

VIEW

Are we there yet?



From the Desk
Adam Davenport, Director
& Financial Planner - Melbourne

In preceding newsletters we have endeavored to put the current Global Financial Crisis and the risks associated with investment markets into some form of perspective. Understanding these risks and whether the risks effecting global markets are permanent or temporary has also been forefront during these articles, reviews and discussions with clients.

But with the share market rally during March 2009, whether we have seen the bottom of the market is becoming an increasingly common question.

While March 2009 has seen the best monthly returns from the Australian share market since 1995, after recording a positive 7.1% return, our market declined heavily during January and February before the recent turn around. The ASX Index closed at 3,713.80 on January 2 2009 and closed at 3,752.90 on 14 April 2009. The Market has essentially marked time since the start of the year and on a 12 month basis the Australian share market is down 34.7% to 31 March 2009.

So where to from here?

The media is still focusing on the negative economic factors facing investors despite the recent rally in the share market. Economically we appear to still have more negative news to come but the share market has a lot of this already priced in. The performance of the share market is also a leading indicator of the economy such that it falls prior to an economic decline and rallies in anticipation of future economic growth.

The Australian economy usually lags the global economies by some 6-12 months. Most economists

therefore believe the Australian economy is effectively in recession despite not having reached the technical definition of two consecutive quarters of negative economic growth.

The implications of this are likely to be as follows:

- Interest rates are likely to fall another 0.50% to 1% from the current 3.00% in order to stimulate a recovery in spending and therefore economic growth.
- Researchers indicate unemployment could go from the current level of 5.2% to 7-9%, and inflation appears to no longer be of concern.

So if you can hang on to your job and haven't been previously exposed to share markets these conditions represent great opportunity. Your mortgage costs are at record lows, petrol and many other essential items are significantly cheaper than they were 12-18 months ago. A good financial plan should enable clients to build solid assets in this environment.

On the other hand, if you are a retiree, things are a little different. Market returns for a typical balanced fund (70% growth assets) have declined by 30% or more in many cases from the peak in October 2007 to the recent lows. If fear resulted in an investor moving to a partial or full weighting to cash during this period, they now face the problem that cash rates of return are at or below 3% per annum and likely to go lower.

While we would have all preferred to be in cash over the last 12-18 months the fact is growth assets will recover to a point where the negative real return (after inflation) that cash provides is no longer tolerable.

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But have we reached or passed the bottom of the share market to justify moving back into growth assets?

If we knew the answer to this seemingly simple question we wouldn't be where we are today.

Whilst we can't predict the future, we can examine historical events to try and understand how things might eventuate moving forward.

When we look back through history there are 3 other periods since 1900 where markets fell by more than 45% from peak to trough.

In each of the examples in the table, we can see how long a market took to decline from peak to trough and the percentage fall involved. We can also understand how long it then took to recover to the previous high and what the return was 12 months after reaching the bottom.

The averages mentioned in the table include the 13 periods where markets have fallen more than 20% since 1900.

If we then examine the last 50 years of returns in

BEAR MARKETS IN AUSTRALIAN SHARES SINCE 1900

Bear markets in Australian shares	Months to low	% fall	Months after low to make new high	% gain in first 12 months after low
July 29 – Aug 31	25	-46	38	+33
Jan 73 – Sept 74	20	-59	59	+51
Sept 87 – Nov 87	2	-50	75	-35
Average from 1900	21	-34	42	+28
Average from 1950	15	-34	43	+30
Nov 07 - ?	13 ?	-51 ?	?	

Source: Bloomberg, Global Financial Data, AMP Capital Investors

the graph below we can also hopefully find some solace in that the market has had more ups than downs. Whilst the market has faced tough times, the upward trend has always prevailed.

Over the last 50 years the Australian share market has experienced a negative return every 3.6

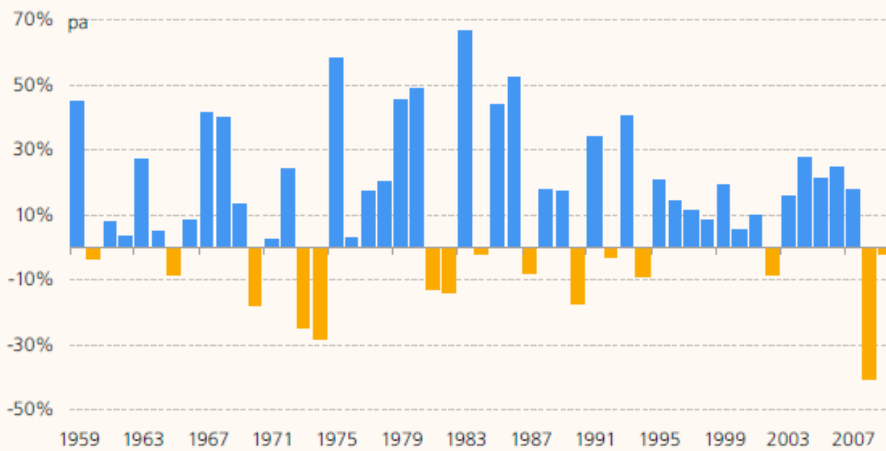
years. In terms of calendar years, 1973 and 1974 were the last periods of a technical crash where markets fell by more than 20%. While we did have a crash in October 1987, returns leading up to this crash were strong such that only a small negative return was achieved for the calendar year. We've all heard it's not a matter of if, but when markets recover. Typically, as a market bottoms after a 'crash', markets have solid returns during the following 12 months as is evident from the table and graph. So we need to put returns into historical context rather than just measuring from the 2007 peak to current levels.

We may see further downward movement in the share market but clients need to be positioned with quality assets in each sector whether it be cash, fixed interest, property or shares. The FMD Investment Committee is working very hard to position clients in good quality managers while also endeavoring to avoid those managers where negative issues exist.

Keep in contact with your Financial Planner to discuss the markets and your portfolio. If you need reassurance of the positioning of your portfolio to ensure it is well placed to benefit from a recovering market, please email or call your Financial Planner.

AUSTRALIAN EQUITY MARKET - FIRST NEGATIVE YEAR IN SIX YEARS

On average a negative return has occurred every 3.6 years over a 50 year period.



Annual Performance of the Australian All Ordinaries Accumulation Index. Source: Bloomberg to end March 2009.

STAFF PROFILE

Nick Stanley
Financial Planner
Melbourne



Nick joined the Melbourne FMD team in April 2007 after 7 years in various roles in the superannuation and wealth management areas of a global consulting firm. He holds a Bachelor of Commerce and a Graduate Diploma of Financial Planning through FINSIA. In his role as a Financial Planner, Nick enjoys helping clients with all aspects of their financial position including strategy issues, portfolio construction, financial modelling and risk management. Nick works very closely with Greg Fagan and his clients as well as developing his own strong client relationships.

Outside the office, Nick enjoys regular gym exercise and the occasional ski trip over the colder months. Nick has travelled extensively from South East Asia to Europe and the east coast of the USA and plans to travel to the west coast later this year.

QA

Debbie Spence,
Financial Planner - Queensland

Q: What is the impact of the recent changes to pension minimums?

A: As a way of assisting retirees who hold superannuation income streams to preserve the capital value of their pension accounts, the government announced a one off easing of the required minimum amount that must be drawn.

The minimum requirement was reduced by 50% across all pension types, for example, account-based and term allocated pensions.

For most account holders, this means they can suspend fully any future pension payments until the close of the current financial year. This is because they will already have drawn over the new minimum (assuming the pension is paid monthly or quarterly).

If a total suspension is not possible for cash flow reasons, clients can reduce their pension below their previous minimum, to an affordable level that enables continuation of lifestyle and some capital preservation.

Q: Should I reduce my pension payment?

A: If you can afford to reduce the pension amount drawn from your pension, this will ensure that more of your money remains invested. You then have a greater exposure to investment markets and you will benefit in any share market recovery.

If you are eligible for Centrelink benefits, and you are assessed under the income test, any reduction in the pension amount you draw from your investments should result in an increase in payments from Centrelink. Speak to your Financial Planner for further guidance.

Q: Can you help me with my redundancy?

A: There are many strategies to deal with redundancy.

If we are advised in advance of a pending redundancy we can put in place strategies for significant tax savings and a greater net result from the payout.

If you tell us after the event there are still a number of components to the redundancy payout which need to be taken into account. It is possible to provide strategies around the efficient handling of the payment in the context of your total financial world.

Sydney office welcomes new team members

FMD Sydney team is pleased to announce two new Financial Planners, Kiril Ruvinsky and Nick Kidson. Both have joined us from a boutique firm which they founded four years ago. Kiril and Nick have specialist skills in advising executives, as well as business owners. They are assisted by their administration and client service manager

Natalie Kidson. They also bring with them their Mortgage and Finance team made up of David Johnson and Wanyika Mshila.

"We are just so happy to have found such a quality business in FMD. To have such a dedicated and talented group of people all working together in one place is a very rare find," says Kiril.

10 tips for managing debt

1. Do a budget

It may seem an obvious place to start, but many people still don't have one. By itemising your expenditure, you may be able to see where you can start to save. Contact us if you require a budget planner.

2. Think long term

If you're lucky enough to get a windfall, don't go on a spending spree. Put it towards paying off your credit card, your personal loan or make a one-off payment on your mortgage.

3. Get the best loan for you

Are you paying the best interest rate? With variable interest rates at all time lows, it may be time to review your loan arrangements and talk to your bank.

4. Start small

Even minor reductions can help ease financial pressure, whether it's taking a packed lunch to work a couple of times a week or foregoing your weekly takeaway dinner.

5. Don't borrow too much

If you haven't yet entered the property market, wait until you've saved a sufficient deposit before buying a house. Be aware of mortgage insurance or consider spending less on a home. In the long run this will save you interest. Try not to put yourself under too much pressure with a loan that you can't really afford to pay.

6. Maximise your medical expenses rebate

Try to incur major medical expenses in the same financial year so you're eligible for the medical expenses rebate.

7. Prioritise your debts

Some debts, such as borrowings for investment, are 'better' than others because they are tax deductible. Pay off 'bad debt' — borrowings for consumption — first, starting with the debt with the highest interest rate.

8. Try to avoid credit

Try to get into the habit of paying for things with cash rather than credit. You will not only stop your debt growing, you can save money in interest and fees.

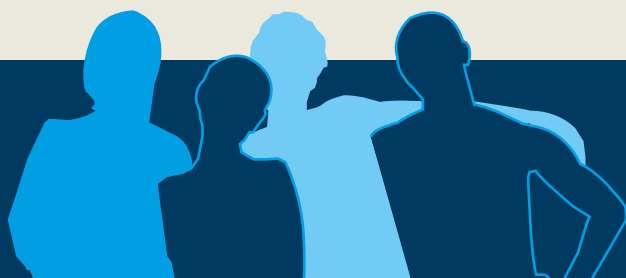
9. Think about consolidating your debt

If you have several loans, you could arrange a new loan to pay off the others. You can save money doing this if the interest and fees on the new loan are less than the interest and fees on your old loans. But check the period of the new loan first, you may end up paying more over the long term.

10. Seek advice

If you're not sure whether your debt is structured correctly, whether you are accessing all the tax benefits available, or even how to set up a new budget in order to reach your financial goals, make an appointment with your Financial Planner.

FMD in the community



Mother's Day Classic

FMD staff members, family and friends are walking and running in the Mother's Day Classic on Sunday 10 May 2009 to help raise money for breast cancer research.

Since 2005, FMD directors and staff members have been donating not only money but also time, as fundraisers and participants in the Mother's Day Classic. This initiative is now a

nationwide community event. FMD has teams participating in Melbourne, Sydney, Adelaide and Brisbane. This year clients are welcome to contact us, to join a FMD team and/or donate to this worthy cause.

It's a poignant time to think of those who are no longer with us. Participants can remember a loved one by wearing a personal message

on a tribute card, or by writing a note of encouragement to those who are currently undergoing treatment.

If you would like more information or would like to register or join an FMD team, please go to the FMD website www.fmd.com.au Homepage/ FMD in the community/Mothers Day Classic or contact your FMD office.



Fred Hollows Foundation - See the World Challenge

Cassie Jones, Associate Planner - Melbourne

Cassie has returned from her trip to Nepal and describes it as an amazing experience. Cassie toured the Tilganga Eye Hospital in Kathmandu and observed one of the hospitals main functions - to perform cataract surgery to restore sight. She was amazed at the level of efficiency and professionalism. As one patient's procedure finished, another patient would already be in the operating theatre sitting on the end of the bed waiting for the procedure to commence. Each procedure only took approximately 10 minutes to complete.

"One of the great things about travelling to Nepal was gaining an understanding of how simple and quick the procedure can be performed at low cost which can completely change a person's life. After having sight restored, the person can commence or resume working and contribute positively within society."

While Cassie plans to take a break from fundraising this year, she encourages others who wish to undertake the challenge.

New addition to the FMD team

We would like to warmly welcome the latest addition to the FMD team, Lawson Michael Murray arriving 2 weeks early (fighting fit) on 24 March 2009. Congratulations to his proud parents, David and Antoinette and big sister Tehya.

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