

# VIEW

## Global Financial Crisis: 2008 & Beyond



**From the Desk**  
Greg Fagan, Financial Planner &  
Managing Director - Melbourne

It has been a difficult and challenging year as the world's financial markets have fallen into turmoil. Many parts of the world are now in recession and leading pundits say it will be touch and go, whether Australia will join them.

There is no doubt that we are living through some extraordinary times, and it is easy to lose perspective in this environment.

### So, what is real, what is permanent & what is temporary?

1. Credit markets have seized up - Most companies and governments need debt to sustain growth and meet cash flow requirements. This is the main problem, but temporary, as it is too important for any governments to ignore.
2. Investment banks, if not gone - Will be significantly scaled back in size and activity. Government control or ownership will dictate this outcome, but this is likely to be permanent.
3. 'Superannuation is a poor investment' – Not real or right. Super is a structure and its advantages are even more important today and this is permanent.
4. 'Diversification doesn't work' – Real today, but temporary. This meltdown has hurt all asset classes other than cash. The worst affected investors in 2008 were those with no diversification at all, being 100% in shares. Re-weighting back into growth assets will become critical.
5. Fear vs. Greed – This is a permanent phenomena. In bull markets, buyers become greedy and buy irrespective of long-term value. In turmoil, sellers are scared and see no end in sight.

Typically, in both bull and bear markets, the mantra is 'this time it is different'. At present, that argument

supports the notion that this market will stay down indefinitely. History has shown they will not, markets will return to their long-term trend line.

6. People are hurting – Real, but temporary. Job losses will hurt many people and those heavily in debt will struggle. As in past recessions, this will turn around over time. Do not extrapolate what has happened recently out for 15 years. Retirees need to conserve capital for the eventual rebound.

7. 'Cash is King' – Real, but temporary. With real asset values falling dramatically, there has been a flight to the certainty of cash. This now comes with a government guarantee! History tells us that the key to long term wealth is in equities. Today equities are cheap and cash rates will have halved by mid year. The time to be in cash (with hindsight) was 15 months ago.

### What can you do today?

FMD has long espoused focusing on the 'controllables':

- Review what you are spending
- Manage your risk – now is a time for being in the market
- Revisit your cash holdings
- Know your strategy – is it still viable?

Discuss these issues with your Financial Planner at your next meeting so that you are in control of your future.

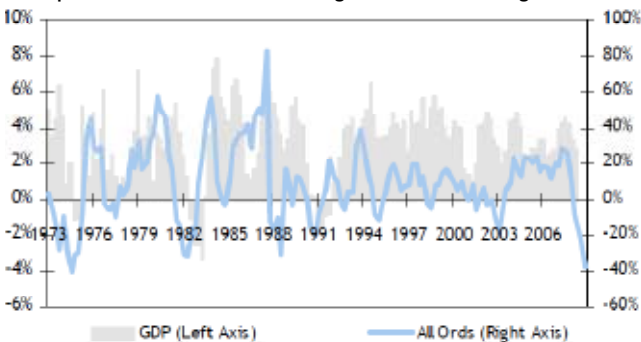
### The share market leads the economy

Many people believe that share markets increase and decrease in response to the economic environment. The current crisis reminds us of the high degree to which emotion drives investment returns. The following chart compares the annual economic growth rate to the annual rate of growth in Australian shares each quarter since 1973.

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It can be seen from this chart that the share market leads the economy (not the other way around). History indicates that the economy does not have to be growing for share markets to recover. Shares may recover before the economic environment improves.

Share price movements versus economic growth (annual % change)<sup>†</sup>



### The market will turn

We have heard this many times, but it's important to remember - the market will turn. History shows us that investments go through distinctive cycles. The following picture outlines investor emotion over different periods in the market. It is important to note that in times of panic and desperation, market opportunities are at a maximum.



While it is impossible to say whether we have reached or passed 'capitulation', from past experience it appears we are at least close.

### The need for a long-term investment plan

Having an investment plan is one of the best ways to help you ride out volatility in the share market and reduce the risk of you making rash decisions. Less experienced investors can be tempted to dive in and out of investments in the hope of making abnormal gains or protecting themselves from large losses.

In contrast, seasoned investors know that market volatility is inevitable. The trick is having the right investment strategy in place to ensure you have the most appropriate balance between risk and return.

Article source: Hillross Avenues. † Source: ASX and Australian Bureau of Statistics. Data observation quarterly. December 2008 data taken as at October 2008.

## The Commonwealth Seniors Health Card

Lynn Carminato, Para Planner - Melbourne

### Are you a self-funded retiree who reached aged pension age but did not qualify for age pension entitlements?

If so, you may be eligible to receive The Commonwealth Seniors Health Care (CSHC). This is provided your taxable income is below \$50,000 (singles) and \$80,000 (couples, combined income)\*.

The CSHC will provide you with assistance with:

- The cost of prescription medicines;
- Bulk-billed GP appointments;
- A reduction in the cost of out-of-hospital medical expenses; and
- Telephone allowance\*.

Furthermore, you will be eligible to receive a Seniors Concession Allowance which is a non-taxable payment of \$128.50 paid every 3 months. This can be used to help with regular bills such as energy, rates and motor vehicle registration fees\*.

**As part of the \$10.4 BN care package, holders of the Commonwealth Senior Health Card received a bonus payment of \$1,400 for singles and \$2,100 for couples.\*\***

### Eligibility for those aged 60+

Currently, if you are over 60, all superannuation pension income is tax exempt and excluded from the taxable income used to determine eligibility for the CSHC. This means that it is currently easier

for many self funded retirees to meet the CSHC Income Test limits.\*\*\*

However, from 1 July 2009, subject to legislation being passed, income from a superannuation pension, will be included in the CSHC Taxable Income Test.\*\*\*

In light of this proposed rule change, you may still be eligible to receive the CSHC depending on your circumstances. To determine your eligibility contact Centrelink on 13 23 00.

\*Centrelink website – [www.centrelink.gov.au](http://www.centrelink.gov.au)

\*\*The Canberra Times. Article: "Rudd's \$10.4b care package" - <http://www.canberratimes.com.au/news/local/news/general/rudds-104b-care-package/1333069.aspx>

\*\*\*Australian Government website – Department of Families, Housing, Community Services and Indigenous Affairs – [www.facsia.gov.au/internet/facsinternet.nsf/seniors/cshc\\_changes.htm](http://www.facsia.gov.au/internet/facsinternet.nsf/seniors/cshc_changes.htm)



## Think it over

### "Do I really need a printed version of the FMD newsletter, or would an email be better for everyone?"

FMD is currently looking at options to reduce the use of printed paper in our office to help reduce carbon emissions, cut our dependence on trees and ease the strain on our precious water supplies.

We will continue to mail the FMD newsletters quarterly, as we understand investors may not have access to email and/or prefer to read a hard copy. However, if you would rather receive the FMD newsletter via email you can contact one of the following team members to register now:

Melbourne - Maxine Price,  
[maxine.price@fmd.com.au](mailto:maxine.price@fmd.com.au)

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You can also view the newsletter on our website [www.fmd.com.au](http://www.fmd.com.au)

# QA

**Paul Garner**  
Financial Planner – Adelaide

**Questions from worried investors during this downturn turn out to be similar to those asked before the financial crisis.**

**Q: Should I stop salary sacrificing into super?**

**A:** Superannuation is an investment or legal structure in which investment assets are held and not an investment in itself. An investment in a cash or share fund is essentially the same cash or share fund independent of the structure in which it is held. Salary sacrifice has lost none of its tax savings appeal because of the financial crisis. The simple solution could be to hold your salary sacrifice contribution in the cash option in your super fund and then gradually reinvest into higher returning assets or work out a gradual reinvestment plan with your adviser.

**Q: Should I stop drawing a pension and move back into savings mode?**

**A:** No. While investors are worried about protecting capital in the current market conditions, there is a significant tax cost in moving back to a savings (accumulation) account within super. In an accumulation account you pay 15% tax on the income generated by investments and 10% on capital gain received. In an income stream or pension account there is no tax charged. Usually we leave 1-2 years worth of pension income as cash within an account, negating the need to sell growth assets to fund income needs.

**Q: Should I invest in shares or should I sell before things get worse?**

**A:** The slowing global economy will result in downward profit and earnings revisions in the coming months, although many Australian companies are still well placed to continue paying dividends, and good franked income streams are still expected from the major banks, some industrials and well run resources companies. When you include franking, dividend returns should remain healthy in the future and we expect reasonable capital growth over the medium to long term.

The usual rule applies, long term investment in quality companies will help to survive a crisis.

**Q: Has my risk tolerance changed?**

**A:** This current market brings focus to people's risk profile. A bull market with constantly rising values brings out the aggressive investor in us. However, this aggression quickly turns when markets fall, particularly as steeply as it has, with the continued volatility we are experiencing. Reassessing your risk profile may be more prudent than selling out of growth assets. Investors may need to think about a more balanced approach to investing to weather future cycles.



## CLIENT PROFILE

Sony Center Victoria  
Frank Amadori, Managing Director

Financial Planner: John D'Alessandri - Sydney

### When did you commence your business?

Sony Centre commenced trading in Victoria in November 2000. Sony Centres are dedicated Sony retail stores committed to best practice retailing in keeping with the brand's value. Sony Centre Victoria has 2 stores in Chapel Street, Prahran and Bourke Street, Melbourne (SCV is part of an 11 store national independent network). Refer to our website: [www.sonycentres.com.au](http://www.sonycentres.com.au) for more details.

### What are your plans for the business?

Now that we have established the businesses as the "pre-eminent" Sony retail outlets across Australia we intend to grow the business by strategic location of additional stores and increased market share.

SCV has an annual turnover of \$12 million, directly employing 18 people. Our aim over the next 5 years is to establish 2 more stores in Victoria and increase our annual turnover to a projected \$25 million per annum.

### What are your career highlights?

I commenced my retail career as a junior salesman at Homecrafts Electricals in 1974. Within 2 years I was managing stores for Homecrafts and Brashes. Subsequently, I was promoted to the Buying Office. This enabled me to accept positions within Retravision and later Myer as the Video buyer for the 56 national department stores. In November 2000 I established my own business with Sony Centre Chapel Street Store.

### How did you choose John D'Alessandri as your Financial Planner? How is this relationship of value?

I have been a long-standing client of John since his early days in Melbourne. When John moved to Sydney I decided that it was in my best interest to continue the business relationship.

Over the past 20 years, I have drawn on John's skills in personal financial planning advice which includes business planning, risk management and investment strategy.

I find it valuable having John act as a "sounding board" as it gives me a different perspective which I find beneficial.

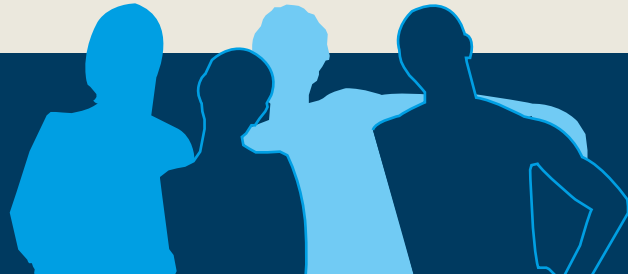
## 2008 Annual Client Briefing

One of our major client offerings is our Annual Client Briefing. The Briefings offer clients the opportunity to hear from leading economic commentators. In Melbourne, Adelaide and Brisbane we were fortunate to secure Chris Caton, Chief Economist from BT Funds Management. Chris has a presentation style that makes it easy to put the current financial crisis into context, as well as providing some forecasts for the future. The feedback from those attending was extremely positive and clients

appreciated the opportunity to hear from a leading financial commentator.

The 2008 Annual Client Briefings were conducted in the environment of the financial crisis. This probably contributed to the record number of attendees. For those who have not yet attended a Briefing, we hope to see you in 2009! The Briefings are held in November in Melbourne, Adelaide & Brisbane, whilst Sydney holds their Briefing in March each year.

# FMD in the community



Cassie Jones, a Para Planner from FMD Melbourne, undertook the See The World Challenge during 2008 to assist in raising funds for the Fred Hollows Foundation.

The Fred Hollows Foundation has been working to prevent avoidable blindness, and is dedicated to comprehensive and quality eyecare for disadvantaged people in both developing countries and remote communities of Australia. An alarming fact is that one person in the world goes blind every five seconds, yet 80% of this is avoidable.

Cassie has now raised approximately \$5,500 through a variety of means including a movie night, a drinks night, community BBQ, raffle, and a chocolate drive which staff in the Melbourne office actively participated in!

As a result of this initiative Cassie will be travelling to Nepal in March with the Fred Hollows Foundation to observe first hand the work undertaken by the organisation at the Tilganga Eye Hospital in Kathmandu. There she will get to see how the money she has fundraised is making a real difference to people's lives.



## Good news

Congratulations to Haylee Simpson (Business Support Coordinator – FMD Group) and her fiancé Steve Antonello, who announced their engagement on 10 November 2008.

## CHINESE SPECTACULAR - RESULT

FMD Sydney was proud to be one of the major sponsors of the Chinese Spectacular Charity Function held on the 6th of September 2008.

On that night 220 people packed the North Ryde School of the Arts Hall to enjoy a highly successful Chinese Spectacular night. More than \$25,000 was raised on the night with the major beneficiary being The Station – a Drop in centre for the homeless in Erskine St, Sydney. A major objective of The Station is to open on weekends as the problems of the homeless do not disappear on weekends.

John D'Alessandri (FMD Sydney) is the President of The Rotary Club of Sydney Darling Harbour. John says that the decision to choose "the cause of the homeless" arose from seeing the plight of so many homeless in the city.



For more information on The Station visit their website address [www.thestationltd.org](http://www.thestationltd.org) or the Rotary Club of Sydney Darling Harbour visit [www.rotarydarlingharbour.org.au](http://www.rotarydarlingharbour.org.au).

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