

Newsletter, Sept. 2008

Market update

You will be well aware of the recent turmoil in the financial markets. You are probably remaining focused on the long-term as we always recommend, but the short-term market losses can never-the-less be concerning.

It's not been pleasant to watch markets over the past year. As for the wild ride we had in markets in the past week....it's unprecedented!

Is it close to the market bottom? We saw the market bounce up after the US Government's announcement last week. On Friday, 19 September, the UK markets had their strongest day ever recorded with a rise of over 8% in one day!

Essentially, the US Government is planning to spend US\$700 billion buying from financial institutions the securities that started this credit crisis. Consequently, some people are calling the bottom as being last week. Governments around the world, including the Australian Government, have also temporarily banned short selling (selling a stock you don't own in the hope the price falls). This should temporarily relieve some of the downward pressure, but it makes it hard to read market movements in the short term.

Also supporting the idea that the market must be close to a bottom is the scale of the market falls we have had this year:

- The ASX All Ords fell by 32% from its peak in November 2007 until the low reached last Thursday and by 20% over the past year.
- International shares have fallen by 35% since their peak in October 2007 and 20% over the past year.
- Emerging economies have fallen by 30 – 40%
- The Australian listed property sector is down 40% for the year.

Markets are unpredictable in the short term, but long term things become clearer:

- In the last 50 years of returns in Australian shares, there have been 7 annual returns lower than 10%, but only one negative 5 year return.
 - This negative was the 5 years to 1973 after the market had fallen more than 40% (OPEC oil embargo, preceded recession in 74/75) and in the following year the market returned +50%.
- There have been no 10 year negative returns.
- Time in, not timing is important – in the last 10 yrs the All Ords has delivered 11.5%pa. If you missed the best 10 days, your return dropped to 7.6%pa.

Is the market good value?

It is interesting to note that Price/Earnings ratio's (a measure of share price value) are as low as they have been since the early 1990's (Gulf war). Returns from 1991 to the next major peak (the Tech wreck) were very strong with the ASX All Ords delivering returns of 14%pa and global shares 17%pa

Medium to long term investors will be rewarded

It's impossible to say if we really are at a bottom, but it would be safe to say that medium to long term returns for diversified portfolios are looking pretty good from here. We remain cautious about investing substantial amounts of funds into the market right now given the volatility, but regular smaller contributions are good way to gradually increase your market exposure.

Overall, we are cautiously optimistic. We are sure to continue to see volatility, but the overall trend may be upwards.

Market ups and downs

Seeing your investment values fall is never pleasant. But as we always tell our clients, as long as you invest in a well diversified, well selected, portfolio of assets, then in the long term, the returns should justify the risk. Higher risk portfolios (those currently down significantly), should deliver better than average long term returns.

Please have a look at the following article from BT about market ups and downs for some perspective on short and long term returns.

Please contact us if you would like to discuss your portfolio:

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Note: The information provided in this document is general advice and may not be appropriate for your specific needs. Please speak to an adviser before acting on any of this information.

Superannuation returns in perspective

By BT Financial Group, 17/07/2008

Jitters about the effects of market movements on superannuation are only natural, but should you really be worried? Recent headlines like “Super fund returns worst for 20 years”¹ highlight the effects market movements have on short-term super performance.

To put this in perspective, we spoke to BT’s Head of Investment Solutions, Stewart Brentnall, about the ‘ups and downs’ of super investing.

Some historical perspective

As Stewart points out and as the chart below shows, over the last twenty years or so, there have been at least ten major events that have had a significant impact on the Australian share market, starting with the Wall Street Crash in 1987.

“Each of these events resulted in a sustained period of market volatility. But while these events may have caused great uncertainty at the time, history shows us the Australian share market inevitably bounced back.”

The key, according to Stewart, is to keep things in perspective and focus on long-term investment objectives, rather than on what’s happening in the market. “Too often,” he says, “investors get caught up in the hype of short-term market movements and make rash investment decisions.”

History says the only way is up?

Key market events and accumulated returns of global shares, based on \$1,000 invested in December 1984



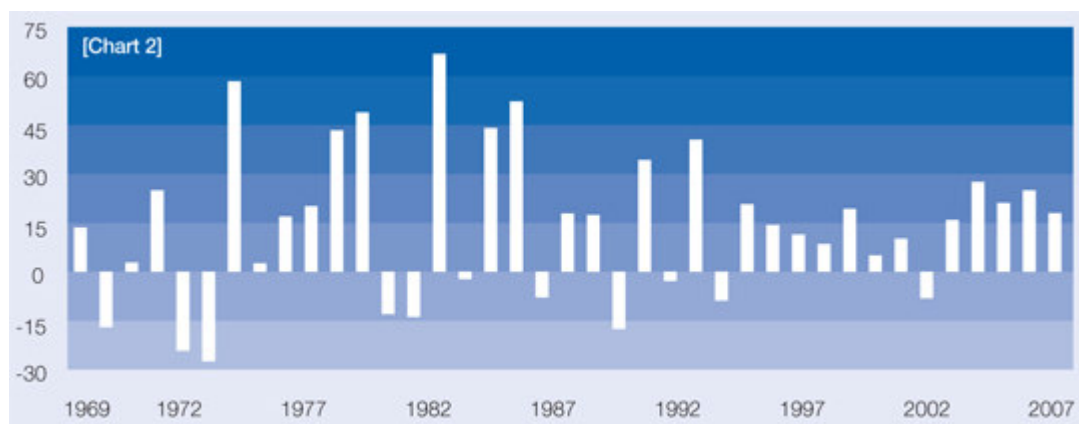
The long and short of super investing

For a better idea of how time can help your super investment, take a look at the charts below.

“Chart 2 below,” says Stewart, “shows the one year returns to 31 December for the Australian share market over a 39 year period from 1969 to 2007. As you can see, the Australian share market experienced negative annual returns 11 times over the last 39 years.”

Volatility hurts in the short term²

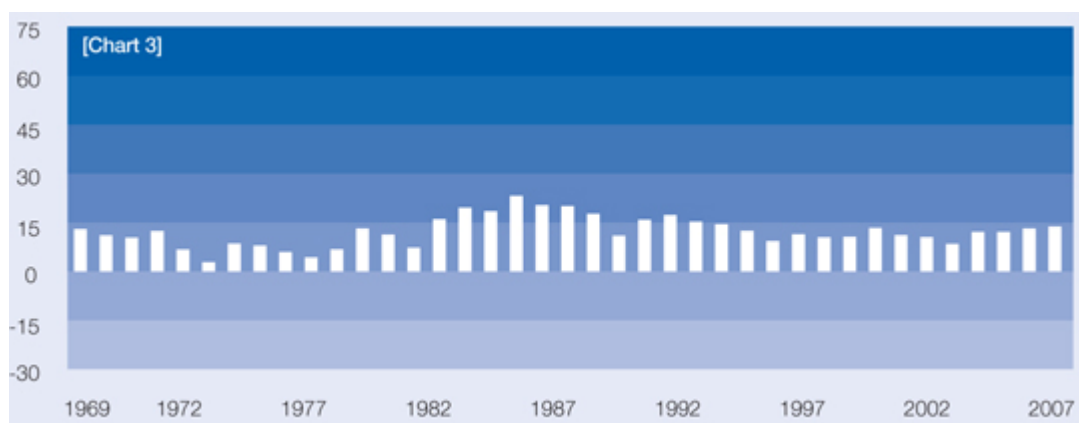
Annual returns of Australian shares (%) - All Ords / ASX S&P Accumulation Index (since 1969 until end 2007)



Now look below at chart 3, which shows the rolling ten year average returns for the Australian share market over the same 39 years. “You’ll notice that over each ten year period, the Australian share market didn’t post a single negative return. Even for the ten years to 1987, which included the famous ‘87 sharemarket crash, the local share market still managed to post an average return of 24.4% per year.”

Volatility hurts much less in the long-term²

Rolling 10 year returns of Australian shares (% annualised) All Ords / S&P Accumulation Index (since 1969 until end 2007)



Diversify your super

For super investors, Stewart also emphasises the importance of diversification - or spreading your super over a range of asset classes, such as shares, property, fixed interest, cash. “It usually pays to diversify, which should guarantee you have some of your investments in the best performing asset classes at all times.”

What next?

As for what to expect next, Stewart expects more of a bumpy ride in the short-term, so a cool head and long-term view are vital. “Remember,” says Stewart, “time is the friend of good investment decisions, and the enemy of bad ones.”