

Successful Investing

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Issue 1 - 1st Quarter 2009

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Economic Update

Leading indicators for US growth suggest further deterioration ahead with continued losses in the labour markets. The latest data also suggests consumers have cut back real spending at the fastest pace in decades, while the decline in housing activity showed signs of accelerating. Interest rates look likely to be kept low for an extended period of time. President Barack Obama is expected to deliver further fiscal stimulus aimed directly at domestic demand. It is more likely to come in the form of tax cuts.

The European economy is in recession. Recent survey data suggests that further deterioration is expected in the coming quarters. The manufacturing sectors have undergone a deep retrenchment, particularly impacted by the slowdown in external demand, with domestic consumption is also slowing.

In a similar situation to Europe, slowing foreign demand and stalled domestic demand have brought the economy to a halt in Japan. Leading economic indicators suggest that the economy will continue to contract in 2009.

China is becoming the most aggressive country in an attempt to stimulate its economy. The magnitude of the recent monetary and fiscal policy stimulus has overwhelmed most market observers. Economic growth is still expected to slow to 8% in 2009.

For Australia, the negative wealth shocks from falling asset prices and the expected unwinding of gains in the terms of trade have put significant pressure on businesses and consumers. The policy response, with the most aggressive monetary easing since the recession in 1991 and the Federal Government's \$10.4bn stimulus package and \$42bn Nation Building and Jobs Plan, has and will help to bolster current sentiment and cushion the weakening outlook for domestic demand. However, the real help from these measures will come with time. The economy is expected to experience a mild recession and unemployment is likely to rise to around 7% by mid 2010. On top of the interest rate cuts of the last few months the market expects further interest rate cuts in the future.

Source: Aviva

Tame the Beast



A 'bear market' is typically defined as a fall in the sharemarket of more than 20%, and a feeling of widespread pessimism. However, when fear reigns it can always help to look at the past to see what opportunities can arise.

Generally, bear markets have occurred in times of slower or negative economic growth and a pickup in unemployment. However, to date the Australian economy is still growing, albeit at a slower pace than in recent times, and the unemployment rate is at around 30 year lows. In spite of this, the S&P/ASX All Ordinaries Index fell from its high of 6,853 points on 1st November 2007, to a low of 3,332 on 20th November 2008 – a fall of around 51%.

Disaster or opportunity?

The sharemarket has not fallen so much since the sharemarket crash of 1987. This equates to dramatic share price falls of around 30% for some of Australia's most recognised brands such as Westpac, Foster's and Harvey Norman.

It's interesting to note how we react to lower share prices. Often when we see prices of consumer goods fall, many of us race in to catch a bargain.

However, when it comes to shares we tend to react differently. If the share prices of well managed, dividend-paying companies fall, we view them with suspicion and fear, when perhaps we should see them as opportunities.

Buying and holding shares in good companies after the crash of 1987 would have been a good investment strategy. There were bargains to be picked up.

From the end of 1987 to the end of 1989, all major banks rose by more than 50% as did BHP, Rio Tinto, Harvey Norman, Coca-Cola, Caltex, Wesfarmers and QBE Insurance.

These are all household names providing services at a profit. That's what businesses do and will continue to do into 2009. While we may not see such rapid gains as post-1987 there are opportunities for growth in share prices as profits rise over time.

While the Australian sharemarket is down close to 45% from its high of November 2007, not all share prices have fallen or by as much. Companies in the healthcare sector such as CSL and ResMed have seen their share prices rise since November.

Bear markets are dominated by bad news but there will still be good news if you care to look for it.

Where to from here?

Growth in the Australian economy over the next two or three years may not be as robust as it's been for the past ten years but it should nonetheless continue.

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Tame the Beast

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Our population is growing, the world needs the products we sell and Australian companies are reinvesting some of their profits back into their businesses.

Authorities both in the US and Australia have acted aggressively to calm financial markets. The problems to work through in global financial markets are significant, but investors can be reassured that actions are being taken to restore stability and confidence. Australia is well placed relative to many other countries given the strong financial position of the Federal Government, the ability of the Reserve Bank of Australia to cut official interest rates if needed and the solid regulatory framework within which Australia's financial institutions operate.

Some share prices have been punished – because they will not be able to earn the profits they and the market had been expecting. However, others have fallen as investors start to panic and sell everything. When this occurs, bargains can begin to emerge!

Over to the fund managers

Many investors find bear markets nerve racking, but it is a fund manager's job to keep a cool head and ask themselves some questions:

- Which companies will supply the growing population of Australia with groceries, finance, insurance, healthcare needs and beer?
- Which companies will supply the growing demand for energy, agricultural products, metals and minerals?

By doing this they are identifying opportunities to buy companies that are likely to produce solid returns for their clients over the long-term.

Source: Colonial First State

From Little Things, Big Things Grow

With the state of investment markets being what they are, investing more of our money now is perhaps one of the furthest things from our minds.

Many of us have heard stories about the benefits of dollar cost averaging and compound interest. That is, building wealth for the long-term by investing small amounts on a regular basis. Of course, it was Albert Einstein who is attributed with having said “the most powerful force in the universe is compound interest”.

I was recently reminded of a story of a successful accounting practice that had a large number of individual clients for whom they prepared annual tax returns. Rather than simply preparing tax returns, the principals of the firm decided they would turn their tax clients into investors.

When a client came into the office to have their tax return prepared, when clients received a tax refund, and when new clients visited the office for an interview, they were reminded of the benefits that could be achieved by establishing a regular investment plan. In fact, clients could establish a regular investment plan with as little as \$25 per week (two pizzas, garlic bread, and a bottle of soft drink). Clients could increase their monthly commitment at any time, or could reduce it if circumstances changed. They were not locked into a contractual arrangement.

Over time, many clients of the accounting practice participated in this program with quite a number increasing their regular savings commitment when they received a salary rise or a tax cut. The regular savings were

channelled into a well managed diversified investment fund that gave exposure to a range of asset classes including cash, fixed interest securities, property and shares.

This simple strategy gave clients access to two of the great investment principles, dollar cost averaging and compound interest.

One of the advantages of a regular investment program is that once we set up an automatic facility to divert a regular amount from our bank account or salary, we adjust our spending habits accordingly and, after a couple of weeks, we don't miss the amount being saved.

The benefit of a regular investment program is that you don't need to have a large amount of money to start. A number of fund managers have plans available that can be commenced with as little as \$1,000 and regular contributions of \$100 per month.

Speak to your financial adviser today about starting a regular investment plan. With markets being in a depressed state, the opportunity to get in “on the ground floor” has never been better.

Source: Peter Kelly - Professional Investment Services



Capital Guarantee

With only upside growth

While the current market means that it's still a time of caution, we believe that it may simultaneously be a time of investment opportunity.

But amidst this backdrop of uncertainty it's exciting for me to be able to introduce a new product, AXA North.

Investors in AXA North can be confident that the investment they have made has been fully protected from any loss, yet is perfectly positioned to benefit from any recoveries. The product allows your retirement and lifestyle dreams to remain on track - no matter what the market does next.

Introducing AXA North

By choosing a North guaranteed super fund, pension or investment, you can position yourself to take full advantage of the current market conditions, no matter what the future holds.

The **North Protected Investment guarantee**, guarantees to return all of your money at the end of either 5 or 7 years, allows you to immediately protect your remaining balance and regain your peace of mind.

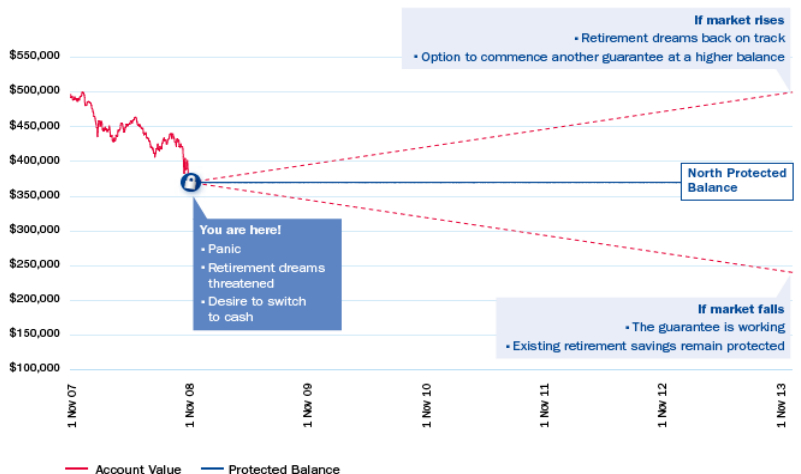
After putting your funds into North, **two scenarios can play out.**

1. If the market continues to fall over the next few years, the Protected Investment Guarantee kicks in and whatever you put in today will be protected. We'll even give you back any fees you've paid on the account to date. (Admin & Guaranteed Fees)
2. If the market starts to recover, which may happen strongly at any time, North puts you in a position where you can benefit from the growth. This is because all your money remains invested in the growth assets of your choice throughout your entire investment term.

When your account balance rises above the amount that you initially guaranteed, you even have the option to start a new guarantee at the higher level.

Example

Initial investment: \$500,000, Start date: 1 November 2007, Balanced Portfolio



By choosing a North guaranteed super fund, pension or investment, you can position yourself to take full advantage of the current market conditions, no matter what the future holds.

So just as it's a time of caution, it's also a time of opportunity. North helps you get the best result from either scenario. Contact our office on 03) 9373 3500 to find out more information, or to arrange an appointment to discuss AXA North as a potential inclusion in your portfolio.

Important information

This letter provides general information only. Before making any investment decisions, we recommend you consult Abound Lifestyle Planning to take into consideration your particular investment objectives, financial situation and individual needs.



Lending Corner

Why should I have a regular Home Loan Health Check?

Just because you've spent ages making sure you have the right mortgage, it doesn't mean it will always be right for you. You need to contact **Abound Lending Solutions** regularly for a Home Loan Health Check to see if refinancing your mortgage would suit you.

Why now may be a good time for a mortgage health check?

Rate Decrease

In the current economic conditions with rates dropping and banks passing on only a portion of these reductions you may no longer be on the best deal available. A mortgage health check will advise you accordingly.

Things Change

Over time, your personal and financial situation may change. You may get a pay rise, or decide on a sea-change. You might go from a safe corporate salary to the more uncertain income of the self-employed. You might want to start a family, or need to finance their education. As your needs and priorities change, you'll probably find the right Home Loan product for you will change, and may need to review your mortgage structure.

New Products

In the past, there was limited innovation in the mortgage market. But now competition between lenders is fierce and new products are constantly emerging that might suit your situation better. Abound Lending Solutions can keep you up-to-date with new Home Loan products that may suit your current and future requirements perfectly.

Call Daniel from Abound Lending Solutions 9373 2844 for free no obligation mortgage health check

Insuring your Key People



Building up your business into what it is today has probably taken many years, lots of hard work, and no doubt quite a few risks along the way.

You certainly wouldn't want to jeopardise the business in any way. You could be doing just that if you have not taken adequate steps to secure its future operation.

What would happen to your business, for example, if you or a partner in the business died suddenly, suffered a trauma or became permanently disabled?

You may have insured your individual situation with life insurance to help protect your family's lifestyle on your death or incapacitation, but it is also important to consider things in a business context.

In most businesses, beyond the physical equipment and machinery, it is the employees who ultimately keep things running. A senior employee, such as a manager, director or sales executive, may be considered a key person. These people are critical to whether or not a company makes a profit.

So if something was to happen to that key person in the business, you as the other owner may be left with a business without someone there to bring in the income. You may want to offset that risk by insuring the key person and providing a lump sum injection into the business to help during the transition/replacement phase.

What is key person insurance?

Key person insurance involves the taking out of insurance on the lives of the people whose loss would cause your business to suffer.

Should your key person die, become disabled or suffer from a serious trauma, a lump sum benefit

would be paid to the business. In this way, key person insurance helps protect your business from the impact that the loss of this key person would have.

Without key person insurance, a business may suffer from the potential loss of key clients, reduced business growth and development, and the loss of goodwill. Furthermore, the business will need to replace the key employee and most likely have to train the replacement.

Features of key person insurance

Key person insurance will help protect a business by paying a benefit to compensate for loss of production and subsequent loss of revenue. The benefit will also give the business funding to find and train a suitable replacement without it losing financially from the loss of a key person.

To begin the process, the business should identify its key personnel. It is then important to estimate each key person's net worth to the business by considering how much the effect of losing each person would cost the business financially.

The owner should then take out life, disability and/or trauma insurance to protect the business from the impact of losing key personnel. The sum insured will be determined by the estimation of each key person's net worth to the business.

Premiums are paid by the business and if a claim is accepted on your plan for the event that you have insured, your business will be paid a benefit in accordance with the sum insured.

Issued by Aviva (Aviva Australia Holdings Ltd ABN 38 095 045 784 and its related companies and entities)

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Source: Aviva

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