care Approvals Round (Minister for Ageing media release 30 January 2009).

[3] Some of this is refunded when you leave the facility.

[4] Residents in designated remote areas may pay an additional $1.06 per day.

[5] Income means income after tax and the Medicare Levy.

Planning for aged care

If you or a relative are starting to consider your options for the future, there are a number of websites such as agedcareonline.com.au, agedcareaustralia.gov.au and health.gov.au offering a wealth of information about the aged care system. They will give you an idea of the range of care available.

The costs associated with aged care can be quite complex. There are a number of areas to consider, from day-to-day living expenses to your entitlement to government subsidies.

Residential aged care and home care pricing structures vary between providers and will also depend on your income and assets.

Your financial adviser can help you plan for your future needs.

Market commentary

Provided by Advance Investment Solutions

Growth assets have recouped much of the losses incurred over the past 12 months with the return of investors' risk appetite and stability in global financial markets. The global economy has also gained much-needed traction.

Economic overview — September 2009 quarter

Global recovery prospects received a boost with news that key major economies had emerged from recession. China's economic growth rebounded to 7.9% annualised. Germany and France grew by 0.3%, while Japan grew by 2.3% annualised. In the US, while June quarter official GDP figures still showed the economy contracting, business confidence continues to improve and the housing sector appears to have stabilised.

The Australian economy grew by 0.6%, placing Australia as one of the strongest performing advanced economies with both private capital investment and household consumption responding well to policy stimulus. Underlying inflation has fallen to 3.9% but the risk of inflation rising again over the medium term is significant.

Outlook by asset class

Australian shares

We are cautious in the very short term because the market appears to be highly vulnerable to seasonal risk-aversion. We expect a decline of around 7.0% from present levels. However, we look for the market to move higher and are positive on consumer discretionary, financials, industrials, materials and telecommunications. We would look to gradually accumulate cyclical stocks and reduce defensive stocks during bouts of market weakness.

International shares

We continue to hold a positive bias towards global equities with a strong cyclical sector bias, particularly for Asian equity markets, over the short and medium term, as investment-driven cyclicals gain from infrastructure spend. However, the market may show seasonal weakness, giving investors an opportunity to accumulate cyclical global equities in the very short term.

Diversified Property

We continue to believe that many Real Estate Investment Trusts are advantageously positioned for investment opportunities. We feel global property securities should offer better value relative to domestic listed property through efficient diversification and country allocation.

International bonds

Using US 10-year bellwether as a guide, we expect yields to fall to around the 3.0% level before reversing trend and heading higher towards 3.8%. As a defensive asset class, global fixed income now offers more opportunities to the nimble investment manager through efficient sub-sector investing.

Australian bonds

We expect yields to fall to around 4.8% and then move higher towards 5.6% around the same time next year. The likelihood that official interest rates will have to move higher will make Australian bonds lag behind global bonds in terms of total return prospects.

Alternative Assets

We favour macro and managed futures funds and are cautious on hedge funds subject to industry controls and/or regulation.

Funds that employ relative-value strategies (such as credit long/short, equity long/short, fixed income arbitrage, convertible arbitrage or multi strategies with sound risk controls) stand a better chance of generating alpha relative to most directional strategies as most asset classes will be subject to continued volatility in the foreseeable future.

Commodities

We remain positive on commodities in the medium and long term. As a stand-alone investment, commodities are an extremely volatile asset class.

However, as part of a balanced or diversified portfolio, the negative correlation to other asset classes can help generate a superior portfolio risk/return outcome. Commodities can be a good hedge against unanticipated inflation and an excellent hedge against geo-political turmoil and macroeconomic risks.

Currencies

We expect the Australian dollar to trade lower towards the 0.82 to 0.78 levels before resuming its uptrend, perhaps testing the mid 90s by mid-2010. The Australian dollar is likely to remain strong against most major currencies but weak against key emerging market currencies.

Disclaimer

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Past performance is not a reliable indicator of future performance.

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The services include asset allocation setting, portfolio construction and managing the Multi-Manager products across Advance and BTFG. The team also supply investment and financial market information and research across the BTFG business including the Advice businesses, platforms and superannuation.

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