

Outlook

Financial Update & Outlook

Spring 2011

There has been no shortage of shock headlines and reports about the millions of dollars superannuation fund investors have lost recently. The reality is only a minority of panicked sellers have actually lost money. In fact, most super fund trustees would be avoiding sales and instead buying more shares for their members.

The situation over the past quarter has not been easy, but **it is times like this that the average susceptible investor should turn off the TV and ignore the headlines.** They should also ignore advertisements marketing “capital protected” or “guaranteed return” investments that exploit vulnerable investors in volatile markets. What investors do need to do is focus on the long term.

Share market volatility is not a new phenomenon.

It's really important to stay calm and remember the fundamental principles of investing, such as diversification and investing for the long term. By taking a long-term approach to investing, you give your investments time to recover from the downswings that are a natural part of any investment cycle. **Remember the long-term direction of the share market has always been up.**

I have recently been asked by clients approaching retirement if they should change their investments given the market volatility. Retirement however is merely a change in life status and not the end of your investment timeframe. Our investments have to work for us until the end of our lives, not just until the day we retire. So if you're approaching retirement, it's all the more important to really understand and define what **'long term' means and basically it is your life expectancy.** For a 65 year old male this means an investment timeframe of around 20 years.

Tony from FINPAC Insurance Advisors discusses the importance of a pre-cyclone season check; assessing your home and property as well as reviewing your level of insurance cover. He also gives us an update on the Natural Disaster Insurance Review following the devastation of January's floods.

Remember, if you have any questions please contact the relevant advisor listed below. Alternatively, if you have any feedback on our updates or articles you would like covered please give me a call or send an email to gricks@finpac.com.au.

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wealth creation

market volatility FAQs

Following are the some of the most frequently asked questions and answers to help you better understand the current market conditions being experienced both locally and abroad.

Q: What has happened in the markets?

A: We have seen a lot of volatility in financial markets in recent months. The extreme swings in global share markets were a result of the following factors building up and not just one single event.

- Concerns about the ongoing debt situation in Europe.
- Global policymakers in the US and Europe have been slow to make decisions to restore confidence in their respective markets.
- The US government was slow to increase the debt ceiling, and the ratings agency Standard & Poor's downgraded the credit rating of the US.

Q: What does this mean for Global and Australian investments?

A: Global investments, mostly shares, have fallen sharply as investor confidence continues to fall. Until there is some level of certainty in the markets, shares will continue to be volatile. This uncertainty will also flow into other parts of the economy affecting consumer confidence, housing prices and job growth.

The Australian share market is not immune to these global issues and is expected to be volatile in the short term as we react to US and European markets rather than stock specific issues.

However the Australian market is somewhat more insulated from the global issues because:

- Our market is more reliant on emerging markets, which are less affected by current global market falls.
- The large amount of investment in the resources sector is likely to continue, providing a solid base for earnings next year for many companies.

Q: How is this different to what happened with the Global Financial Crisis?

A: The Global Financial Crisis (GFC) in 2008/09 resulted in a global recession that was driven by a liquidity crisis across a significant number of global financial institutions.

The current situation is partially due to how investors are feeling rather than directly related to problems in the financial system or the economy. Panic amongst investors can cause extreme levels of market movements, like what has happened in the US and Australia recently.

Q: Will this volatility continue?

A: We expect that financial market volatility could continue for some time due to the general lack of confidence among investors, combined with worries about the health of the global economy. Australia is in a relatively strong financial position compared to the rest of the world.

We have:

- Low levels of debt
- A stable employment market
- A strong regulatory and governance framework
- Sound financial institutions

Some other positives for Australia are:

- Australia doesn't have a huge government debt burden compared to the US.
- Australia is also able to use monetary policy to cut interest rates if necessary.
- Stock market fundamentals for the market are still strong.

Q: What strategy should I take?

A: Keeping calm is key.

Talk to your FINPAC advisor if you're concerned about whether your investments are still appropriate to meet both your short-term and long-term investment and lifestyle goals. Remember you will realise a loss only if you sell now.

Focus on your long-term investment horizon.

Despite global downturns in markets over the past 100 years, history shows that if you had invested for any 10-year period over the last 50 years, you'd always have made a profit, on average, of around 12% per year¹.

Financial market volatility is not a new phenomenon.

It's important for investors, especially during times like this, to take a deep breath, step back and look at where the value is. Markets move up and down but there is value represented in the marketplace currently.

¹Source: Shares index is ASX Accumulation Index-All Ordinaries to April 2000 and S&P/ASX 300 Index thereafter. "Year" is calculated on a calendar year with annualised returns (capital growth and income reinvested). 12.7% is the average of the 10 year rolling compound returns between 1961 and 2010. Consider your personal objectives, financial situation and needs before acting on this information. Past returns are no guarantee of future performance.

Report by Andrew Gricks and Petrina Rinaldo, Representatives of FINPAC Financial Advisors PTY LTD (Australian Financial Services Licence 237820). This bulletin contains general information only and has been prepared without taking into account your individual financial needs, circumstances and objectives. Reliance is not to be placed upon this material, and you should assess your own financial situation before making an investment decision based on it. You may wish to consult your advisor. Any representation or statement made or implied in this material whether by way of opinion or advice or otherwise, is made in good faith, but on the basis that FINPAC FINANCIAL ADVISORS shall not be liable to any person in respect of such representation or statement whether by reason of negligence, lack of care, or otherwise save where liability cannot be excluded pursuant to law.

Q: What should I do next?

A: History says there will always be a bounce back. The long-term direction of the share market has always been up.

If you have any further questions or concerns please do not hesitate to contact us.

"The long term direction of the share market has always been up."

time to prepare for cyclone season

The Bureau of Meteorology (BOM) has advised that North Queenslanders can expect an above-average number of cyclones this summer but there is not likely to be any Cyclone Yasi-sized storms on the horizon. BOM recently briefed the State Government on what to expect this coming wet season, with weather signs pointing to an above-average number of tropical cyclones and rainfall due to a La Nina weather system forming as occurred last year. They also advised that we can expect more tropical cyclones in a La Nina year than non-La Nina years.

Cyclone Yasi's near miss on Townsville has, I believe, heightened our awareness of the havoc a cyclone would have on our city.

Now is the time to be doing those all important preparations. These are often spoken about in the media prior to cyclone season but how many of us actually undertake these preparations. Preparation should include both the physical such as **getting our houses and surroundings checked** and also taking the time to **review our insurances**.

The majority of Yasi claims FINPAC received were as a result of damage caused by falling trees. Other common claims caused by Yasi were fences being pushed over, damage to roofing, windows or wall cladding and the subsequent internal water damage. This highlights the importance of ensuring that trees are trimmed and homes are checked for structural damage such as corrosion to roofs or dry rot to timber etc.

Insurances should be checked to ensure that coverage is sufficient, not only from an adequacy of sum insured standpoint but also from a suitability standpoint. If you are on sloping land does your insurance cover landslip, or if your home is prone to flooding or tidal inundation **does your policy extend to cover this?**

For business owners we have found that the real risk is caused by the businesses inability to trade after the cyclone, rather than the actual physical damage. Business Interruption insurance is vital in these circumstances.

Should you have any concerns with your existing policies or wish to discuss the options available please feel free to contact any of our staff.

natural disaster insurance review:

inquiry into flood insurance and related matters

Last newsletter I spoke about the Natural Disaster Insurance Review (NDIR) which the Hon. Bill Shorten MP set up earlier this year. The review was set up in March to look into issues surrounding the availability and affordability of natural disaster insurance following January's floods. I can now advise that the NDIR handed its final report to Government earlier this month.

A spokesman for Assistant Treasurer Bill Shorten has indicated to the press that the Government "won't be saying anything publicly about the contents of the report until it has had time to consider it". So whilst it is pleasing that the NDIR has progressed thus far it is unknown when the results or any recommendations, if any, will be announced.

The main focus of the NDIR was on the proposed three options for dealing with flood insurance in Australia in the future.

The options were for flood cover to be automatically included in all home insurance policies; for flood cover to be automatically included in all home insurance policies but giving homeowners the option of opting out of flood cover; or retaining the status quo, where insurers can choose whether or not to offer flood cover and homeowners can choose whether or not to buy it.

The NDIR panel also considered issues of non-insurance and underinsurance, consumer awareness and insurance dispute resolution, flood risk measurement and mitigation and some aspects of government funding of natural disaster relief and recovery.

As mentioned the Government will release the final report at some stage in the future and I will provide an update when this report is at hand.



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what's happening at finpac?



Karen, her husband Michael and their daughter Meila, enjoyed a five week holiday exploring Europe, spending time in London, Paris, Athens and the Greek Islands.

Although this was not Karen's first trip, she was still amazed by the history and the architecture that all the countries had to offer. She particularly enjoyed the local cuisine (chocolate mousse in Paris) and refreshments.

This photo of Karen and Michael was taken in beautiful Kiato on the Peloponnese Canal coastline in Greece.

Rotary Club of Townsville Sunrise have successfully run another Art Union Raffle. This year the raffle raised approximately **\$90,000** which will be donated to the Ronald McDonald House and The Salvation Army charities.

FINPAC would like to thank everyone for their generous support in one of Rotary's biggest fundraisers.