# Successful Investing

CFL FINANCIAL PLANNING
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Holder of Australian Financial Services Licence Number 226840

Issue 1 2010



# Now What?

## Top tips for 2010: Investment strategies for a new decade

Following the events of 2008 and 2009, many investors have understandably shied away from the sharemarket. However, don't let the experience of the past eighteen months keep you from achieving your goal of financial security; you can move forward following the worst of the crisis.

### After the storm

By most accounts, this generation's nastiest financial storm has passed. That doesn't mean skies will be forever blue again, as we may yet see another good drenching or two. Such is the nature of sharemarkets. What it does mean is that, in our view, we see glimmers of a brighter tomorrow on the horizon.

Now is the time to start thinking about rebuilding your portfolio to make sure it's well positioned for the recovery and fortified against any future downturns.

### Taking baby steps to rebuild your portfolio

If you sold shares over the past year and are trying to decide how and when to reinvest, we recommend you speak with your adviser about dollar cost averaging, an investment strategy that eases you back into the market.

Dollar cost averaging is a technique designed to reduce timing risk by investing a set amount at predetermined intervals regardless of fluctuating price levels. More shares are purchased when prices are low and fewer shares are bought when prices are high. The goal is to lessen the risk of investing a large amount in a single investment at the wrong time or missing significant market rises.

### Fortifying your investment

Nobody knows where the markets will be tomorrow, let alone in a year. What we are certain of is that suitable asset allocation and regular portfolio rebalancing remain two important techniques to help manage risk and enhance your returns.

- **Asset allocation**

It's important to have the right mix of shares, bonds and other assets for your age, objectives and expectations for returns.

As an investor, one of the most important questions to ask is: will my asset allocation provide me with the income to support the standard of living I'm hoping for in retirement? While it may be tempting to change your asset allocation due to recent market events (either increasing or decreasing shares exposure), it's unwise to do so outside of extreme circumstances.

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# Economic Update

The world's economic and sharemarket rebound from the global financial crisis continued in the fourth quarter of last year and into January, albeit at a more moderate pace.

Following three dramatic quarters which saw a five year low and a 55% rally, equities spent much of the final quarter of 2009 in a tight trading range. The MSCI World Index rose 4.2% (in US$ terms) and Australia's ASX/S&P200 Index increased 2.7% over the quarter in what was a substantial slowdown compared to the double-digit increases posted in the previous two quarters.

It was similar with the global economic recovery, with growth indicators in western economies slowly improving over the fourth quarter. The Organisation for Economic Cooperation and Development (OECD) forecast Australia's gross domestic product (GDP) will grow 3.4% this year;[1] above the 3% growth forecast for the US, but below the 5.1% forecast for emerging markets.

As the global economic recovery and associated bull run on world sharemarkets moves into 2010, investors are asking what's next?

While the global and local sharemarkets have rebounded from their March lows, there is still a fair way for them to go before they reach the levels they were at before the global financial crisis struck - they are still some 30% below those highs.

How central banks around the globe withdraw their stimulus measures will be key to how long economies and sharemarkets take to regain their previous highs. The Reserve Bank of Australia hiked interest rates every month of the December quarter.

Taking a long-term investment approach, over the past decade, Australia posted the best performance of developed world sharemarkets with a 10 year US$ total compound annual growth rate of 12.7% a year over the noughties.[2] The big question is will Australian investors continue to be so fortunate this decade?

*Source | Fidelity International*

*All data from Bloomberg unless otherwise mentioned.*
*[1] CLSA Asia-Pacific Markets as at 21 December 2009.*
*[2] JP Morgan Research as at 4 January 2010.*

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- **Portfolio rebalancing**

When investment markets perform as they have over the past year, one result is that your balance of shares and bonds have probably deviated dramatically from their intended target, becoming underweighted in shares and overweighted in bonds.

The purpose of rebalancing is to ensure that your portfolio maintains its long-term asset allocation. This is done by periodically eliminating deviations from the target allocation caused by the movements of the investment markets.

With the recent decrease in market volatility, now may be a good time to rebalance your portfolio in order to re-establish your optimal asset allocation mix.

## The aftermath: can you afford not to invest?

In the aftermath of the greatest financial storm since the Great Depression, investors will need to understand that just as past performance was no guarantee of future results in good times, the same holds true in bad. Don't make the mistake of relying too heavily on what happened in the recent past when it comes to predicting the future.

Speak with your financial adviser today and make the most of 2010's investment opportunities.

*Source | Ventura Investment Management Limited*

## Top tips for successful investing:

1. **Invest with your head; not your heart** - Investing can be an emotional experience and rash decisions based on emotions like fear, generally result in losses. We believe that 2010 will be dominated by a range of macro themes that cause spikes in asset return volatility against the back drop of an improving economy and generally positive market outcomes. This means it will be just as important to be patient in 2010 as it was in 2009 – perhaps even more so.
2. **Stick to your guns** - Establish a long-term investment plan and stick to it. It's difficult to reap the rewards if you're continually changing your investment focus by chasing last year's best performing asset class. 2010 is unlikely to offer the same distinct opportunities as 2009, yet a valuable lesson can be observed in the importance of discipline and process in investment decision making. Successful investors were distinguished by their rebalancing discipline and the use of rigorous decision making processes to take advantage of opportunities.
3. **Branch out** - Make sure your investment is adequately diversified across a range of areas. Asia's strong sharemarket rebound from the Global Financial Crisis and robust economic performance is attracting a lot of investor interest. Think about how you can best take advantage of opportunities in emerging markets such as Asia.
4. **Diversification remains the key** - We expect that a well-diversified portfolio should generate a reasonable, but not spectacular, return in 2010. Most asset classes appear priced for moderate economic growth, which seems the most likely outcome. As the global economy transitions from initial recovery to still uncertain longer term trend, there is plenty of scope for renewed volatility as expectations shift. Investors will be well served by heeding the lessons of 2009.

*Source | Ventura Investment Management Limited*

# Here for a good time...


## There is an expression that is common amongst many "thrill seeking" younger people... "I am here for a good time, not a long time."

However as we grow and assume more responsibilities, we realise that we can not only enjoy life, but enjoy it well into old age. Thirty years ago, a 65 year-old was an "old person." Today, 65 year-olds boast that 65 is "the new 50" and they are probably right!

Nonetheless, living longer, healthier, more active lives introduces us to "longevity risk" - the risk of outliving our money.

With the fallout from the recent economic downturn and global financial crisis, many Australians experienced a decline in their retirement savings. In fact, recent research suggests that those within five to 10 years of retirement had, on average, deferred their retirement by 3.7 years. As people become more aware of the actual costs of living a long and satisfying retirement we will see a shift to people remaining engaged in the workforce for longer periods.

The options for people to remain in the workforce and generate additional income to support their lifestyle are numerous. Some may decide to remain working on a full-time basis, others may transition into retirement by moving from full-time to part-time work, some who have already retired may seek to re-enter the workforce, while others may look to start their own business.

For most people, superannuation remains the most tax effective way of accumulating wealth for retirement and then managing the payment of a regular income stream. Even modest amounts of superannuation, when coupled with income support payments such as the age pension, can provide retirees with sufficient income to enjoy their retirement, hopefully supplemented with some of life's luxuries.

Planning for a successful retirement requires research, discipline and time. A financial planner can prove to be a very powerful ally when preparing for retirement. The earlier we start preparing, the more likely we are to achieve the sort of lifestyle we have always dreamed of.

*Source | Professional Investment Services*

# Sickness doesn't discriminate, so why should insurance?

## Anyone can get sick or injured but when it comes to protecting their lifestyle with insurance, it seems females have some catching up to do.

Historically speaking, insurance was sold to the main breadwinner. More often than not, that was the husband.

Today men still earn more, on average, than women, however the gap is closing fast. Australian women now earn 92% of male incomes with many women now out-earning their husbands.

For this reason, you'd expect more women would be taking out insurance to protect their income and their lifestyle. This is not the case. Despite women making up 45% of the workforce, they still represent only 15 - 20% of all insured incomes.

### It's not just about income

Protecting your income is obviously important however the fact female incomes are increasing only tells part of the story.

Women are often more financially vulnerable than men - mainly because they typically spend less time in the workforce. This is partly because of children and also because women are more likely to retire early. Women are often the ones who take time off to look after children or elderly relatives.

Less time in the workforce means fewer savings, less superannuation and a decreased ability to recover from financial setbacks.

Since women live longer than men, these setbacks can be even more financially damaging over time.

### What types of insurance should women have?

Income protection typically covers up to 75% of your income if you can't work temporarily because of sickness or injury - making it extremely valuable for working women.

To protect yourself against diseases like cancer, you can take out Recovery (also known as 'Trauma') insurance. It can pay a lump sum on diagnosis - helping you replace your income and assist in covering the costs associated with treatment.

Life and/or Total and Permanent Disability (TPD) insurance can provide a lump sum to you or your beneficiaries if you die or are seriously disabled. This can be vital if you have a family and/or a mortgage to look after.

If you're self-employed or run a business you can also cover your fixed business expenses if you can't work temporarily because of sickness or injury.

### Strategies to make insurance more affordable

It's worth talking to a financial adviser before you take out insurance as there are often a number of ways you can reduce the effective cost of your premiums.

For example, income protection and business expenses insurance premiums are often tax-deductible.

You may also be able to reduce the effective cost of Life and TPD insurance by taking it out inside super - using your pre-tax money to pay premiums. Bear in mind there may be some restrictions on your benefit if you insure inside super.

### Get the cover you need

The best way to find out what cover you need is to speak to a financial adviser. They can help you get the right cover and make sure it's structured in a way that makes it as cost-effective as possible.

*Source | Asteron Life Limitied*

# Was the GFC the inflection point for an economic shift from the West back to the East?

**China's growth through the Global Financial Crisis ('GFC') has left many asking if we are seeing a shift in economic power from the US to China.** With more favourable demographic trends, a higher rate of growth, higher savings and less regulatory intervention than the developed world, the argument is well made.

Under Deng Xiaoping, the leader of the communist party from 1978, China undertook Gaige Kaifang (Reforms and Openness) - a reform of domestic, social, political and economic policy. It was a suite of economic reforms that combined socialism with elements of market economy. It entailed engaging the global economy, reversing the country's traditional policy of economic self reliance and lack of interest in trade.

It has been reported that in 2008 approximately 85% of China's GDP could be attributed to exports and just 15% to domestic consumption; the US is in the reverse situation, relying on the US consumer to pull them into recovery.

Latest reports forecast that China has recently become the second largest economy in the world, overtaking Japan. Last year, China grew by 9.6%, above the expected 9%, which put the value of goods and services produced at 31.405

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trillion yuan (A$5.21 trillion).

Even with this growth, the Government has committed to significant economic stimulus, of which 70% will go towards infrastructure and the state council's recent approval of 882bn yuan (A$141bn) worth of railway projects in 22 cities. The planned urbanisation will benefit 1.3bn people through the creation of better transport links, including a high speed rail network and resulting jobs growth. The effect on second and third tier cities in the interior of China will be huge, bringing with it growth of the middle class and a rise in consumption.

China also took over the US as the number one automobile market in the world. Sales this year are expected to be 13 million while the US is expected to come in a distant second at 10 million. Alongside this news was the highly publicised purchase by Warren Buffett of a 10% stake in BYD, a company that is becoming a world leader in lithium-ion batteries found in hybrid and electric vehicles.

It is believed the industrial revolution of China will continue for many years to come as the growth of the middle class has seen retail sales achieve year-on-year double-digit growth since 2006. To supplement this growth, Shanghai will again play host to the world as it opens its city to an expected 70 million visitors for the 2010 World Expo, themed 'Better City, Better Life' and promoting its environmental responsibility.

In such an exciting period it could be easy for a country to lose focus or become greedy but in a sign that China has been maturing as a strong manager of economic and fiscal policy, there has been an increase in the required amount of deposits banks must keep as reserves. This is the clearest signal yet that the central bank is trying to tighten monetary conditions to maintain strong and consistent growth without letting markets overheat.

Australian investors tend to gain access to China through funds that invest in multi-national companies, such as McDonalds and Coca-Cola. This removes the opportunity for investors to participate in the growth of domestic Chinese businesses that are growing faster than the multi-nationals.

Investing in any emerging market comes with greater political, regulatory, corporate governance and currency risks than investing in either local or developed share markets. Most agree that amplified growth opportunities match these increased risks.

To better understand the risks and rewards of investing in Chinese companies, speak with your financial planner about how you may be able to gain access.

*Source | All Star, Nomura, RBA, IMF*

# True or False?

- In Tokyo, a bicycle is faster than a car for most trips under 50 minutes.
- The human body creates and kills 15 million red blood cells per second.
- When a glass breaks, the cracks move at over 3,000 mph.
- In 2007, Australian life insurance companies paid out $10,000,000 of claims every working day.
- The tin opener wasn't invented until decades after the tin can.
- 2,000 year old honey found in the tombs of Egyptian pharaohs was still edible.
- The longest recorded flight for a chicken is 13 seconds.
- Applying for life insurance can take just 30 minutes - the same time it takes to watch the news each night.
- Filtered coffee has more caffeine than an espresso.
- Children laugh 20 times more often than adults.
- Camels have three sets of eyelids.
- Life and income protection can cost less than $2.60 a day.

***THEY ARE ALL TRUE!***

*Source | Asteron Life Limited*

# Become money savvy

**The super saver**

- Take baby steps. Find one saving tactic and focus on making it a habit, then focus on the next one.
- Automate your savings. Set up a savings account and a direct credit each payday.
- Track your spending for a month. Money can just vanish before we know it, so tracking makes you more conscious of where it goes and what it goes on.
- Spend less than you earn. It's a no brainer, but if you spend less than you earn you'll actually have money to save.
- Create a realistic spending plan. Be exact with your figures. You need to know exactly how much comes in and goes out.
- Follow the $100/24 hour rule. If it costs more than $100, wait 24 hours to buy it.
- When it comes to big ticket items, follow the 30 day rule. If you wait 30 days before buying an item, you'll either change your mind or find a better deal.
- Track your progress. It's exciting watching your savings grow.
- Talk about your money with your partner. Support each other and share ideas and advice on financial choices.

*Source | The Sunday Mail*

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