

## Financial Lifestyle Managers

### CLIENT SATISFACTION SURVEY

We are conducting our annual satisfaction survey to find out what you, our clients, think of us and what we can do to better meet your financial planning needs. If you have not yet taken the opportunity to participate in this survey, we would appreciate you taking the time to do so (approximately 10 minutes). Your responses will help us improve our services.

You can take part by typing the following link in your internet browser.

<http://www.surveymonkey.com/s/RKQ5XYF>

Or we can email a copy for you to print, complete and return to us. Just ring Maxine on (03) 9642 1266.

If you do not have access to the internet, again please contact Maxine on (03) 9642 1266 and she will organize for a paper-based copy to be posted to you to complete and return to us.

## New year's resolutions

We're nearly one quarter of the way through another year. If you haven't done so already, it's time to start planning ahead, setting goals for the year and making sure your financial plan is on track to meet them.

Everyone has goals – the secret of success is knowing exactly what it is you want to achieve and putting a plan in place to achieve it.

### Budgeting

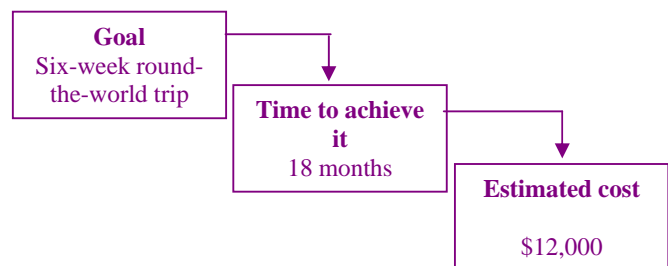
A budget is an important aspect of your financial plan and probably your starting point. After paying all unavoidable monthly expenses, what's left over?

By setting specific goals, you'll have a focus for your excess cash. Instead of spending whatever you have left each month, your goals give you a solid reason for investing it.

### Set the goals

When you're defining your goals you should be specific. Name your goal, decide a timeframe for achieving it and estimate how much it will cost.

For example:



The satisfaction you get from achieving a goal acts as a strong motivator. If you get into the habit of setting goals and achieving them, you're on the road to a healthy financial future.

### Your investment strategy

If you have a specific goal for the near future you may need to adjust your current investment strategy to meet it. To fund a short-term goal, such as the holiday in our example provided, you may need to start a regular investment plan, sell existing assets or divert cash to more liquid investments.

For longer-term goals, such as building wealth to support your chosen retirement lifestyle, you'll want to take advantage of new investment opportunities to maximise returns.

Different goals require different strategies so it's important to review your strategy regularly.

Your financial plan should always take into account both your short and long-term goals. If you're setting new goals, need help budgeting for them or would like to know more about maximising investment opportunities, talk to your financial planner. ✱

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***You don't need to be wealthy to invest.  
You need to Invest Well to be wealthy.***

*Source: Securitor Investment Solutions Summer 2010*

# This year is one for the stock pickers

*by Paul Taylor, head of Australian equities at Fidelity International*

While there are many macro issues around the world affecting the markets, the outlook for the Australian market is positive – especially if you select the right stocks.

Australia is well-positioned heading into 2011. The Australian market is very attractively valued, well below long run historic average valuation multiples. Australia's strong fundamentals of high population growth, excellent and low-cost natural resource base, good corporate governance and a high dividend yield and high real dividend growth are still very much in place as we move into 2011.

Australia will benefit from the high economic growth from emerging markets and the resultant positive impact on demand for resources and commodity prices. There is also likely to be very significant infrastructure and resource project investment in Australia through 2011, which should see this part of the economy grow well above trend and also keep the labour market tight.

## Challenges

We are, however, likely to see the Reserve Bank of Australia (RBA) continue to raise interest rates through 2011 as they try to keep other parts of the economy growing below trend to ensure the capacity for the significant resource and infrastructure investments. These higher interest rates should see a fairly flat property market, slowing housing credit and a tougher consumer environment.

All in all, however, combining the fact that the Australian equity market remains very attractively valued with these overall strong growth prospects could mean that we see

quite a strong performance from the Australian equity market in 2011.

## Sectors

I like the industry leaders and/or those benefiting from structural growth themes.

Within the Australian market I believe the industrial, healthcare and resource sectors are well-positioned to perform in 2011.

For industrials, 2011 should be not only a strong demand year for mining service companies and engineering firms as well as specific structural growth companies like recruitment on-line sites and airports but they should also be able to achieve quite strong pricing power through the year.

The mining services and engineering firms should benefit from the very significant investment planned in major resource and infrastructure projects. This strong demand should lead to an improvement in contract terms like a move to a cost plus basis and higher charge out rates. On-line recruitment sites should also benefit from a strong labour market and improving yields.

In the health care sector, I like the industry leaders and/or those benefiting from structural growth themes. Health care should continue to see strong structural growth and should be relatively unaffected by the rising interest rate environment.

Resource companies will benefit from the growth coming from emerging markets and continued strong commodity prices. The larger diversified miners remain the stand-outs from both a growth and valuation perspective. \*

# Implications of the floods for Australia

A summary of the impact of the floods for the Australian economy and share market is as follows:

- Like the bushfires of two years ago the floods have wrought terrible tragedy in terms of loss of life and disruption to people's lives. Beyond the human suffering there will also be significant implications for the Australian economy and investment markets.
- Expect the floods to knock around 1% (or \$13 billion on an annualised basis) off the Australian economy in the December and March quarters. Rebuilding should see 0.5% of this recouped by year-end and a further modest boost to growth through 2012.
- Higher food prices, notably for fruit and vegetables, will add around 0.5% to 0.75% to inflation in the March quarter.
- In terms of damage to physical assets, property, equipment and infrastructure, the flood could cost \$15 billion with rebuilding likely to be spread over several years.
- The RBA is likely to look through the short-term boost to inflation and focus more on the short-term hit to growth, leaving rates on hold till around mid-year. However, once production rebounds and rebuilding kicks in it is likely to return to raising rates from around mid year to head off an overheating in the economy.
- While the floods have led to earnings downgrades, the impact on markets overall should be minor, in part offset by higher coal prices. Australian shares are cheap, having lagged global markets over the last year, and we remain of the view that notwithstanding short-term uncertainties they will head to around 5,500 for the ASX 200 by year end. \*

**Dr Shane Oliver**  
**Head of Investment Strategy**  
**and Chief Economist**  
**AMP Capital Investors**

# Taking advantage of market downturns

## The third in our series of articles on successful investing

Down markets may provide great buying opportunities for long-term investors. While no one can predict with perfect precision when markets will decline or rebound, a strategy of adding to holdings when markets are “on sale” may provide significant advantages.

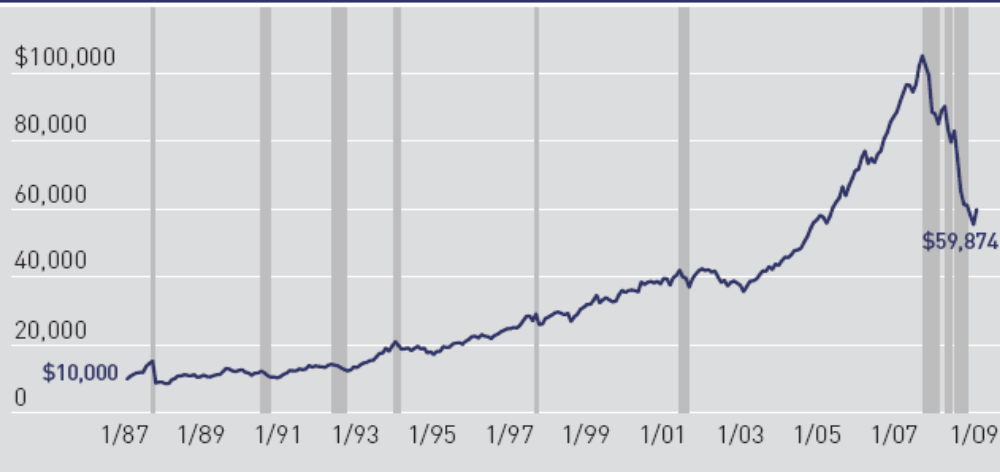
By viewing market declines as great buying opportunities, you can help enhance your long-term return potential when the market eventually rebounds. While no one can predict when markets will decline or rebound, a strategy of adding to holdings when markets experience a downturn may provide significant advantages versus a strategy of pulling out of the market.

While past performance is not a reliable indicator of future performance, historically the market has trended upward over

the long run and investors who bought when prices were relatively inexpensive generally will be rewarded for their foresight.

Market corrections can be unsettling, and can cause investors to question their long-term investment strategies. Market corrections, however, are a normal part of market cycles and savvy investors will recognise that, over time, markets tend to recover. As shown in the chart below, over the past 22 years, the S&P/ASX 200 Accumulation Index has experienced market corrections of more than 10% on 9 different occasions (indicated by the shaded areas). Despite those downturns, however, if an investor had invested \$10,000 in the index 22 years ago, that investment would have been worth \$59,874 by the end of March 2009. \*

**Growth of a hypothetical \$10,000 investment in the S&P/ASX 200 Accumulation Index (1/1987–3/2009)**



Source: BlackRock, S&P/ASX 200 Accumulation Index.

For illustration only; results shown do not represent the performance of any BlackRock fund. This data depicts the hypothetical growth of \$10,000 in the S&P/ASX 200 Accumulation Index from 31/1/87 through 31/3/09. Shaded areas represent market declines of 10% or more. Return data assumed reinvestment of all dividends. It is not possible to invest directly in an index. The index is unmanaged and does not take transaction charges into consideration.

*Past performance is not a reliable indicator of future performance*

## RISK PERCEPTION POST-GFC

The public's perception of risk has significantly changed since the global financial crisis (GFC), according to a recently published report<sup>1</sup>. On the other hand, risk tolerance levels (the extent to which the investors are comfortable with the risk of losing money on an investment) remained constant.

Before the GFC during a bull market, most investors surveyed perceived little risk. After the share market decline however, 33% of investors saw the market as enormously or considerably more risky and 41% saw it as somewhat more risky, according to the survey. This is despite the fact that markets have since recovered and are currently showing less volatility.

Your financial planner can help explain market risk to you and check you're investing in accordance with your risk tolerance.

<sup>1</sup>Risk Perception and Risk Tolerance, Changes Attributable to the 2008 Economic Crisis: A Subtle but Critical Difference. Michael J. Roszkowski and Geoff Davey July 2010.

# Powers of Attorney

*By Anthony L Bull, LLB, LLM Cert re, ADFS(FP),  
Barrister and Financial Planner*

A vital component of the estate planning process is the Power of Attorney, and the consequences of not having one can be quite drastic.

There are four different Powers of Attorney:

Firstly, there is what is known as a **General Power of Attorney**. This document will enable the Donee, or receiver of the Power, to make decisions and sign documents on behalf of the Donor, or giver of the Power. but it is limited in the sense that if the Donor loses mental capacity the General Power of Attorney will cease to have effect.

Secondly, and more desirable, is what is known as an **Enduring Power of Attorney**. This has all the benefits of a General Power of Attorney but will still have effect if the Donor loses mental or physical capacity, and I recommend that all my clients have this type of Power of Attorney.

The third type is known as a **Medical Power of Attorney**, and by using this document you can appoint another person, called "*an Agent*", to make decisions about what type of medical treatment you should receive if you are not able to give consent yourself and are placed in a life-threatening situation. You can choose one person or, as with all Powers of Attorney, you can name another person to act as an alternate if the first person is unable to act.

The last and newest Power of Attorney is known as a **Guardianship Power of Attorney**. In the event of you becoming incapacitated by virtue of accident, illness or old age, you can use this document to appoint another person or persons to make decisions for you in relation to where you will live, who will visit you, and what type of medical and dental treatment you will receive. Obviously these are all extremely important decisions that must be made even when you do not have the mental capacity to make them yourself.

Remember this, **if you do not have a Power of Attorney** and you become either mentally or physically incapacitated and unable to make your own decisions, you will be placed under the care of the **Guardianship Board**, which is a Victorian Government office. This means that a public servant will effectively be running your life and making decisions for you.

I am more than happy to speak to any client of Investwell with Financial Lifestyle Managers on a no-obligation basis to assess their situation and discuss their needs.

## NUMBER CRUNCH

**\$53,456** is the amount a couple needs as income each year to provide a comfortable lifestyle in retirement.

*(from March quarter Westpac ASFA Retirement Standard)*

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