

Axis

MAGAZINE July 2011 | Financial food for thought



Market review and outlook

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Kick start your new financial year resolutions
Insurance number crunch

Asgard

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July 2011

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As another financial year draws to a close we look forward and start planning for the year ahead.

The new financial year prompts many of us to review our finances when we submit tax returns. It also presents the opportunity to think about strategies for the year ahead, whether you're thinking about tax strategies, investment, superannuation or wealth protection.

You should speak to your financial adviser about any changes to your situation over the last year or for advice about new opportunities in the market.

In this issue of Axis Felix Stephen gives his view on the months ahead and the anticipated financial market performance.

Felix points out that investor confidence in global markets is still being rebuilt in the wake of the global financial crisis. Recent natural disasters and political unrest in a number of countries seems to be slowing the process of building confidence and promoting economic recovery.

However Felix's outlook for the remainder of 2011 and into 2012 is positive, with many investment classes expected to perform well.

Also in this edition we look at some eye-opening facts on the underinsurance issue in Australia.

Protecting your family, your ability to earn and your assets are important considerations in any well-rounded financial plan. Now is always the best time to review your insurance needs, as the potential consequences can put your family, and your finances, under unnecessary strain.

So get the new financial year off to a good start by speaking to your adviser and setting goals for the year ahead.

Best regards

Craig Lawrenson
Head of Asgard



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Insurance number crunch

While many Australians are focused on growing their wealth, there is much less attention given to protecting the wealth they have worked so hard to accumulate. Let's look at some numbers.

4% the total Australian population with dependent children who have adequate levels of life insurance cover.

60% families with dependent children who do not have enough insurance to cover household expenses for a year if the family breadwinner were unable to work.¹

81% people think life insurance is too expensive, yet **61%** over-estimate the cost.²

31% people insure their ability to earn an income with income protection insurance.³ Yet **83%** insure their car.⁴

Insurance needs change throughout your life. It's worth talking to your adviser about your current insurance and whether you are adequately covered.

¹ IFSA/TNS Protection Gap research 2005

² ING Australia's Attitudes Towards Life Insurance, December 2008

³ TNS/IFSA Investigating Income Protection Insurance in Australia July 2006

⁴ AAMI Fact Sheet, Shopping for Car Insurance, September 2008

Market outlook



Felix Stephen
Manager Strategy and Research
Advance Investment Solutions

Global investment themes

The fallout from the global financial crisis from late 2007 through to early 2009 continues to plague the global economy and financial asset markets due to investors avoiding risk. The extremely slow pace of the global economic recovery and strong investor reluctance to incur capital losses on investments are partly to blame.

There has been a modest decline in economic activity which has been significantly exaggerated by a series of misfortunes, both natural and man-made, that destabilised the world.

Global geopolitical turmoil and social unrest have unsettled certain countries and destabilised the delicate global geopolitical balance.

Government debt default risks have increased in some European countries due to poor macroeconomic management, while inflation risks have risen in some of the emerging economies.

However, the new breed of gutsy and pragmatic policy makers in key economies around the world are likely to do whatever it takes to nurture their respective economies back to levels of sustainable growth and prosperity, through the implementation of prudent

and proactive monetary and fiscal policies.

We're positive about global growth during the second half of 2011 and into early 2012 as a stronger industrial production and inventory re-building cycle emerges, supported by favourable global financial conditions.

Financial asset market outlook

Equities

The outlook for both domestic and global equity markets is positive, with US and Japanese equities looking very attractive. As a result of their increased avoidance of risk, global investors have forced equities to be a relatively attractive asset class to own. We estimate total returns to be around 20% for domestic equities and around 25% for global equities over the next 12 months.

Fixed interest

The outlook for domestic and global fixed interest isn't positive for the second half of 2011 as risk averse investors have forced bond yields to become expensive. We anticipate bonds to offer better value around mid to late 2012, and for global and domestic bonds to return 3.5%.

Commodities

We expect commodity markets to remain extremely volatile in the short to medium term, with oil and copper prices remaining elevated due to supply shortages. We expect commodities to return around 18% over the next 12 months.

Listed property

We expect domestic and global listed property markets to return around 13% over the next 12 months as investors seek assets that provide them with a hedge against rising inflation.

Currencies

We expect the Australian dollar to weaken during the second half of this year, in particular against the US dollar, euro and the British pound.

Financial asset market outlook (total returns)

Asset class	Ultra short-term (1-6mths)	Short-term (12mths)	Medium-term (1yr-2yrs)
Global equities			
Australian equities			
Developed sovereign government bond			
Corporate credit and emerging government bonds			
Australian dollar			
Commodities			
Listed property			

 -1 to -5%
 -6 to -15%

 -16 to -25%
 +1 to +5%

 +6 to +15%
 +16 to +25%

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