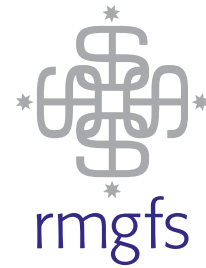


Intouch



too hot, too cold or just right?

It's almost 12 months to the day since markets hit rock bottom. Economies are in better shape, markets are back to a new kind of post-crisis normal. Share markets have been a bit jittery lately as the eternal question of 'how much optimism is enough?' is played out.

The most important factor driving a company's share price over long periods of time is how much they earn and how quickly its earnings grow through time. Swift changes in short-term sentiment can make earnings seem almost irrelevant, but this is never the case. Sometimes investors become far too pessimistic, and sometimes far too optimistic causing markets to both overshoot as they rise, and undershoot as they fall. The legendary investor Warren Buffett puts it best: "In the short run the market is a voting machine, but in the long run it is a weighing machine."

There is no perfect way to know whether things are too hot, too cold or just right early in 2010. But it seems likely markets are now between the two extremes. While many investments rose in the recovery last year, the quality of investments will be even more important this year and good fund managers will sort the wheat from the chaff.

beware of your inbox

by Paul Clitheroe

The internet is a wonderful thing. It gives me instant access to market data, economic information, graphs, charts and historical data at the click of a button. I can be anywhere in the world, at any time of day or night, researching and writing.



But the internet has also become a fabulous tool for crooks and scammers. The number of emails I get a day purporting to be from my bank, lawyers letting me know about an inheritance, Nigerian letters, fantastic sounding investment opportunities, property seminars offering me millions and a wide variety of pharmaceuticals offering varying benefits, is really quite amazing.

My preference is to believe that we all immediately delete these quite obvious scams, but clearly we don't. Our regulator ASIC is constantly warning us about the number of Australians who fall victim. Let's face it, if no one responded they wouldn't bother and their proliferation leaves me in no doubt that millions of people around the world are getting ripped off.

Of course, it isn't only the internet. A bit of research by a scammer may well lead to you getting a phone call offering an investment opportunity of a lifetime. ASIC's website, FIDO, is an excellent resource that explains how these scams work and includes reader stories and warnings.

Here is ASIC's advice on how to spot a scam. **My simple summary is that if it looks too good to be true it will be.** This is a very good guide, stick it to your fridge.

1. it looks real

Scams that catch people often look realistic and are presented professionally. They have attractive documents, a business-like website, and names that sound like reputable companies.

2. bigger and faster profits than real investments

Scams always offer a higher return than genuine investments. Some offer 20 per

cent a year, others go for 300 per cent a year or even more. It's too good to be true. By comparison, Australian shares are some of the most successful investments, and their value has grown about 7-9 per cent pa over the long term.

3. less risk and less effort than real investments

Most scams say that financial success is easy and risk isn't a problem. But real wealth demands planning, hard work and guts. Even the best investors make mistakes and have to weather storms like market busts and economic recessions.

4. something special that genuine investments don't offer

It could be a 'secret' offer, 'inside information' or 'new techniques' to make you feel like you've got an edge over other people. But chances are it's a fairytale - and it won't have a happy ending.

5. more urgent than the real thing

Scammers often say 'don't miss out' and 'act quickly before it's too late'. They're really just trying to grab your money before you have a chance to check properly.

This column first appeared in Money Magazine.

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time for earnings to do the heavy lifting

Twelve months after the low point in global share markets, the tide has turned with 'the recovery we had to have'.

The second half of 2009 brought stronger share markets, increasing investor confidence, and the results of bold economic stimulus responses around the world have now shown up in economic growth.

The global financial crisis has passed with most indicators suggesting that economies are now in transition to more 'normal' conditions. How this will unfold remains to be seen, as it's still early days.

Of particular interest will be how markets respond as emergency government policy responses are wound down; how corporate earnings will recover; what will constitute the 'new normal' conditions as the world economy stabilises; and how the interplay between developed and emerging economies will unfold.

Market uncertainty will linger for some time to come, as we have seen with share markets fluctuating between the optimists and pessimists in the past three months. However, this is both normal and healthy for investment markets, and no reason to alter a basic view that share markets will, for those with a long time horizon, continue to deliver higher returns than cash or government bonds in most periods.

Surprising for many, share markets were the standout performers of 2009. Liquidity returned to capital markets and investors regained their optimism about corporate earnings prospects. In fact, 2009 was the fifth best calendar year for international shares in the past 40 years. Some Asian markets were up more than 50 per cent, while the US share market rose 23.5 per cent, also impressive given the fact that in 2008 the United States was on a financial precipice. The Australian share market enjoyed strong growth of

37.6 per cent for 2009. Our economy has been enhanced by its economic ties to Asia, as well as government stimulus policy and a well-regulated financial system. This is good news for investors, but does not negate the need to maintain and enhance global diversification in portfolios. A global share portfolio provides exposure to opportunities in many of the economies that continue to lead world economic growth, such as China and India.

'It is time for company earnings to do their share of the heavy lifting'

One persistent risk is interest rates, which remain a big issue for investors, particularly how they will affect bond values in client portfolios. Cash rates are expected to continue to rise in Australia, and while this is generally seen as bad news for bond prices, markets have already taken the prospect of rising interest rates into account, at least partially. Providing there is no unexpected surge in inflation expectations, the bond market can handle a modest rise in bond yields, while still delivering returns in excess of cash.

Now that markets are in a more normal state, and the large across-the-board undervaluation in shares we saw this time last year has been recovered, it is time for company earnings to do their share of the heavy lifting. In the long term, the relationship between companies increasing their profits and share markets delivering solid returns has been well established.

While we may not see the bumper returns of 2009 again in a hurry, if the corporate earnings recovery takes the high road, portfolios should reward long-term investors well in the next few years.

financial market indicators

Financial market indicators help us track the path and intensity of the global financial crisis, and some of the current examples worth noting include:

- ~ The Libor/OIS spread, reflecting the interest rate risk premium major banks charge each other for overnight loans, and internationally regarded as an accurate measurement of conditions in the money market. Spreads have now returned to pre-crisis levels meaning more cash is available in the financial system.
- ~ The CBOE Volatility Index (also known as the VIX), reflecting share market investors' forecasts of the size of future market risk. This index has also returned to pre-crisis levels.
- ~ Various global economic growth expectations including those issued by groups such as the International Monetary Fund (IMF) point to a rebound in economic activity in coming years. Based on US expectations and analysts' views that other regions will follow a similar path, the recovery should gather momentum in 2010, with forecasters expecting a rise in global activity of something like 3 per cent.

smart positioning for 2010

When it comes to building wealth, a crystal ball would really speed things up. Trouble is, crystal balls don't work, so we need to turn to slower, more concrete and time tested methods.

And fortunately, most of these wealth creating strategies, the sort that will position you well for 2010, require little in the way of specialist skills. They're open to everyone – all you need to do is put them into action.

Let's look at superannuation first. Here, while diversification is one of the key rules of investing, with super, it usually pays to keep your money in one fund. The reason is simple – by consolidating your super you reduce the overall management fees, and you can get your money working harder for you by having it all in the investment areas you want. Just be careful when switching super funds that you don't lose any of the life insurance cover or, if you still choose to go ahead, you maintain adequate cover. It's easy to do, just talk to us.

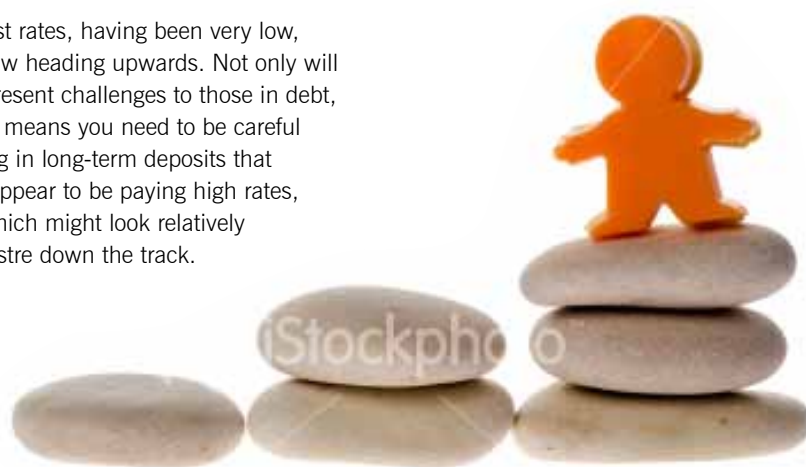
While you're fine-tuning your super, make sure you don't have any small super accounts from previous jobs, money that belongs to you, sitting there unclaimed. You can search for lost super by visiting

the Australian Tax Office's website www.ato.gov.au - it's a free service.

Debt – now, this is a real killer. It's critical to reduce consumer debt, the sort that doesn't build, but rather erodes wealth, as a matter of priority. Some credit cards for example, are charging about 20 per cent on purchases and cash advances, which will erode your money faster than the beach disappears in a globally-warmed storm.

Interest rates, having been very low, are now heading upwards. Not only will this present challenges to those in debt, it also means you need to be careful locking in long-term deposits that now appear to be paying high rates, but which might look relatively lacklustre down the track.

Also ensure your investments are well diversified. While not perfect, diversification is a good defence against taking a hit from a serious fall in one asset or asset class you're heavily invested in, and this includes being overweight in direct property. 'Don't put all your eggs in the one basket' may be a saying as old as the hills, but it's still with us because it's still good advice.



cutting debt

Here are a few simple steps you can take to cut, or eliminate, your consumer debt sooner rather than later, ideally getting rid of it this year.

If this isn't such a problem for you, share this checklist with any kids or grandkids you have. Given the latest statistics on how much we owe as a nation, it's likely to be a problem for one of them:

~ To avoid interest changes, pay off your credit card balance in full every month.

Even being one dollar short or one day late can see you hit with big charges.

- ~ Only ever take a cash advance from a credit card in an emergency.
- ~ Pay off your highest interest rate debts first, and once they're out of the way, apply the same level of repayment – no less, and if possible more – to the debt with the next highest interest rate.
- ~ Consider consolidating your various high interest rate debts, such as credit cards debt, into one, lower rate debt, such as a personal loan. Do check the

fees involved though, and if they look high, try another lender, or don't do it.

- ~ Move your mortgage to a lower rate loan, but again, only do it if the fees involved are reasonable. Paying huge fees to get a lower rate is pointless.
- ~ Consider pre-paying interest on investments this financial year rather than paying it next financial year. This strategy can see you paying less tax overall if you expect higher income and/or capital gains this financial year than next. You should also discuss this with us before proceeding.

planning through the generations



Ageing is part of life and it's important to lay the foundations for a secure old age. Here's how.

keep your Will current

A Will spells out how you want your assets distributed. There are plenty of do-it-yourself Will kits available, but Wills are complex and simple flaws could mean it won't stand up in court if contested. Having your Will prepared or updated by a legal professional can cost \$400-plus though the expense is generally worth it. Be sure to keep your Will current.

choose your executor carefully

Your Will should nominate an executor whose role is to administer your estate. It's common for ageing parents to nominate an adult child. While this may be done as an act of love or appreciation, be aware that an executor's job can be time consuming and frustrating, especially if complexities arise. Another option is to appoint a professional executor, either private or the Public Trustee.

the lasting legacy of trusts

A Will can incorporate vehicles like trusts that will manage assets for the beneficiaries. A testamentary trust is a useful way to provide for the ongoing

needs of children or grandchildren.

A trustee will manage the assets you bequeath to the trust, either following your specific directions or making their own decisions. Integrity and financial skills are essential in a trustee, and here too you can choose to appoint a professional.

enduring power of attorney – working in your interests

An enduring power of attorney lets you appoint the person of your choice (your 'attorney') to manage your assets and financial affairs even if you're incapacitated. A power of attorney can be useful if you're taking an extended overseas holiday or if you simply become unable to manage your own affairs. Your attorney can access your bank account to pay your bills or manage your investments though the role doesn't extend to making decisions about your lifestyle, medical treatment or welfare. These are covered by Enduring Guardianship.

aged care – worth discussing

Aged care also needs to be discussed well in advance. This is a difficult emotional area for many families, but as we enjoy

longer lives there's a growing likelihood that at least part of our final years will be spent in formal care.

In addition to the emotional issues, financial considerations like nursing home accommodation can involve substantial costs. New residents are often asked to pay an upfront accommodation bond. There is no set level – the only proviso is that residents must be left with at least \$36,000 in assets (excluding the family home) after the bond is paid. As nursing homes are generally free to set their own bond, it's usually open to negotiation but can involve hundreds of thousands of dollars in our capital cities – and it is usually required at short notice to secure a place.

Aged care accommodation also comes with daily living charges. These vary in line with personal income. Self-funded retirees can pay up to around \$100 per day while pensioners may pay less than \$40 daily.

The way your portfolio is structured can impact on your age pension entitlements as well as the costs you'll pay for aged care, so it's important to get the right advice.

have we got your email address?

To help keep you informed of timely and relevant updates, please send your email address to info@rmgfs.com.au or call our office on 08 9380 9599.



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