

Your money Your future

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Stay in the game with capital protection

Capital protection enables investors to insure against market downturns while remaining fully invested to capture sudden market recoveries.

History tells us that investing for the long term pays off as markets have invariably rebounded following a downturn. But with share prices almost halving in the space of a year and media headlines battering confidence, this accepted wisdom is understandably offering cold comfort.

Capital protection can help you stay in the market during periods of turbulence.

The weight of history

2008 was undeniably traumatic for investors, as the US sharemarket fell 38 per cent¹ and Australian shareholders fared even worse, with local stocks shedding 41 per cent.²

These are worrying times but share prices have fallen before and the markets have always recovered. In fact, over the past century there have been 10 occasions when the sharemarket has fallen by over 20 per cent and it has taken an average of 22 months for stocks to reach new highs.

But timing the rebound is difficult, particularly in turbulent times such as these, with share price volatility 13 times the Australian average.³

1 Source: Datastream, S&P 500, data from 31 December 2007 to 31 December 2008.

2 Source: Datastream, ASX 200, data from 31 December 2007 to 31 December 2008.

3 Source: Bloomberg, MSCI, Standard and Poor's, Datastream and Alliance Bernstein. US: S&P 500, Australia: All Ordinaries Index. Data as of 31 December 2008.

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Stay in the game with capital protection continued

So is cash the answer?

When the going gets tough, it's tempting to sit out a downturn and wait for a protracted period of growth before reinvesting in higher-risk investments.

Many investors are reacting to market uncertainty by pulling out of growth assets and putting their savings in low-risk, low-return asset classes such as cash and fixed interest. But cash isn't necessarily a safe haven. As interest rates keep on falling, cash assets will struggle to keep pace with inflation, let alone provide the growth you need.

Investors with term deposits, for example, can generally expect an average return of 4 per cent. By comparison, Australian shares are currently offering a dividend yield of approximately 7 per cent.

Growth and protection – squaring the circle

Despite the weight of historical evidence that markets inevitably recover, you could be forgiven for remaining uncomfortable about investing in the market. One solution is capital protected products.

For a small extra fee, capital protected products buy you peace of mind. You can stay fully invested in the market and take full advantage of any rebound in share prices without worrying about your investments depreciating further.

There are some capital protected products in the market that return your initial investment and contributions or your account balance, whichever is greater.

Protection at every stage of life

Capital protection is a potentially useful strategy for all investors, regardless of your individual circumstances.

If you're approaching retirement, your priority is safeguarding your retirement income. Capital protection allows you to ensure what you have built up remains yours and cannot be taken away from you. If you're already retired, you can remain invested in growth assets and draw an income without worrying that your pension funds will depreciate.

And even if retirement is still some time away, you may want to consider capital protection to avoid any unpleasant surprises. One bad year can derail your investment strategy and even force you to delay your retirement plans.



Capital protected products can give you:

- the opportunity to build and protect your wealth by guaranteeing your contributions
- the ability to accelerate your retirement investment strategy by increasing your exposure to growth assets without the downside risk that ordinarily accompanies them
- peace of mind that your retirement savings are protected, even if there is a downturn
- insurance against a sudden market crash, and
- the flexibility to lock in future growth and reset the capital protection at a higher level.

If you are concerned about market volatility and would like to find out more about protecting your current investment strategy, please call our office to make an appointment.

Avoid chasing returns – keep your end goal in sight

You don't drive looking through the rear-view mirror – nor should you invest by looking backwards at past returns.

Investors often fall into the trap of allocating their funds based on the recent outstanding performance of a particular investment.

In the same way objects in the rear-view mirror appear closer than they really are, our perception of recent performance is able to be magnified out of proportion. But in the investment market, past performance is no reliable indicator of future success.

Chasing – hard work for less return

Imagine you had \$10,000 to invest in January 1988. Establishing a well-diversified portfolio would mean that your investment increased in value to \$51,768 by December 2008.¹

Alternatively, you could chase returns by investing in whichever asset class produced the best results the previous year. Your investment would be valued at \$37,074 over the same period, without even taking into account the costs of switching.

1. Source: Mercer, Bloomberg, Iress. Data as of 31 December 2008.

The only certainty in investing is change

Changing economic conditions affect the performance of companies. Share price fluctuations affect the performance of managed funds with market-linked investments. And the overall performance of a particular asset class can be affected by local or international financial trends.

Sometimes less obvious events have implications on an investment's value. For example, what if a successful financial team leaves for another investment house, causing the leading fund manager to fall back to the pack?

Chasing returns is more work for less reward.

The past – a roadmap for the future?

While past performance shouldn't be ignored completely, it doesn't give us the complete picture of an investment's future performance. You also need to look at the underlying quality of the investments that make up your portfolio.

Rather than concentrating exclusively on a company's recent share price, look at factors that might affect future performance such as its earnings outlook and overall sector trends.

Similarly, it pays to take a holistic approach when comparing the performance of a managed fund. Take into account factors such as the fund's degree of diversification and the credentials of the investment managers.

We can help you take a 360-degree view of the investment landscape and expand your horizons. If you have any queries about your investment strategy, please contact us.

Surviving redundancy

As the global financial crisis deepens and affected companies move to tighten their belts, the prospect of retrenchment has become a genuine concern for many people.

If you have recently been retrenched, there are a number of important decisions you'll need to make. Decisions in relation to finding another job, meeting your living expenses and what to do with your redundancy payout.

When it comes to securing your next job, first try the usual avenues such as online job search companies, employment agencies and newspaper advertisements. There's also the 'grapevine' – let your friends and acquaintances know you're looking for work.

Meanwhile, there's the question of how to pay the bills.

If you haven't already done so, now is definitely the time to start living to a budget. We can provide you with an easy-to-use budget planner to help establish your current levels of income and expenditure.



Once you've tracked your expenses as accurately as possible, the next step is to compare the total with your income from all sources. The difference will be your surplus or deficit for the year. If you're in the fortunate position of spending less than your income, you can put the surplus into longer-term savings. But if you spend more than you earn, it's time to take remedial action.

By analysing each area of your budget, you can identify areas of unnecessary spending or areas where you can cut back. If you've discovered a real need to draw from your investments to provide income, we can help you structure your portfolio to maximise your income as well as capital growth.

We can also help you understand how the various components of your redundancy payment are taxed, and how you can invest these funds to help you transition to new employment or even retirement.

If you have any queries or concerns about redundancy, call us now. We can help you assess all your financial options and work out the best plan of action for you in your current circumstances.

A New Year – a new you

Maintaining a fit and healthy lifestyle can reduce the risk of illness, but you should also ensure your family has adequate financial protection.

The New Year celebrations seem long gone. How many of your resolutions have survived since then? The good news is that maintaining a healthy lifestyle is easier than you think.

Taking some straightforward tests and implementing simple lifestyle changes could substantially improve your health and reduce the risk of suffering a life-threatening trauma.

The risk of illness

Unfortunately, diseases and illnesses such as cancer, diabetes and strokes are increasingly common as we enjoy longer but more sedentary lives.

One in four Australian women and one in three men will be diagnosed with cancer by the time they are 75.¹ And the number of new cancer cases diagnosed in Australia is projected to rise to 115,400 a year by 2011.²

Cardiovascular disease (CVD) is Australia's leading cause of death, accounting for more than a third of all deaths in 2006. It kills one Australian every 10 minutes and two out of every three families have been touched by some form of CVD, such as heart attack, stroke or cardiac arrest.³

Diabetes is Australia's fastest growing chronic disease. An estimated 275 Australians develop the condition every day, with 890,000 currently diagnosed with diabetes – and a similar number remain undiagnosed. By 2031, it is projected that 3.3 million Australians will develop type 2 diabetes,⁴ the most common form of the illness.

Fortunately there are ways to minimise the risk of developing a life-threatening illness, simply by monitoring your health and improving your fitness. Consider the following:



Do you measure up? Four ways to test your health

1. Measure your waist

Your waist size is a more accurate measurement of your weight than body mass index (BMI), which doesn't take into account muscle or weight distribution. The simplest way to monitor your weight is to measure your waist, level with your navel. A waist measurement of more than 80 cm for women and 94 cm for men could place you at higher risk of contracting a disease or illness.

2. Test your blood pressure

High blood pressure can lead to a heart attack, heart failure, stroke or kidney disease. While there is no 'ideal' blood pressure, a normal reading is considered to be less than 140/90.

3. Test your blood glucose

The normal blood glucose level ranges between 3.5 and 7.8 millimoles per litre (mmol/L). Blood glucose levels outside of this range can be an indicator of diabetes.

4. Monitor your cholesterol

High blood cholesterol is a major risk factor for coronary heart disease and even some types of stroke. A total blood cholesterol level above 5.5 mmol/L increases your risk of developing coronary heart disease.

Four steps to a healthier lifestyle

1. Give up cigarettes and avoid passive smoking

Smoking is a major cause of heart disease, stroke and several different forms of cancer, as well as a wide variety of other health problems. Stopping smoking brings immediate and lasting health benefits, regardless of your age or gender.

2. Eat a healthy diet

Most Australians eat only half the amount of fruit and vegetables recommended for good health. Adults should aim to eat at least two serves of fruit and five serves of vegetables every day.

3. Exercise for 30 minutes on five or more days per week

Incorporating 30 minutes of moderate physical activity into your daily routine can lead to improvements in blood pressure, blood cholesterol and body weight.

4. Drink alcohol in moderation

While one or two standard drinks per day may do no harm (assuming you are otherwise in reasonable health), excessive alcohol increases your risk of high blood pressure, heart disease and stroke as well as many other health problems. Everyone should have at least one or two alcohol-free days per week.

While we hope you take the right steps to maintain a healthy lifestyle this year, the reality is that a traumatic health event can still happen and it's vital that you and your family have adequate financial protection.

What would happen if you were incapacitated by a serious illness? How would you cover financial necessities such as mortgage repayments, bills and school fees?

Make 2009 a happy and healthy year and set aside some time to review your insurance. We can help you determine the type of insurance and the level of cover that's right for your circumstances and lifestyle.

1. Australia's Health 2008 (Australian Institute of Health & Welfare)

2. Australia's Health 2006 (Australian Institute of Health & Welfare) and Australian Cancer Research Foundation.

3. Heart Foundation

4. Diabetes Australia