## YOUR MONEY



SPRING 11

# your lifestyle



### welcome to the Spring edition

Spring is definitely in the air. The evenings are getting lighter, the weather is warming, flowers are blooming and the racing carnival is just around the corner.

While we generally know what to expect from this season, investment markets on the other hand can't seem to decide either way. One week the headlines are full of doom and gloom, the next, markets are on the up with news of business confidence on the rise.

This latest rise of uncertainty however, is driving people to control what they can, like prioritising purchases, holding onto investments and saving where they might once have used the credit card - reducing their debt and committing to long-term financial goals.

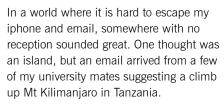
Australians are getting back into the good habit of saving, weighing up their spending, and in turn helping to build a stronger more resilient economy.

While we don't have the ability to control exactly what happens within world markets, in this edition we provide a variety of perspectives to help you make sense of all the noise.

## consider the good news, not just the bad

by Paul Clitheroe

After a busy year with plenty of volatility, I recently took a couple of weeks off to refresh and step back from the current day to day economic drama.



Now this looked like just the right idea. No reception for phone or data, loads of exercise and no real need to think, except about getting up to the 19,300 foot peak. We struggled up to the top of Kilimanjaro in six days with half the level of oxygen, stayed on top of the mountain for a day and night and then dropped back down the mountain in less than 24 hours. In fact it sounds exactly like the Australian share market. Some years ago it plummeted like a stone to around 3100, struggles back to 5000 a couple of months ago, and then as I write this it has again fallen back to the low 4000's.

Maybe everything in life is somehow linked to gravity. It is tough going up and easy coming down. By the time this goes to print, for all I know the market may be up 20 per cent or down another 20 per cent, but what surprises me is that there is no real new information, just a lack of confidence.

So what do we do? Well, our current plan is to pull our heads in, cut spending and increase saving. I know retailers are not happy, but I vote 'yes' for this strategy. Australians are clearly saving at record levels, paying down high interest debt and building up a safety margin. Financially robust Australians make for a much stronger economy in the long term.

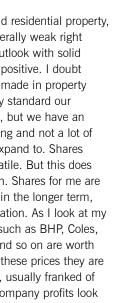
In terms of shares and residential property. while property is generally weak right now, the long term outlook with solid population growth is positive. I doubt much money will be made in property for some time, by any standard our homes are expensive, but we have an undersupply of housing and not a lot of appropriate land to expand to. Shares will as always be volatile. But this does not fuss me too much. Shares for me are about dividends and in the longer term. inflation type appreciation. As I look at my portfolio, my shares such as BHP, Coles, Woolies, the banks and so on are worth less on paper, but at these prices they are paying me dividends, usually franked of around 7 per cent. Company profits look solid, so while at times dividends may rise and fall I do not see them going away.

Personally, I think we are desperately searching for bad news and ignoring the good news. Our economy is all about confidence and a complete lack of it can be a huge problem. Can I suggest we consider both sides of the

news, good and bad? In this context the world is not such a bad place.

Paul Clitheroe is a founding director of financial planning firm ipac, Chairman of the Australian Government Financial Literacy Board and chief commentator for Money Magazine.





## making sense of global markets

Share market behaviour over recent years could be characterised as a tug-of-war between the economic challenges in advanced economies and the robust profitability of businesses around the world. Here we provide an overview of the key issues investors are watching closely. We also highlight the factors that provide confidence in the medium-term outlook.



risks on their balance sheets.

#### China and emerging nations

- Chinese policymakers need to carefully manage growth to maintain the strong momentum in the Chinese economy.
- Inflation pressures have risen requiring policy responses to ensure it does not get out of hand.



- The Chinese economy continues to grow at more than 9 per cent per annum, driving global economic growth and demand for commodities, goods and services from countries like Australia
- Lower oil and food prices have taken some of the pressure off inflation.

## outlook for investors

Confidence in the medium term outlook for investors comes from the fact that share prices today do not reflect the quality of global companies and their strong earnings.

Take Google as an example. In July, Google delivered a record breaking profit of US\$9 billion, or a year-onyear profit increase of 36 per cent. Yet, even with this significant profit increase in July, the share price was 23 per cent cheaper in August than it was at the beginning of 2011. This is just one example of a company with strong fundamentals whose share price has recently fallen. Other examples include Wal-Mart and the Commonwealth Bank of Australia. The lower prices of many companies explains why both the Australian and global sharemarkets are considered to be good value by historical standards.

A key reason many companies are performing well is because they can now make profits in places where they could not 10 or 20 years ago. This includes places like China and Brazil. Nestle recently made an all cash purchase for a Chinese company increasing Nestle's market share in China by 7 per cent. Analysts estimate this could boost Nestle's total profit by 3 per cent.

Yet, the strong corporate fundamentals we see in the market today are not only a matter of capturing new growth in emerging economies. More effective business practices and lower costs have helped companies. For example, corporate profits have increased by 6.3 per cent since the GFC.

The performance of companies is helped by their ability to capture positive economic growth around the world. While there are challenges, overall global economic growth remains firm, with variations from region to region and country to country.

Even though global companies are accessing growth to deliver profits that are near an all-time high, share prices of companies, such as Google, are currently lower because many investors have been focusing on the short-term uncertainties of the economic environment. This makes them reluctant to invest. As investors become more confident, share prices are well placed to rise.



- Consumer confidence has weakened and job losses in some sectors has added to the nervousness.
- A high AUD(\$) has impacted on the earnings of businesses that export products overseas. Lack of consumer spending has also dampened the prospects of some domestic companies.
- Close proximity to Asia is benefiting the economy.
  Resource companies that sell the raw materials needed by these fast growing nations are performing well.
- The Reserve Bank of Australia has the scope to kick start the economy by cutting interest rates if required.
- Australian banks are in a strong position.

## save money on your next holiday

With the Australian dollar as competitive as it is, more and more Aussies are considering a trip overseas to take advantage of the record exchange rate.

Even if you don't have lots of spare money, travel is a lot cheaper than it once was with budget airlines and technology driving down prices. Here are a few ideas to help make your dollar go further when planning for your next holiday.

#### take advantage of web deals

The internet can offer some amazing bargains that can save you huge amounts of money. Websites like flight centre, webjet and expedia allow you to directly compare airfares and hotel prices. Discounted accommodation websites such as www.wotif.com.au, lastminute. com or www.hotelclub.com can also offer some last minute bargains. Airlines also have seasonal sales during the year so subscribing to their members database would mean you'll be notified of any upcoming sales.

Group buying websites are another money saving innovation offering cheap accommodation, activities and restaurant deals. There are group buying sites for many major foreign cities so if you are planning an overseas holiday, it may be worth signing up to a few foreign group buying sites to see what's on offer. When you're no longer interested you can always unsubscribe.

#### staying in touch economically

Emailing and webcamming are great ways to stay in touch with family and friends while you're away. There are internet cafés (and laundries and libraries) all over the world. A good idea is to upload photos

onto photo sharing sites such as Flickr (www.flickr.com) or even start your own travel blog so you have a travel diary waiting for you when you get home.

Using 'global roaming' on mobile phones can be expensive but prices vary significantly. It's smarter to use mobiles for text messages (which are cheaper) to make arrangements to phone family and friends from a landline at a convenient time. Alternatively, use International Calling cards so you can control how much you spend.

Otherwise check out the various internet calling options, some of which are completely free, even for video calls. If you own a smart phone it gets even easier as there are applications which allow you to make free calls, SMS, MMS over 3G or Wi-Fi to other users with the same applications (worldwide). Depending on where you are travelling, many hotels and some restaurants now offer free WiFi.

#### get plugged in

If you're taking your mobile phone, laptop, razor or hairdryer, you'll need an adaptor – buy one before you leave home, they're cheaper here.

#### banking from far away

ATMs are plentiful overseas but don't give you your account balance. Be wary of the transaction costs overseas banks charge for accessing your account - they can be very expensive. Try using internet banking to check your account and move money about.

There are some travel credit cards with no annual fees, no currency conversion fees and no international transaction fees which are a great way to save when you are travelling.

#### check local bargains

Often there are significant price differences between home and overseas. For instance, a camera may be cheaper in Italy but a haircut is a lot more expensive.

#### take public transport

Don't try to drive and park in major cities. If you think driving into Australian cities is difficult and expensive, you should try Europe. The best plan is to take the bus/tram/train/subway and if you must drive, park around the outskirts of the city, and catch public transport. It's also good fun to mix with the locals.

#### eat where the locals do

Many prominent eateries are tourist traps. Take a stroll up the back streets and you can often find excellent food at a fraction of the price.

You never know - if you save money as you go, you could afford to extend your holiday for another few days, or even weeks!



### don't keep us a secret

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