



# FIDUCIAN FOCUS

Summer 2009

## INVESTING FOR A RECOVERY



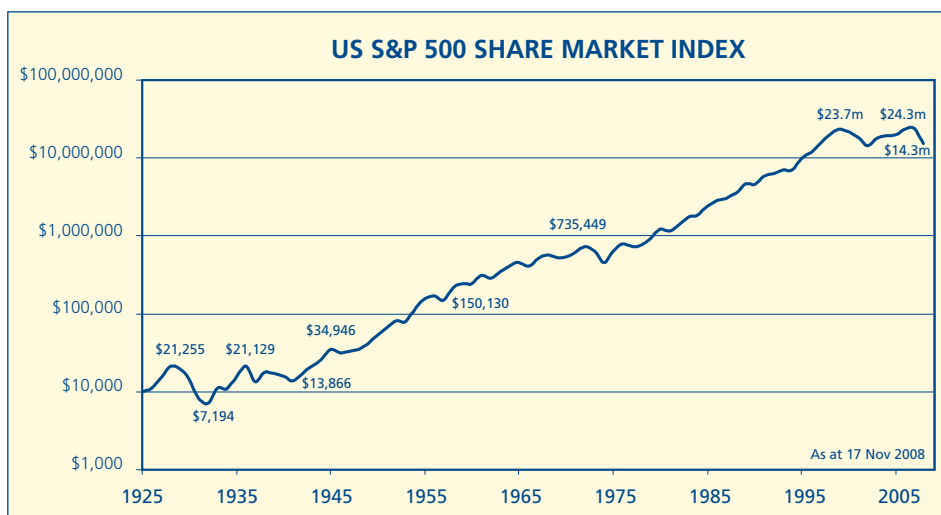
The Australian share market has not been spared the heavy falls that have afflicted markets around the world over the past year. From its peak on 29 October 2007 to its low of 20 November 2008, the domestic share market has dropped a staggering 51% (ASX200). The only comparable falls were during the Wall Street crash of 1929, the oil crisis of the early 1970s and the 1987 worldwide stock market crash. One difference with these earlier falls, however, is that the current collapse has also coincided with a massive drop in the value of the Australian Dollar (down around 40% against the \$US between 31 July and 27 October 2008). This current collapse in the stock market has had very little to do with domestic issues and has occurred despite a relatively strong domestic economy. Until now, the Australian economy has enjoyed solid growth and has had a federal

government without any net debt, strong and well-capitalised banks, low unemployment, low inflation, a booming resources sector and reasonable share market valuations. Nevertheless, because of their own problems in their home countries, foreign investors have been withdrawing funds from the local market, while global hedge funds have been trying to sell assets in order to meet redemptions and these factors have also dented the confidence of domestic investors.

Despite all this, we have to try to maintain a sense of perspective about the current stock market fall. In particular, one by-product of the massive sell-down is that valuations have become compressed. Put another way, the market looks considerably cheaper now than it did a year ago. For example, by end-October, the forward price-to-earnings ratio for the Australian share market was around 8.2 times earnings (7.5 excluding financial stocks, UBS data). Even assuming that earnings could be lower than forecast, the market appears cheap by most historical standards. In other words, now could actually be a good time for investors to begin to invest in the share market with an eye on economic and market recovery in time.

## WHAT HAVE PREVIOUS BEAR MARKETS LOOKED LIKE?

The graph below shows the effect of previous US bear markets on an initial investment of \$US10,000 in the stock market in 1926. Although large falls have been experienced by investors over the years for a wide variety of reasons, including major wars and the Great Depression, share markets have always bounced back in time to take the value of the investment to new highs before once again retreating. Even after the recent worldwide market collapse, the value of the initial \$10,000 investment had climbed to over \$14 million by 17 November 2008.



“  
*In the middle  
of difficulty*”  
lies opportunity

Albert Einstein

# PROTECTING YOUR LIFESTYLE

Insuring tangible items (like a house, car and personal effects) that have an identifiable value is an almost automatic process for most people. However, when it comes to an intangible item, like your ability to earn an income, it is generally far from automatic.



In many cases the best way to reduce your potential risk is through Personal Risk Insurance. If you are a small business owner you may also

<b>Personal Risk Insurance</b>
Income Protection Insurance
Trauma Insurance
Total & Permanent Disablement Insurance
Term Life Insurance
<b>Business Risk Insurance</b>
Key Person Insurance
Business Expense Insurance

need to consider Business Risk Insurance.

To help you determine the importance of protecting your ability to earn an income consider how your lifestyle would change if:

- Your income suddenly stopped?
- Your business stopped earning?

To find out more about how insurance can help you protect your future lifestyle make an appointment to see your Fiducian Financial Adviser.

## GOOD NEWS FOR PENSIONERS - DEEMING RATES LOWERED

The Centrelink deeming rates used for means testing financial investments have been reduced by 1%, effective 17 November 2008.

This will result in increased payments for those pensioners whose payments are determined by the Income Test. For example, for those receiving the Age Pension with financial investments of \$60,000 their deemed income would decrease by \$600, which based on the income test alone could result in a pension increase of up to \$240 per year. The new deeming rates are:

Family Situation	Threshold	Deeming Rate	
		New Rates	Old Rates
Single	Up to \$41,000	3.0%	4.0%
	Above	5.0%	6.0%
Member of a Pensioner Couple	Up to \$68,200 (combined)	3.0%	4.0%
	Above	5.0%	6.0%
Member of Allowee Couple	Up to \$34,100	3.0%	4.0%
	Above	5.0%	6.0%

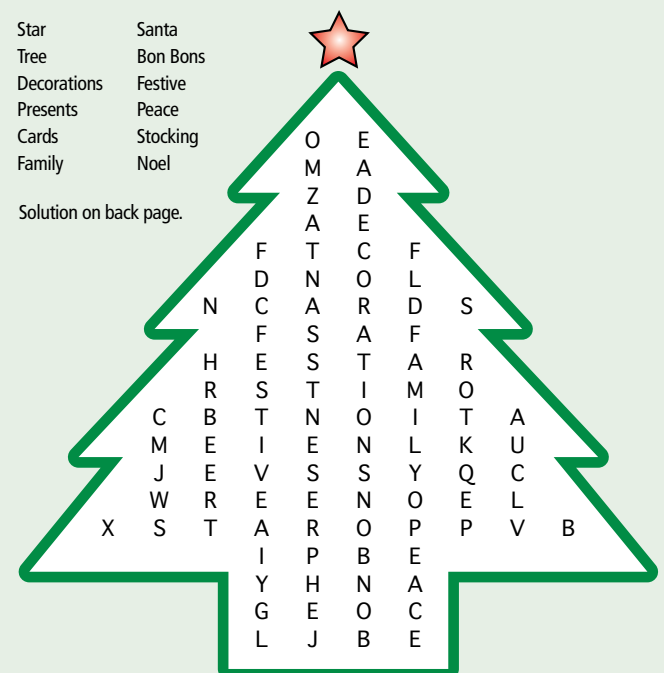


### 5 MINUTE PUZZLE

Which word occurs twice. Which ONE of these words does not appear.

- |             |          |
|-------------|----------|
| Star        | Santa    |
| Tree        | Bon Bons |
| Decorations | Festive  |
| Presents    | Peace    |
| Cards       | Stocking |
| Family      | Noel     |

Solution on back page.





## WHY HAVE THE SHARE MARKETS FALLEN AND WHAT IS BEING DONE ABOUT IT?

The current deterioration in the global growth outlook and collapse in world stock markets is the result of a worldwide 'credit crunch' or contraction in lending by banks and other financial institutions. Behind this has been a regrettable drop in bank lending standards in the US in recent years, partly the result of coercion by the US Congress in the form of legislation designed to encourage bank lending to low income borrowers. 'Sub-prime' or poorer quality loans in the US had increased to around 15% of all US mortgages by 2007 (RBA data) and were in many cases packaged into what were known as 'collateralised debt obligations' and sold around the world to investors eager to access their high returns. Also helping to lure investors to these packages (or CDOs) were AAA ratings in many cases, which, in retrospect at least, could not have been justified and which reflect a bad lapse in vetting standards by these agencies.

The effects of the credit crunch appear to have been exacerbated by a failure of some central banks and governments to comprehend early enough the full dimensions of the logjam in credit markets and its implications for the real economy, due to an excessive focus on the 'fight' against inflation. In the US, some members of the central

bank (the 'Fed') were still arguing against interest rate cuts in late 2007, although the Fed eventually began to aggressively slash rates in January 2008. European and other central bankers have taken even longer to realise the extent of the problem, although more recently we have finally seen co-ordinated action being taken across the world. The good news is that extensive 'rescue packages' are now being implemented. These include, in particular, interest rate cuts to facilitate spending and measures to re-capitalise the banking system. A major re-capitalisation of banks has become necessary because house prices in the US and parts of Europe have been falling and in consequence loans have had to be progressively written down on bank balance sheets. This in turn has led to a serious restriction in the provision of new credit. Ultimately, with our modern global economic system built on debt finance, it is vital that asset prices be held up.

The following table sets out the extent of rescue measures implemented or announced by governments and central banks around the world by 22 October 2008. In time we would expect that support measures will be successful in restoring global growth and investor confidence.

### Worldwide Government Support Packages<sup>(a)</sup>

	\$US Billions	% of OECD GDP
<b>(A) Funds for the Re-capitalisation of Banks</b>	<b>644</b>	<b>1.7</b>
<b>(B) Purchase of Assets</b>	<b>647</b>	<b>1.7</b>
<b>(C) Other<sup>(b)</sup></b>	<b>1,229</b>	<b>3.2</b>
<b>Total (A+B+C)</b>	<b>2,520</b>	<b>6.6</b>
<b>Guarantee of Bank Liabilities<sup>(c)</sup></b>	<b>4,771</b>	<b>12.4</b>

(a) Source: Bank of England Financial Stability Report, October 2008 (data as at 22 October 2008)

(b) Includes liquidity facilities in France, U.K. and US and the bailout of Northern Rock and Bradford & Bingley

(c) These guarantees include money market borrowing and term debt

“*Effort only fully releases its reward after a person refuses to quit.*”

Napoleon Hill

# FIDUCIAN IN THE COMMUNITY



Through our involvement with projects within the Rotary Club of Sydney, Fiducian is again proud to be the major sponsor of the annual FIDUCIAN Your City Project. The project, which has been running within Sydney Rotary since the early 1980's, sponsors a group of 20 children from far western NSW to travel to Sydney for a fun filled week of sightseeing, learning and motivational activities.

Once again this year, high school students from Bourke, Cobar, Narromine, Nyngan and Warren Central travelled to Dubbo by Country Link Coaches, meeting at Dubbo Railway Station for a XPT to Central Station, Sydney. Apart from the

formal sessions, their exciting week included visits to the Power House Museum, IMAX Theatre, the Australian Museum, Maritime Museum, lunch at the revolving restaurant in Sydney Tower, a tour around the Rocks area plus a cruise around Sydney Harbour on a Captain Cook Cruise.

This is Fiducian's second year as major sponsor and the fourth year running as supporters of the project through employees that are also members of the Rotary Club of Sydney.

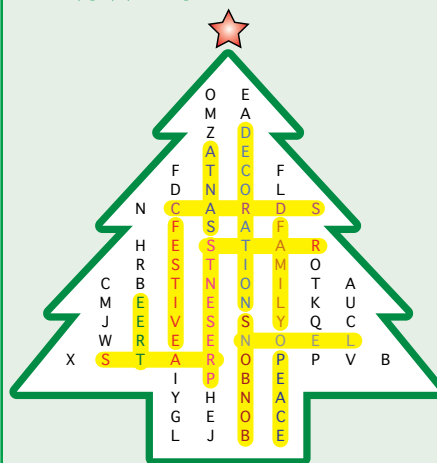
We hope all the kids enjoyed their time in the Big Smoke.

## MALTESE RADIO PROGRAM



Over the last three years, Fiducian has also been pleased to sponsor the Maltese Community Radio Program. Our sponsorship and the generous support of local volunteers, mainly retirees, ensures the successful airing of the program. The Community program is broadcast at 10.00am every Sunday on 2GLF 89.3 FM and reaches the Maltese community with news and practical advice. If you understand the Maltese language, you may want to tune in!

## 5 MINUTE CROSSWORD ANSWERS



Answers:

Star appears twice

Stocking does not appear



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**Fiducian Financial Services Pty Ltd**

ABN 46 094 765 134

AFS Licence No. 231103

Level 4, 1 York Street, Sydney NSW 2000

### Correspondence

GPO Box 4175  
Sydney NSW 2001

Telephone: 02 8298 4600

Client Services: 1800 653 263

Fax: 02 8298 4611

Email: [info@fiducian.com.au](mailto:info@fiducian.com.au)

Your local Fiducian Financial Services Representative is:

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