

smart TALK

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FROM THE DESK OF PHILIP ENGER



Dear Reader,

It is often difficult to explain complex behavior because there is scant understanding of the events taking place or even the words/concepts used to describe those events. Even simple, generally understood concepts such as 'market' in the vocabulary of financial analysts can assume unexpected dimensions.

All references in our daily exposure to market information, market trends, the stock market, currency markets, the orange concentrate market, etc. reflect and appropriate an esoteric array of disparate events, values and seemingly unrelated relationships. The interesting thing about these economic indicators is that they have one thing in common: a benign neutrality. They are neither right or wrong, fair or biased, rational or irrational.

THE COMPLEX MARKET

Whatever we may all think of the value of something, fairness, rational behavior, price, etc; the market, that benign mechanism, facilitates a trade and as such merely provides a record of what happened between buyers and sellers at a given day or particular point in time.

The market reflects a consensus view about what something is worth at a particular point in time. All markets have a dynamic aspect to them as the information available to buyers and sellers and the prevailing sentiment is constantly changing. It is therefore difficult to predict how any new information will impact on the collective consciousness.

All news, rumor, etc. has the potential to influence and impact on public sentiment/opinion, corporate prospects, that can drive or distort market decision making processes. The market merely reflects a bewilderingly complex and chaotic chain of events that tend to feed off itself and become self-fulfilling or totally unpredictable.

I have written in the past about seemingly unrelated events and circumstances, like the volcanic eruption in Iceland or sovereign debt in Greece that can generate enormous turbulence in financial markets from there to everywhere. Because all information both public and private has the potential to impact on market participants in unpredictable ways, the impact of information or rumor may only be rationalized with the benefit of hindsight. On a particular day anything can happen, and

it often does, so it is best to expect the unexpected and be prepared to shoulder the long term risks in pursuit of reasonable returns on investments.

OUR STRONG AUSSIE DOLLAR

The strong surge in the value of the Australian dollar in the last six months and its rise to parity or near parity status with the US dollar has consequences for the local economy that are both positive and negative. Like with everything there are always winners and losers. While what we pay for imports is cheaper now and going overseas seems easier than ever, our farmers, manufactures, tourist operators, education providers, etc. are doing it tough, as our export directed goods and services are now more expensive overseas and so are at a competitive disadvantage.

Our strong currency is notionally anti-inflationary because it should be exerting a downward pressure on the prices of goods and services. (You may not have noticed this trend in your local supermarket, but that's another story.) The lure of cheaper imported goods on the other hand, has the potential to increase spending in volume terms and distort consumer spending in favor of imported goods away from the local equivalents. This can feed through to inflationary pressures, which can (and is) in turn driving up local interest rates, which in turn is hurting mortgage payers, and small businesses who routinely run overdrafts.

The other side of this situation is that pensioners and investors in banking stocks are reaping a profit and so are happy to see interest rates creeping up. As about three quarters of the Australian economy is non tradable, as it neither exports or competes against imports, it is not directly effected by the level of the Australian dollar.

There are also some structural impacts on investment strategies to recognise and leverage. Because the Aussie dollar is strong, it is notionally an ideal time for our mining sector, for example, to carry out much needed investments in infrastructure projects, not only because it is now particularly cost effective time to do it, but it happens to be the right time to do it, in terms of where we are in the present business cycle.

As you can see there are always complex issues operating in the market place that have the potential to overwhelm and frustrate.

It is useful and important to understand that whatever the omnipresent market deals up to us, your portfolio investments are part of the whole alchemy. However, the pointy end of our connection with the market place involves the management of your assets. As it is only

possible to actualise a loss or secure a profit from an existing investment if that investment is sold and exposed to the whim of the market place, the real value of an investment lies in its ability to generate cash flow and provide the potential for long term capital appreciation.

While it may not always be possible to keep these two perspectives apart, it is important to do so to foster a healthy investment attuned mentality.

Furthermore, whereas classical economics assumes that people behave rationally and tend to make sensible investment decisions, modern behavioural theorists assume the opposite. The above dissertation clearly supports the notion that on the whole, the world is a 'jungle'. The evidence gathered by close and extended observation in times of great market optimism and pessimism, draws one to the inevitable conclusion that manic buying binges and panic stricken selling sprees, is really 'normal' market behaviour.

It is no doubt possible to use chartist principles and assume that markets will in the end behave rationally. The reality is that this approach to share trading cannot sustain a significant winning margin, and do it consistently. Trying to pick market peaks and troughs is not for the feint hearted.

We at Dollar Growth Group believe that to control and limit the impact of considerable risk factors that dominate the market environment, it is by far the best strategy to buy and hold blue chip investments as a way to limit exposing clients to excessive risk factors at one level, and to secure the best and safest returns on investments in the long run, at the all critical performance delivery level.

FINANCIAL CONCEPTS

Before closing this final newsletter for the year, I would like to return to the idea that there is mass confusion in the market place about what vital financial concepts that people should know about, mean, and how they are able to make or break a family's quality of life as it approaches retirement.

A recent survey of 288 Australians aged between 50 and 64 years found that more than one in three had little understanding of terms such as "transition to retirement", "non-concessional contributions" and other terms used by the superannuation industry. This is despite the fact that Australians have more than \$1.2 trillion invested in superannuation, and for some/most individuals it is by far the single biggest asset they have.

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The survey found women were more likely to be confused by industry jargon than men. More than 42 per cent of women had not heard of "transition to retirement", compared to 35 per cent of men, and almost 60 per cent of women did not know what "non-concessional contribution" was, compared to 47 per cent of men.

In fact, "transition to retirement" is a strategy employed by people aged 55 or older who may salary sacrifice a part of their wage to superannuation, while at the same time drawing a pension from their superannuation. The strategy means they pay less tax on their earnings.

Finally, "non-concessional contributions" are generally contributions that are not tax deductible. They include:

- personal contributions that you do not claim as a tax deduction and
- contributions made for you by your spouse and
- certain amounts transferred from an overseas pension scheme which are not taxed in the Fund.

These contributions are also subject to an annual contributions cap. However, contributions that are excluded from this limit include Government co-contributions, certain CGT exempt small business sale proceeds, and personal injury proceeds where certain conditions are met.

If these are issues that are confusing and worrying you, please come and talk to us, as soon as possible!

As you can see there is a lot at stake, and a lot of difficult decisions and issues constantly challenge the ability of individuals to make appropriate strategic decisions that can effect their financial well being well into the future.

We at Dollar Growth are constantly amazed that people make critical financial decisions without seeking professional help. Invariably, problems and regrets arise that could have been averted if only advice had been sought, in time and from those who are familiar with the individual's overall personal circumstances.

With the holiday season just around the corner, I would like to wish all Smart Talk readers a happy seasonal break, and a very successful new year!

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