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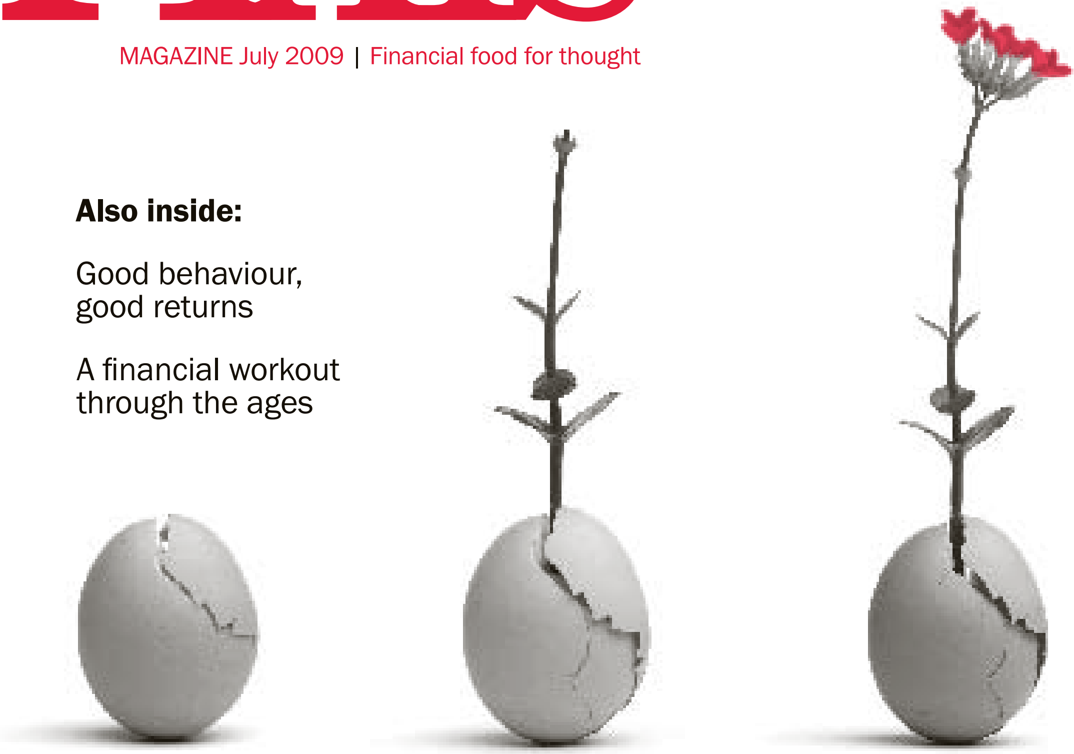
MAGAZINE July 2009 | Financial food for thought

Also inside:

Good behaviour, good returns

A financial workout through the ages



On the edge of a recovery?

Why investors should, once again, be investing with confidence

Asgard

Axis

Financial food for thought

Issue 19 | July 2009

What's inside

The start of a turnaround?

As the first few months of 2009 in financial markets continued to be challenging for investors, it's understandable that some of you may have some questions about the recent performance of your investments and super.

There have been some signs pointing to the start of a turnaround in investment markets. Indeed, since March this year when the Australian share market reached its lowest point since the highs of November 2007, the market has begun to regain some of its lost ground.

Our article 'On the edge of a recovery?' takes a closer look at this recent share market rise, and the reasons why investors should, once again, be investing with confidence.

In this edition, we also delve into the world of behavioural finance. 'Good behaviour, good returns' can help you understand your reactions to everyday investing situations with a simple test on your investor behaviour, and can help you make rational decisions when it comes to your investments.

Recent events in financial markets continue to highlight the importance of seeking financial advice. Our article 'a financial workout through the ages' reminds you of the value your adviser can add to helping you meet your financial goals, whatever your age or situation.

If you're still concerned about your investments, I encourage you to speak to your adviser to ensure your investments still suit your risk profile and long-term goals. Even if you decide to do nothing differently, it's worth having the peace of mind that you and your adviser have reviewed your situation.

Best regards,

Wayne Wilson
Head of Asgard

On the edge of a recovery?

The Australian economy may be in a mild recession, but investment markets are showing earlier signs of a healthy recovery.

Australian shares have regained over a quarter of its value since 6 March this year[1]. Overall market volatility is also subsiding, with the US S&P 500 Market Volatility Index now dropping below 30% after hitting 80% at the peak of the crisis[2].

Early recovery isn't limited to the share market. The Australian residential property market is also showing signs of a turnaround – a likely result of the Reserve Bank's lowering of interest rates and the Federal Government's boost to the First Home Owner's Grant. Despite the median value of Australian residential property falling by 3% in 2008, the first four months of 2009 has seen a rise of 2.8%[3].

While these indicators show that some investors are already positioning themselves for the recovery, here we look at the reasons why all investors should, once again, be investing with confidence.

[1] Returns to 30 June 2009. Australian share market measured by the S&P/ASX 200.

[2] Volatility measured at 30 June 2009.

[3] Measured by RP Data – Rismark Indices, The Age, 23 June 2009: 'Why home values hold up when all else turns down' by Mark Armstrong

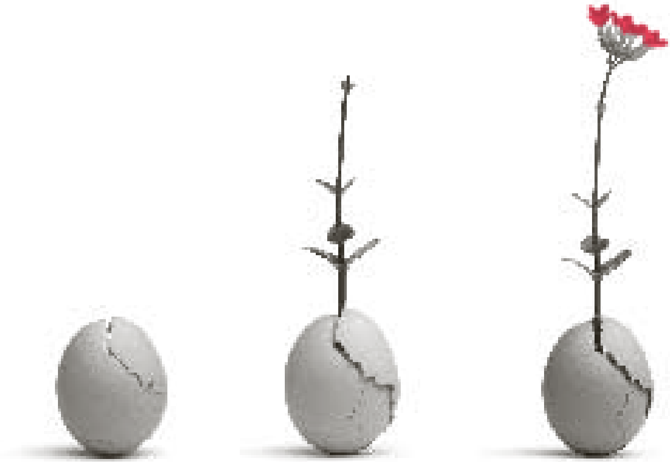
Is the worst in financial markets over?

Although it's forecasted that the economic impacts of the credit crisis will continue to unfold, like news of rising unemployment rates, it's likely financial markets have seen the worst of the crisis. It's widely documented that share markets lead the recovery, starting their climb 12 to 18 months ahead of the economy.

This is because financial markets in nature anticipate the future movements of the economy. While the stimulus packages provided by the Government in November and February will take some time to have a positive effect on the economy, financial markets by nature anticipate and 'price in' this positive effect.

A 'once-in-a-lifetime' event?

The global financial crisis is possibly one of the worst financial crises in history: the last time investors saw an event of this magnitude was the Great Depression of post-World War II.



However, investors can be reasonably confident they won't see a financial event of this magnitude again in their lifetime.

That's because the credit crisis will likely change the way financial markets operate in the future. When it became clear that the crisis had the potential to bring the global marketplace to its knees, governments around the world intervened, spending billions of dollars bailing out banks, insurance companies and other financial institutions. With this kind of investment, it's inevitable that governments now have a far greater influence over how these companies operate. With this influence will come increased regulation of financial markets, which will lead to tighter market controls.

It's likely investors will also approach investing with more caution in the future. Now reminded that higher returns come with higher risk, investors will better diversify their investments to spread risk and will avoid buying into complex financial instruments like mortgage-backed securities that they don't understand.

Investor confidence on the rise

The recent turnaround in investment markets may be linked to increasing consumer confidence. Take a look at two leading indicators which show that optimism is on the way up.

According to the June **Westpac-Melbourne Institute Consumer Sentiment Index,** 12.3% of Australians believe shares to be the best place to invest their savings. This is an increase from 6.7% in March, the lowest level recorded in the 34 years of the survey.

The **Roy Morgan Weekly Consumer Confidence Index** for 25 June was at its highest level since February 2008, driven by increasing confidence about the year ahead. The number of Australians saying we'll have 'good times' financially in the next 12 months (27%) is on the rise and at its highest level since March 2008.

Financial markets will recover quickly

Although market falls in the past year have been severe, markets and economies do move in cycles of growth – from boom periods to events like the global financial crisis. While past performance isn't a reliable indicator of the future, if history is anything to go by investors can be reasonably certain that markets should again recover.

The table below shows the annual return during previous market downturns, including the infamous Wall Street Crash of 1987, the Bond Market Crash in 1994 and the 'Tech Wreck' in 2002. Take a look at the average annual return for the five years after and it's clear that a significant loss one year doesn't necessarily mean the end of positive market returns over the long term.

History also shows that statistically, a recovery is imminent. The bull and bear markets graph on the next page highlights market trends since 1970. The grey line shows periods when the market moved in a positive direction (also known as a bull market) and the red line shows periods when the market moved in a negative direction (a bear market). Since 1970, the average bull market has lasted 42 months while the average bear market ran for 15 months. The current bear market we're experiencing began in November 2007– nearly 20 months ago.

As demonstrated by the Australian share market's recovery since its March lows, when markets recover, they recover quickly. This is why the experts keep reminding us that it's difficult to predict when to enter and exit the market and that missing the best days of a sharp market bounce can be costly in terms of long-term investing.

Major market events and the Australian share market

Year	Event	Annual return %	Average return for next 5 years %
1987	Wall Street Crash	-7.9	+9.9
1990	Keating's recession 'We had to have'	-7.5	+17.8
1994	Bond Market Crash	-8.7	+14.6
2002	The 'Tech Wreck'	-8.1	+21.1
2008	Global Financial Crisis	-43.0	?

SOURCE: S&P/ASX All ordinaries Index to April 2009, S&P/ASX 300 Index from May 2000. Past performance is not a reliable indicator of future performances.

Speak to your adviser

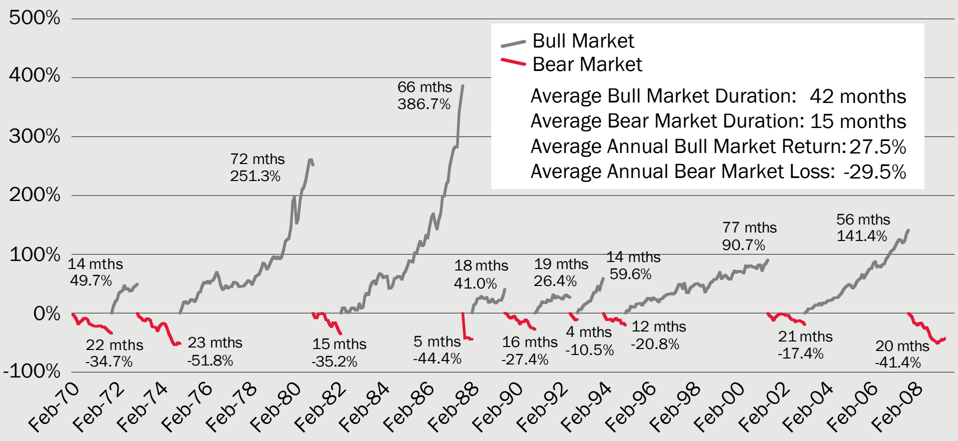
Talk to your financial adviser about how you can best position your investments for the inevitable market recovery. Your financial adviser is best placed to review your existing portfolio and make sure your investment strategy is appropriate to help you achieve your individual investment and financial goals. ■

Super – still the best investment vehicle for retirement

While it's understandable that some investors may be unhappy with their super returns, it's important to note that during one of the worst financial crises in history, super funds have held up relatively well. Most super funds are run conservatively and the negative returns are a reflection of the broader market.

Super continues to be one of the most tax-effective investment vehicles around. Within super, concessional contributions (eg employer and salary sacrifice contributions) and investment earnings are taxed at just 15%. After age 60, withdrawals, including lump sums and pension payments, are 100% tax-free.

Bull and bear markets (Australian All Ords, June 2009)



Source: Investment Solutions

Market review and

The first quarter of 2009 was mixed for share market investors, with pessimism being the dominant influence. By March, however, a sense of optimism began to return to equity markets in particular, as investors started to feel the worst of the global financial market crisis had passed.

Felix Stephen
Manager Strategy and Research
Investment Solutions

Market commentary and outlook

The outlook for the remainder of 2009 is positive, as we expect optimism to continue and for the economic recovery to gather momentum. This will be a result of extraordinary policy measures, such as the historic lowering of official interest rates, and government stimulus packages continuing to flow through the global economy.

The key factor driving the recovery will be the next leg of the inventory cycle. Evidence suggests that manufacturers and businesses have excessively run down stock levels amid weak global demand and uncertainty.

We also anticipate a moderate recovery in global growth, led firstly by China and then the US and Asian emerging markets. The UK and European economies won't enjoy the same recovery until 2010, while Japan, Latin America and Eastern Europe will lag even further behind.

Australian shares

The Australian share market produced solid gains over the June quarter, after reaching a low in early March 2009. A return of investor confidence was evident as investors bought financial and cyclical stocks like BHP and CBA, and sold out of more defensive sectors, such as healthcare. The S&P/ASX 200 Accumulation Index was up 11.3% over the June quarter, led higher by

outlook

BHP, Rio Tinto, and key consumer discretionary and financial stocks.

We're positive about the Australian share market and expect average returns of around 20% for the next year. We like growth assets such as shares and commodities as Australia's close ties to robust Asian economies will place our economy in a relatively good position. However, over the next few months we expect volatility to continue and the share market to drift lower.

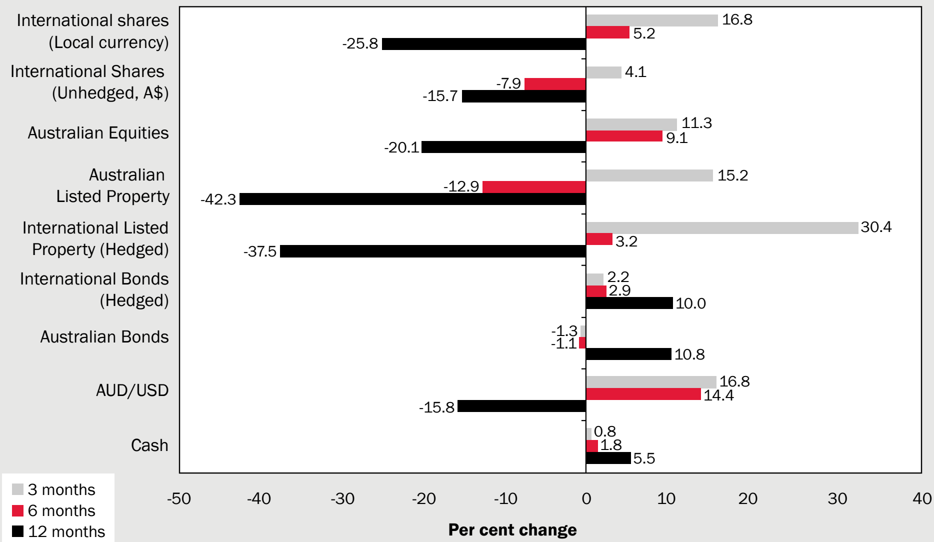
International shares

International share markets fell 25.8% in local currency terms and 15.7% in Australian dollar terms in the year to 30 June 2009. The difference in performance between local currency and Australian dollar returns was due to a weak Australian dollar that depreciated by 15.8% against the US dollar.

We continue to hold a positive outlook for international shares with a positive view towards Asian equity markets

Asset class performance to 30 June 2009

This chart shows asset class performance over the past three, six and 12 months to 30 June 2009.



SOURCE: DataStream, 30 June 2009

over one year. We expect international share markets to return around 20% over the next 12 months with Asian emerging markets delivering over 30%.

Australian and International listed property trusts

The property sectors rallied in mid-March on the back of growing investor confidence. The Australian property market (as defined by the S&P/ASX 200 LPT Accumulation Index) surged 4.6% and was one of the top performing asset classes during June. Meanwhile, global listed property (measured by the FTSE EPRA/NAREIT Global Index hedged in $A) edged 0.4% higher, lagging its Australian peers.

Performance for the 12 month period has been poor for both the Australian and International listed property sectors, recording falls of 42.3% and 37.5% respectively. However, we anticipate the domestic listed property market will deliver modest returns over the year. Due to the diversity and lack of concentration in International listed property trusts markets, we expect them to be in a good position to deliver relatively better returns.

International and Australian bonds

The International Bond Index (hedged) returned 10.0% over the 12 month period to 30 June 2009, whilst the UBS Warburg Composite Bond Index returned 10.8%. Australian and International bond yields fell as investors sought the relative safety of defensive assets during the ongoing market turmoil as many monetary authorities implemented aggressive official interest rates cuts to support economic growth and establish market stability.

The recent sharp rise in international bond yields and the narrowing of credit spreads to government bonds is a good indicator that risk aversion is declining. This prompted us to increase our allocation to global fixed income.

The sharp rise in Australian Government bond yields however, prompted us to reduce our allocation to Australian fixed income. Unlike global fixed income, we're not confident that the Australian fixed income market has the capacity to offer relatively better returns because the Australian credit market is not functioning efficiently enough.

Commodities

We expect crude oil and natural gas prices to remain high over a one-to-three year time frame, while copper, iron ore, coal, soy beans, sugar and corn prices should also fare well.

We expect commodity markets to decline over the next couple of months and market volatility to increase during the northern hemisphere summer break (June to August). But overall, we have a positive outlook for commodities over the short, medium and long term.

Investors should always bear in mind that commodities on their own are an extremely volatile asset class, but when included in a balanced or diversified portfolio there are strong diversification benefits for achieving superior risk and return.

Currencies

In the next month or two, we expect strength in the US dollar and weakness in other major currencies – particularly emerging market currencies. We expect the Australian dollar to drift lower towards US$0.75-0.73 against the US dollar during this period and then move higher into the US$0.83-0.90 range sometime next year. The Australian dollar is likely to be strong against the US dollar, the Euro, the Japanese Yen and the British Pound. ■

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By checking your account regularly online, you can also get up-to-date news about your investments, like changes to the funds you're invested in, or important changes to legislation. You can also find helpful hints and tips such as updating your contact details, making contributions to your super, or investing quickly and easily with BPAY®.

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Good behaviour, good returns

As we start to see financial markets recover, now is the time for investors to maintain their composure to ensure they benefit from any rise in the market. Fortunately, insights from the world of behavioural finance can help us understand what happens when our natural investor emotions kick in, and how to improve our investment decisions as result.

Studies by behavioural finance experts Kahneman and Tversky[4] tell us that as investors, we tend to feel the pain of a loss much more deeply than the pleasure of an equal gain. This behaviour – known as loss aversion – can explain why investors are inclined to pull out of the market when they experience a significant loss, even if it contradicts their investment goals and timeframes.

Here are some other investor behaviours identified by the experts:

- **Money illusion:** is the belief that prices, rates and currency are fixed rather than variable, leading investors to ignore inflation or assume interest rates will not change
- **Anchoring:** is the tendency to see a recent price as the 'right price'. For example an investor buying a speculative share at the top of a boom may not believe it was overpriced
- **Self-attribution:** is the tendency for investors to believe good returns are a result of their investment skill and bad returns are the result of bad luck.

[4] Kahneman & Tversky (1979) Prospect Theory: An analysis of decision under risk.

Take the investor behaviour test

Put your investor behaviour to the test with the following three questions.

Giving in to temptation

It's one thing to keep a close eye on your investments, but quite another to take too much notice of your account and give in to the temptation to change your strategy.

Question: Three groups of people were positioned in front of a bowl of chocolate. The first group was one metre away, the second five metres away and the third ten metres away. They were told to eat as much chocolate as they liked.

Which group do you think ate the most?

Answer: The group closest to the bowl ate the most chocolate while the group furthest away ate the least.

What does this mean?

The 'closer' you are to your investments, the more you're tempted to change your investment strategy based on short-term performance – even if you're investing for the long term.

Applying order to chaos

Investors can also get into trouble trying to seek order out of chaos, even when there's little or no chance of order.

Question: You toss a coin six times. How would you consider each of the following three sequences? Are they random or ordered?

Sequence 1	Heads / tails / heads / tails / tails / heads
Sequence 2	Heads / heads / heads / tails / tails / tails
Sequence 3	Heads / heads / heads / heads / heads / heads

Answer: Each coin toss has a 50% chance of coming up heads or tails which means all three sequences are random. When this question was put to a group of investors, many agreed that the first sequence appeared to be random, but a run of consecutive 'heads' represented some kind of order.

What does this mean?

We can sometimes rely on 'perceived' patterns — like the past performance of an investment — when making investment decisions. But in fact, past performance has no bearing on future performance.

Taking greater risk to avoid loss

Everyone is happy to take a gain, but many investors choose investments in riskier asset classes hoping to avoid a potential loss. What's your approach to gains and losses? Which of these strategies would you choose?

Question: Your financial adviser presents two investment strategies with the following potential outcomes at the end of 12 months. Which strategy would you choose?

Strategy A	A guaranteed profit of $500
Strategy B	A 50/50 chance of either a $1,000 profit or no profit

12 months later, your financial adviser presents two more strategies and outcomes for the following 12 months. Which would you choose?

Strategy C	Your losses will be limited to $500
Strategy D	A 50/50 chance of either a $1,000 loss or no loss

Answer: Strategies A and C are low risk because you know for sure what the outcome will be. Strategies B and D, on the other hand, have an element of risk. Kahneman & Tversky's studies show that 84% of respondents chose a sure gain of $500 for the first 12 months (Strategy A), but then opted for the chance of avoiding a loss (Strategy D) over the following 12 months.

What does this mean?

The results show how investors tend to process gains and losses differently. When it comes to making money most investors avoid risk, but when faced with a 'sure' loss, investors become risk-takers.

Making sure you behave

To ensure you don't act on your emotions, talk to your financial adviser about making sure your current investment strategy and financial plan is appropriate for your individual circumstances, goals and objectives, and in line with your attitude to risk and investment timeframe. ■

A financial workout through the ages

The market ups and downs of the past 18 months highlight the need for good financial advice to ensure your investment strategy is right for your situation, financial goals and attitude to risk.

Financial advice isn't just about preparing you for retirement, or an option for the wealthy. A financial adviser can help you achieve financial security and make your money work harder for you - whatever your life stage, in all market conditions.

Twenties: a regular workout

Spend, spend, spend! That's what it is all about when you get your first job and your own money to spend as you like. You're living for the moment, but you still have goals. You might be saving for a car or a trip overseas, perhaps even looking to buy your first home.

A financial adviser can help you fast-track your financial fitness

Your income may not be huge, but there are some strategies your adviser can recommend to get you on the right track to accumulating wealth.

Your financial adviser can help you work out a budget and recommend a regular investment plan to help you achieve a good return on your money. Starting early and investing regularly can have great benefits for your financial fitness.

Thirties: a balancing act

Things are moving along at a fast pace for you. You may be married, starting a family, paying a mortgage, own a car, a boat, or even your own business. You need to balance your finances and manage any lifestyle changes.

A financial adviser can help you streamline

You've already got assets but plenty of liabilities too. Your financial adviser can help you streamline your finances – that includes advising you on suitable investments, loans and insurance.

If your income is at a level where you're paying tax at the top marginal rate, your financial adviser can recommend tax-effective strategies suitable for your particular circumstances.

Forties: aiming for peak fitness

If you've been investing since your twenties, you should be well on the way to having a healthy financial future. If you haven't, it's not too late, but you will need to put in more stamina to reach your ultimate financial fitness.

At this stage you may have your own home and a good chunk of the mortgage paid-off. Your kids are growing up and you're starting to look ahead to a comfortable future.

A financial adviser can help you aim high

You want to be in a healthy financial position by the time you're ready to retire. Your financial adviser can help you assess your current situation and where you need to be to achieve your goals by reviewing your current level of superannuation and other assets.

If your total assets are likely to fall short of meeting your future needs, your financial adviser will outline the investment options that can help put you in a healthier position.

Fifties and beyond: steady as she goes

You've still got quite a few years to go before you retire and you've accumulated a number of assets over the years. You may have little or no mortgage and you're still earning a good salary.

A financial adviser can help you plan for change

Now's the time to make sure you're making the most of your assets so that you achieve strong investment growth but have enough cash at call for unexpected expenses.

Your financial adviser can show you how to divert any extra cash you might have into a diversified investment portfolio tailored to achieve maximum growth. Super is the most tax-effective vehicle to invest for retirement and your super benefits will be tax-free once you turn 60. Your financial adviser can show you what you need to do to boost your super to ensure you can enjoy a comfortable retirement.

Retirement: regular health check

Once you stop working, you need to be extra sure that your investments stay healthy. After all, you're looking forward to a long and comfortable retirement.

Your financial adviser can monitor your financial health

Your financial adviser can monitor your investments to make sure they're on track and keeping pace with your needs. This means conducting regular portfolio reviews and taking advantage of any new investment opportunities and strategies as they come along.

Your financial adviser can also look at how tax and social security issues affect the way you choose to invest and recommend the most suitable options. ■

Super, pensions and the Budget

On 12 May 2009, the Federal Government delivered its Budget for 2009/10 which saw some changes to superannuation. If you make contributions to super or you have a pension account, find out how these changes may affect you.

Helping preserve capital in your pension account

The Government has extended the ability for pensioners to draw only half the usual minimum amount of their account based pension or term allocated pension for 2009/10 financial year.

This measure was introduced last financial year, following a period of falling investment returns and was designed to limit the impact on pensioners' capital by reducing the need to sell investments (potentially at a loss) to fund their pension payments.

If you didn't adjust your pension payments last financial year and can afford to live on less money, it's not too late to reduce your pension payments for 2009/10.

If I can reduce my pension payment, what are the benefits?

Drawing the lowest possible amount from your pension is a good way to maintain your capital. The more capital investment you have, the greater the

Check your annual minimum pension amount for 2009/10

If you've nominated to receive the minimum payment on your pension, this will automatically apply to your 2009/10 pension payments. Please note that your minimum payment for 2009/10 will be recalculated based on your estimated account balance at 30 June 2009, using the halved minimum percentage. So your 2009/10 payments may be different to payments you received in 2008/09.

You can check your annual minimum pension amount for 2009/10 in your Annual Pension Review letter which you received in July, or by logging on to your account at www.investoronline.info.

If your minimum pension payment is not adequate for your situation, you can choose to receive a higher payment by nominating a gross dollar amount which you will receive each pension payment period. See page 18 for instructions on changing your pension payment nomination.

gain you'll potentially make when markets recover. With a more positive outlook for investments on the horizon, this reduction may only apply for the 2009/10 financial year.

How do I change the amount of my pension payment?

You can change your pension payment amount by contacting your financial adviser or completing an Account Amendment form which was sent to you with your Annual Pension Review letter. This form is also available on Investor *Online* or by calling the Asgard Contact Centre on 1300 ASGARD.

How do I notify Centrelink of my revised annual pension payment?

Ask your financial adviser for the Centrelink Schedule for your Asgard Pension. You can hand it in to your nearest Centrelink Customer Service Centre or mail it to Centrelink.

Your annual pension review letter will show your new minimum pension amount. You can also view your pension payment amount on the pension details screen on Investor *Online*.

Reduced Concessional Contributions Cap

From 1 July 2009, the concessional contributions cap was halved. Concessional contributions generally include employer and salary sacrifice contributions, and personal deductible contributions, which are taxed at a concessional rate of just 15%.

The following table shows the old and new caps for concessional contributions per financial year. A higher transitional cap applies for people aged 50 or over and applies only until 30 June 2012.

Your age	Previous cap	New cap
Under 50	$50,000	$25,000
50 or over	$100,000	$50,000

If you contribute more than the maximum amount for your age, you'll pay additional tax on the excess contributions. It's important to review the amount you contribute to ensure you don't breach the contributions caps.

The non-concessional (after-tax) contributions cap remains unchanged for 2009/10 at $150,000 per financial year.

Check your Transition to Retirement (TTR) strategy

If you're looking forward to retirement and you're over 55, you may already be benefiting from a transition to retirement strategy. This allows you to draw a pension while you're still working, but can involve salary sacrificing a large percentage of your income to super.

While no specific change was announced in regards to TTR income streams, the change to the concessional contributions cap may impact individuals who utilise strategies which combine salary sacrifice and TTR pensions.

Make sure you speak to you financial adviser to review your strategy and to make sure you don't breach the reduced concessional contributions caps.

Government co-contributions reduced

The Government has reduced the potential co-contributions matching rate from $1.50 to $1 for 2009/10.

Even at the new reduced rate, if you're on a lower income and you meet the eligibility criteria, accessing the Government co-contributions could still help you boost your super by matching your personal super contributions dollar-for-dollar, up to a maximum of $1,000.

Although the co-contribution matching rate was actually reduced from 1 July, the Government intends to increase it progressively back to the original level, as the table below shows:

If you're likely to earn less than $61,920 this financial year, talk to your financial adviser about whether you could benefit from the Government co-contribution.

Talk super with your financial adviser

In the current economic climate it's never been more important for you to get financial advice that's specific to your individual needs. Don't miss out on these opportunities – talk to your financial adviser today.

If you don't have a financial adviser, we can help you find one. Visit www.asgard.com.au, and select 'Find an adviser' on the left tool bar. ■

Year	2009/10 and 2011/12	2012/13 and 2013/14	2014/15 onwards
Co-contribution*	$1.00 for each $1.00 you contribute	$1.25 for each $1.00 you contribute	$1.50 for each $1.00 you contribute
Maximum co-contribution	$1,000	$1,250	$1,500

* Assuming you meet all the eligibility criteria for the Government co-contribution.

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