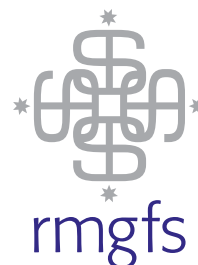


# Intouch



## welcome to the Spring edition

Spring is definitely in the air. The evenings are getting lighter, the weather is warming, flowers are blooming and the racing carnival is just around the corner.

While we generally know what to expect from this season, investment markets on the other hand can't seem to decide either way. One week the headlines are full of doom and gloom, the next, markets are on the up with news of business confidence on the rise.

This latest rise of uncertainty however, is driving people to control what they can, like prioritising purchases, holding onto investments and saving where they might once have used the credit card - reducing their debt and committing to long-term financial goals.

Australians are getting back into the good habit of saving, weighing up their spending, and in turn helping to build a stronger more resilient economy.

While we don't have the ability to control exactly what happens within world markets, in this edition we provide a variety of perspectives to help you make sense of all the noise.

## consider the good news, not just the bad

by Paul Clitheroe

After a busy year with plenty of volatility, I recently took a couple of weeks off to refresh and step back from the current day to day economic drama.



In a world where it is hard to escape my iphone and email, somewhere with no reception sounded great. One thought was an island, but an email arrived from a few of my university mates suggesting a climb up Mt Kilimanjaro in Tanzania.

Now this looked like just the right idea. No reception for phone or data, loads of exercise and no real need to think, except about getting up to the 19,300 foot peak. We struggled up to the top of Kilimanjaro in six days with half the level of oxygen, stayed on top of the mountain for a day and night and then dropped back down the mountain in less than 24 hours. In fact it sounds exactly like the Australian share market. Some years ago it plummeted like a stone to around 3100, struggles back to 5000 a couple of months ago, and then as I write this it has again fallen back to the low 4000's.

Maybe everything in life is somehow linked to gravity. It is tough going up and easy coming down. By the time this goes to print, for all I know the market may be up 20 per cent or down another 20 per cent, but what surprises me is that there is no real new information, just a lack of confidence.

So what do we do? Well, our current plan is to pull our heads in, cut spending and increase saving. I know retailers are not happy, but I vote 'yes' for this strategy. Australians are clearly saving at record levels, paying down high interest debt and building up a safety margin. Financially robust Australians make for a much stronger economy in the long term.

In terms of shares and residential property, while property is generally weak right now, the long term outlook with solid population growth is positive. I doubt much money will be made in property for some time, by any standard our homes are expensive, but we have an undersupply of housing and not a lot of appropriate land to expand to. Shares will as always be volatile. But this does not fuss me too much. Shares for me are about dividends and in the longer term, inflation type appreciation. As I look at my portfolio, my shares such as BHP, Coles, Woolies, the banks and so on are worth less on paper, but at these prices they are paying me dividends, usually franked of around 7 per cent. Company profits look solid, so while at times dividends may rise and fall I do not see them going away.

Personally, I think we are desperately searching for bad news and ignoring the good news. Our economy is all about confidence and a complete lack of it can be a huge problem. Can I suggest we consider both sides of the news, good and bad? In this context the world is not such a bad place.

**Paul Clitheroe is a founding director of financial planning firm ipac, Chairman of the Australian Government Financial Literacy Board and chief commentator for Money Magazine.**



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# making sense of global markets

Share market behaviour over recent years could be characterised as a tug-of-war between the economic challenges in advanced economies and the robust profitability of businesses around the world. Here we provide an overview of the key issues investors are watching closely. We also highlight the factors that provide confidence in the medium-term outlook.



## United States



- ~ US economic growth, while positive, is weaker than anticipated. Unemployment remains stubbornly high.
- ~ Pressure on policymakers to implement a credible debt reduction plan while not choking growth in the short-term. Recent credit downgrade by Standard and Poor's highlights the important need to address this issue.



- ~ Company earnings remain very strong, and continue to exceed analyst expectations. Many large US companies are generating a growing percentage of their profits from fast growing Asian countries.
- ~ Low interest rates support borrowing by consumers and business. The key to this gaining traction is confidence. The US central bank, the US Federal Reserve, is very committed to supporting the economy and financial markets.

## Europe



- ~ European sovereign debt issues have shifted from smaller countries - like Greece, Portugal and Ireland - to larger, more economically significant countries like Italy.
- ~ Economic growth is mixed with some countries, like Germany, performing well while others are finding growth difficult.
- ~ Europe needs to develop a cohesive plan for the Union.



- ~ Corporate earnings are in good shape for multi-national companies who are domiciled in Europe but gain a growing percentage of their earnings from higher growth economies.
- ~ European banks are better capitalised compared to the time of the Global Financial Crisis (GFC), and there is greater transparency around the risks on their balance sheets.



## China and emerging nations



- ~ Chinese policymakers need to carefully manage growth to maintain the strong momentum in the Chinese economy.
- ~ Inflation pressures have risen requiring policy responses to ensure it does not get out of hand.



- ~ The Chinese economy continues to grow at more than 9 per cent per annum, driving global economic growth and demand for commodities, goods and services from countries like Australia.
- ~ Lower oil and food prices have taken some of the pressure off inflation.

# outlook for investors

Confidence in the medium term outlook for investors comes from the fact that share prices today do not reflect the quality of global companies and their strong earnings.

Take Google as an example. In July, Google delivered a record breaking profit of US\$9 billion, or a year-on-year profit increase of 36 per cent. Yet, even with this significant profit increase in July, the share price was 23 per cent cheaper in August than it was at the beginning of 2011. This is just one example of a company with strong fundamentals whose share price has recently fallen. Other examples include Wal-Mart and the Commonwealth Bank of Australia. The lower prices of many companies explains why both the Australian and global sharemarkets are considered to be good value by historical standards.

A key reason many companies are performing well is because they can now make profits in places where they could not 10 or 20 years ago. This includes places like China and Brazil. Nestle recently made an all cash purchase for a Chinese company increasing Nestle's market share in China by 7 per cent. Analysts estimate this could boost Nestle's total profit by 3 per cent.

Yet, the strong corporate fundamentals we see in the market today are not only a matter of capturing new growth in emerging economies. More effective business practices and lower costs have helped companies. For example, corporate profits have increased by 6.3 per cent since the GFC.

The performance of companies is helped by their ability to capture positive economic growth around the world. While there are challenges, overall global economic growth remains firm, with variations from region to region and country to country.

Even though global companies are accessing growth to deliver profits that are near an all-time high, share prices of companies, such as Google, are currently lower because many investors have been focusing on the short-term uncertainties of the economic environment. This makes them reluctant to invest. As investors become more confident, share prices are well placed to rise.

## Australia



- ~ Consumer confidence has weakened and job losses in some sectors has added to the nervousness.
- ~ A high AUD(\$) has impacted on the earnings of businesses that export products overseas. Lack of consumer spending has also dampened the prospects of some domestic companies.



- ~ Close proximity to Asia is benefiting the economy. Resource companies that sell the raw materials needed by these fast growing nations are performing well.
- ~ The Reserve Bank of Australia has the scope to kick start the economy by cutting interest rates if required.
- ~ Australian banks are in a strong position.

# the pets and health connection

What's the relationship between owning a pet and health, and why should it matter to you?

A growing body of research and studies indicates that pet ownership is both psychologically and physically beneficial.

Owning a pet can be an exhilarating experience in itself, boosting both morale and optimism. Additionally it can be a great way to put that spark back in your social life.

Owning a dog, for example, is an excellent way to exercise and meet new people. As a dog lover, it's entirely possible that other owners will have similar interests as you, plus it is a great conversation starter!

Professionally trained animals such as guide dogs for the blind offer incredible benefits and help for those in need, but regardless of the type of pet you opt for, owning one can provide you with a host "of therapeutic benefits.

While cats and dogs are generally the more popular choices for pets, the health benefits stretch much further. For example, riding a horse can offer a unique bonding experience, or watching fish in an aquarium is known to have relaxation properties, reducing muscle tension and decreasing a pulse rate.

As well as being beneficial to your health, owning a pet can also help you in adopting healthy lifestyle changes. For example:

~ **Increasing exercise.** Taking a dog for a walk, play-chasing a cat or riding

a horse are all non-repetitive ways of conducting exercise.

~ **Providing companionship.** Caring for a living animal can help make you feel needed and wanted, and take the focus away from your problems. Generally most pet owners talk to their pets and some use them to work through any troubles they might have.

~ **Improving your social life and meeting new people.** Pets really can improve your social life. Dog owners frequently stop and talk to each other on walks or at the park and other pet owners also meet new people in pet stores, clubs and training classes.

~ **Reducing anxiety.** The companionship of a dog can offer comfort, help ease anxiety, and build self-confidence for people anxious about going out into the world.

~ **Adding structure to your day.** Many pets, especially dogs, require a regular feeding and exercise. Whatever mood you happen to be in – depressed, anxious, or stressed – you'll always have to get out of bed to attend to your pet.

~ **Providing sensory stress relief.** Touch and movement are two healthy ways to quickly manage stress. This could involve petting a cat or taking a dog for a walk.

Did you know that loneliness can affect animals too? While looking after any pet is



a rewarding experience why not consider getting your pet from an animal shelter instead of a pet shop? You'll be offering a good home to an otherwise lonely pet and giving yourself a 'feel good' factor too.

Caring for a pet can be a time consuming experience. It takes dedication to manage many household animals. However it can also be a rewarding experience, helping you to overcome the physical challenges associated with age and encouraging playfulness, laughter and exercise while boosting your immune system and increasing your energy levels.

## Studies have also shown that pet owners:

- ~ are less likely to suffer from depression than those without pets
- ~ are likely to have lower blood pressure in stressful situations
- ~ who play with their pets can elevate levels of serotonin and dopamine, which calm and relax
- ~ are more likely to have lower triglyceride and cholesterol levels (indicators of heart disease)
- ~ are more likely to survive longer if diagnosed with heart problems
- ~ aged over 65 make 30 percent fewer visits to their doctors.

## don't keep us a secret

Your friends and family deserve to make the most of their money too. Feel free to pass on our number to anyone we may be able to help. They can call us for a chat on **08 9380 9599**.



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