

Appreciating what Really Matters

The unravelling of the global financial system has been a major focus of our attention over the past twelve months. But nothing has focussed my perspective more poignantly than the comment of a long term client who said in a phone discussion-

'Alan, there is love, family and friends, and all the rest is theatre.'

Such heartfelt and straightforward comment provides the pause for thought that is essential in difficult times.

The global financial crisis, for all its short term importance, will pass and the economy and markets will move on. And what really matters will once again properly assume centre stage.

In October of this year we forwarded an *RV Client News - Special Report* to all clients. In the period since then that analysis of the global situation has remained essentially sound. The short article on p.2 updates the analysis.

RV Services – Staff Increases for 2009

Times such as those we have experienced over the past months place pressure on individuals and on the revenues of business. A one year in one hundred event is not easy to deal with. In such circumstances the first reaction of business is often to reduce staff and services to cut costs.

At RV we have determined to do the opposite. At a time when the need for services to clients has increased, we have elected to employ three additional staff members, taking our total staff to twenty-one.

Colin Pettigrew has joined us as an experienced and highly regarded adviser. Kylie Sprake and Maddie Ladele, both experienced PA's, have boosted our admin support for clients. On behalf of us all we welcome them.

Best Wishes to you all, and to your wider families, for the holiday season and for the year ahead. Thank you for your patience, courtesy and support during a tough year for all. We look forward to working with you in 2009 and beyond.

Alan – on behalf of RV Staff



RV Welcomes - Colin Pettigrew

We have made it clear in previous editions of *RV Client News* that recruitment of RV advisers is a matter which we undertake with great care – both with respect to the quality of the person and to their skills and training.



Colin joined RV in November after the best part of two decades as an adviser with a major education sector credit union.

Colin is a person we have long held in high regard on the basis of his qualifications, skills, public sector expertise and service ethic. As with all RV advisers his commitment to ongoing service relationships was important in our decision to add him to our team.

After a short orientation period Colin will assume a core role in providing expert technical services to current RV clients while developing his own base of new clients.

He commenced his working life as an accountant (B.Comm.CPA) before embracing education service retirement planning and strategy as the focus of his longer term career.

As a committed family person with three adult children and, almost as an RV prerequisite, a keen interest in bushwalking, Colin adds to the depth and strength of the RV service team.

RV Office Xmas Closure 2008

Close: Wed. 24th Dec. at 12.30 pm
Re-Open: Mon. 5th Jan. (most staff)
Full Staff: Mon 19th Jan.

Client Perspectives – A World Changed

In our Special Report to clients in October 2008 we outlined the extent to which the paralysis of the world's financial system threatened national economies globally.

We have seen a 50% fall in the Australian sharemarket index over twelve months, the price of oil double before falling 60%, and the Reserve Bank reduce interest rates by 3% p.a. over as many months. The fall in commodities prices (metals in particular) has been accompanied by a 30% fall in the value of the Australian dollar relative to the US dollar.

These indicators could be viewed as a cause for alarm but it is important to have a perspective on the wider picture. Governments worldwide appear to have succeeded in stabilising financial markets and in underpinning core levels of liquidity.

While real economies will be buffeted for some time, the outlook for markets is improving.

Jobs will be Lost

The Australian economy is fundamentally sound but does not remain unaffected by events world wide. In the coming year we are likely to see significant job losses and falls in property prices.

Slowing of the Chinese economy has reduced the demand for commodity exports, in particular iron ore, from Australia. It will take a little time for the Chinese Government's infrastructure spending programs to crank up and reinflate their economy.

Notwithstanding the global economic slowdown, the primary reasons for the 50% fall in the Australian sharemarket (CBA's share price has fallen from \$60+ to \$28+ per share) lie in factors other than the fundamental value of the assets.

Australian Assets Oversold

There is general consensus that the extent of the falls in Australian shares has been driven by the need for highly geared hedge funds, highly leveraged investors (those who have borrowed heavily to

invest) and foreign investors in need of cash, to sell no matter what the price.

As a consequence high quality Australian assets appear heavily oversold. High quality financial and industrial companies currently generate franked dividend income streams of 7% -10% p.a. as interest rates fall quickly towards 2%-3% p.a. When the quality of the corporate assets is taken into account there is the likelihood of a sharp and sudden upsurge in the share price of quality companies.

It is not possible to predict when markets will surge but, typically, it happens when it is least expected. Markets tend to lead the real economy and rebound suddenly for no immediate identifiable reason. A surge of some 50% in the Australian sharemarket at some point in the coming two to three years will not surprise.

Short and Long Term Risk

For most investors and retirees, now is the time for patience.

It is valuable to understand that over the past four decades the value of interest bearing investments (capital and interest), adjusted for CPI and average wage growth, has fallen in 95% of quarters and increased in value in only 5% of quarters.

Australian shares and dividend income by comparison have increased in value over the same period in 60% of quarters and lost value in only 40% of quarters. (*Actuary Australia – April 2008 pp10-11*).

It can be emotionally demanding at a time such as this to maintain a commitment to a longer term strategy. And indeed, market events of the magnitude of the year just passed have been rare. But it remains important to see beyond a year just passed.

The long term protection of income and capital does not reside in cash. Cash provides short term security. Over the long term it has historically represented high risk investment.



RV Client News is published by Retirement Victoria as a service to clients. The information contained herein is of a general and summary nature only and is neither represented as being nor intended to be personal advice on any matter. No person should act on the basis of the information but should seek appropriate professional advice based upon their own personal circumstances. Copyright Retirement Victoria – Dec.2008. Retirement Victoria Partnership ABN 13 409 340 986 AFSL 273316

Retirement Victoria

(Alan Cooper, Geoff Allen & Staff)
Level 3, 432 St Kilda Rd. Melbourne 3004
Ph. 9820 8088 Fx. 9820 8588
www.retirevic.com.au

