

welcome to the Summer edition!



With the holiday season fast approaching, many of us are looking forward to the Christmas and New Year festivities, and putting a challenging year behind us. Importantly, a year like 2011 doesn't

cause us to change any of our investment fundamentals and beliefs. We continue to work closely with clients on their personal objectives and ensuring asset allocations remain appropriate over all time frames.

We have enjoyed welcoming the clients of Lindwall Group to SWS this year as part of a successful transition process since October 2010.



left to right: Barry Lino, Norelle Lino and Jayne Sulkowicz

We are also more recently welcoming clients and staff from Creative Asset Management Pty Ltd pictured above.

A key focus for us at SWS is for growth and innovation to always drive an improvement in the quality of what we do for you. In other words, we never want growth just for the sake of it. That said, a growing business is a healthy one and we have greatly appreciated the new clients you

have introduced to us this year. In a recent update letter I mentioned our 2012 initiatives, we hope they make a difference for you and your families in the future.

As a team we remain very grateful for the lifestyle and opportunities we enjoy in Australia. We have actively participated in a number of community projects and charities. These include: Salvation Army, Smith Family, Canteen, Australian Red Cross, Project Aware, Ronald McDonald House – (Hearts in Action), PAWS - Pets Welfare, and the RSPCA Cupcake Day.

In the meantime we would like to wish you and your families a very Merry Christmas and a Happy New Year.

Charles Blake



2011 in review

by Paul Clitheroe

What a year it's been. Four years on from the global financial crisis, and we're still dealing with its aftermath.

Europe is wracked by debt problems, the US economy remains sluggish and despite the best efforts of governments around the world, the global outlook continues to be uncertain.

There are some bright spots though. Many emerging economies especially those of Asia, are experiencing strong growth. Australia is benefitting from global demand for coal and iron ore, and a massive pipeline of investment is poised to expand our resource output. Households have made a return to saving and we have become a lot more cautious about taking on debt. Nonetheless, for investors the



two-speed global economy is dishing up plenty of conflicting signals.

Despite the health of our economy, the Australian sharemarket has been caught up in the wave of volatility that has rocked global stock markets. As I write in mid-November, the S&P ASX 200, which measures the performance of our largest 200 listed companies (by market capitalisation), is down by 6.35 per cent for the year. Yet the same index rose 6.9 per cent over the last quarter.

The housing market experienced a slowdown in 2011 but research group RP Data believes it could be turning the

corner. Median values rose in September in a number of cities including Brisbane and Adelaide, and the November rate cut is likely to give buyers the confidence and financial means to return to the market.

focus on you

In uncertain times like the present it's important for investors to choose a clear path. One of the best ways to do this is by tuning out from the day to day dramas on world markets, and focus on your personal long-term financial plan.

Stashing the bulk of your wealth into term deposits for instance, as many Australians

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understanding today's investment environment

This was a year when sharemarkets were volatile as investors became increasingly concerned about developments in Europe. Here we answer common questions about the current investment environment.

investment markets are very volatile - why is that?

Investors are reacting with heightened sensitivity to political developments in Europe and are largely ignoring the strength of underlying company profits, which do not change markedly from day to day. What's changing rapidly is investor sentiment. And at the moment, the potential for bad news about the Euro is the dominant influence on sentiment.

It's worth remembering that bouts of volatility have always been part of the investment landscape.

In the last two decades we have survived a banking crisis in Australia as well as the technology bubble and its subsequent bursting. History shows that share prices of quality investments do recover; it is the timing of the recovery that is hard to predict.

what is happening in Europe?

The situation in Europe is very fluid. There are significant concerns about how the Government debt crisis will be managed and what this means for economic growth in Europe. A recession in Europe is likely but its intensity is hard to forecast. The concerns have been magnified by the complex challenges faced by policymakers to develop and implement a co-ordinated and effective response.

While the debt concerns were initially focused on smaller countries, like Greece and Portugal, we have seen these worries spread to larger nations such as Italy.

European leaders have agreed in principle to measures to stabilise the situation. And parliamentary changes in Italy, Spain and Greece are signs that the political will to drive necessary change is strengthening.

The issues in Europe are complex and we should continue to expect the news flow, both positive and negative, to drive investor sentiment in the near term. European policymakers are very aware of the risk of a disorderly outcome for the debt crisis and seem to be making meaningful progress and are acting more collectively to meet the challenges.

why isn't the Australian sharemarket doing better?

The Australian economy remains well-positioned with low unemployment and good underlying company fundamentals, even though activity in some sectors is quite subdued. Australia's exposure to the fast-growing Asian economies underpins our economy. While these should be positive influences on the Australian sharemarket, they have been overshadowed by events in the US and Europe.

Some investors fear that a significant slowdown in the US and Europe would reduce demand for exports from Asia which would reduce demand for our raw materials. There is however another aspect to the story. Ongoing growth and expansion in Asian economies continues to drive demand for Australia's raw materials. Domestic demand remains high and bodes well for the future of Australian exports.

In addition, over time, the increased national income arising from the resources boom will be recycled from the mining sector into other sectors of the economy

such as housing construction, retail and financial services. This will support a wider sense of well-being and consumer confidence. With this as the backdrop, and based on current valuations, the outlook for the Australian sharemarket is quite positive on a medium-term horizon.

how is the situation in the US?

The US Federal Reserve continues to believe that US economic growth can maintain a moderate pace over the medium term. They are committed to support the economy with very low interest rates



for quite some time because high unemployment rates and weak housing prices continue to have a negative impact on consumer sentiment.

The political environment is also proving to be an impediment to business confidence. Large companies in the US are in very good shape and looking to invest and employ people to take advantage of growth opportunities in emerging economies. However they are hanging back waiting for the politicians to lay out policies to reinvigorate the US economy over the short term

while addressing concerns regarding their debt position over the longer term.

can shares perform in this environment?

There are two important factors that investors should consider. The first is that the sharemarket is forward-looking. Investors are well aware of the current risks and share prices already reflect the negative outlook. So a further downwards adjustment in the market would only be driven by severe deterioration in that outlook. While this possibility can't be totally ignored, a protracted economic downturn is not the base case.

Secondly, and most importantly, companies are generally in great shape, with high earnings, healthy balance sheets and lean, productive operations. The long term prospects for Australian companies like BHP and Commonwealth Bank of Australia (CBA) are strong. Their prospects have not deteriorated over the past four months even though their share prices have declined.

It is sentiment, not the quality of the business, that has changed.

The same is true globally with Nestle, GE, Apple and Wal-Mart among a host of companies that continue to do well.

The performance of these and similar companies is what will drive sharemarkets over the medium term. As share prices are currently low relative to fundamentals there is a good case for shares to produce above-average returns over the medium term even in an environment where growth in the US and Europe is below average.

why wouldn't I just move my money to term deposits?

Depending on your personal circumstances, it may well make sense to have some of your money invested in term deposits. It is understandable that investors would want a level of certainty around a portion of their capital to meet shorter-term living expenses.

However, if you are investing to produce an income stream for retirement then term deposits are unlikely to be the best way to meet this need. This is particularly the case at present when, for example, the shares of all of the big four banks in Australia have a higher dividend yield than you can obtain from them though a term deposit.

Take the Commonwealth Bank of Australia (CBA) as an example. Including the benefit of franking credits its dividend yield at 7 November was 9.3 per cent, contrast that to the bank's 12 month term deposit rate of 5.3 per cent. CBA shares offer an extra 4 per cent in annual income. In addition, shares offer the potential for capital growth over the medium term while term deposits do not.

how can investors respond?

Investors who stick with their investment strategy will be well-placed when the focus of investors returns to the underlying strength of companies. History shows that when sentiment turns positive after a period of pessimism, the lion's share of the gains in the market is made in the early days of the recovery. Investors who stick with their plan will automatically participate in this upswing.



most bizarre new year's resolutions

Where are you planning to spend New Year's Eve this year? Maybe you'll watch your local fireworks or even celebrate with friends and family over a glass of bubbly.

Regardless of your celebration of choice you might be interested to hear about some of the weird and wonderful customs from across the globe. Here are some of our favourites.

everybody needs good neighbours – Denmark

The Danes celebrate the New Year by throwing breakable dishes at their neighbour's door. The families with the largest amount of broken crockery are deemed to be the luckiest as they have the most loyal friends. Hopefully they don't use their best china!

wearing polka dots – Philippines

This spotty custom brings the people of the Philippines to the streets wearing nothing but polka dots. People believe that it will bring them prosperity by associating the round dots with coins and wealth.

great Balls of Fire – Scotland

Who's heard of Hogmanay? No neither had we. It's a slightly dangerous Scottish

new year's festival where men parade through the streets holding balls of fire, swinging them over their heads. According the locals, the balls of fire bring purification and sunshine and dates back as far as the Vikings.

burning scarecrow – Ecuador

Ecuadorians see in the new year by dressing up scarecrows and burning them at midnight. The tradition says that this destroys all the bad things that took place in the past 12 months.

ghostly celebrations – Chile

The people of Talca, a small town in Chile celebrate the new year in a ghoulishly freaky way. They head to the local cemetery to spend the festivities with their dead friends and relatives of the past 15 years. The tradition began in 1995,

when a local family jumped the cemetery fence to spend New Year's Eve near their father's grave and now over 5,000 people are involved every year.

midnight kiss – America

The familiar tradition of sharing a kiss with someone upon the stroke of midnight with the hope that it brings true love and washes away the bad memories from the past is familiar with people the world over.

wearing the pants – Mexico, Brazil and Bolivia

A variety of countries in South America welcome the new year in by wearing bright and colourful underpants through midnight to bring them good fortune for the coming year!

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have done this year, may seem like a sensible option today. But over time it will cost you dearly in lost capital growth and fully taxed returns.

By contrast, the shares of many leading Australian companies are now priced well below their value of a few years ago. Yet many are paying excellent (tax-friendly) dividends and have solid foundations for a bright future. Remember too, opportunities aren't limited to Australia. Adding some

global stocks to your portfolio provides valuable diversification.

celebrate sensibly

The upcoming holiday season is a time to relax, celebrate and prepare for 2012. At this busy time of year it's easy to let money matters take a back seat to festivities, but it's worth sticking to your normal financial routine. Aim to pay a bit extra off your home loan each month – an easy way to do this is to maintain your repayments at the pre-

November rate cut level. Where possible, continue to grow your investments through dollar cost averaging and use the balance of your bank account, not your credit card limit, to shape your Christmas spending.

My best wishes for a safe and merry festive season.

Paul Clitheroe is a founding director of financial planning firm **ipac**, Chairman of the Australian Government Financial Literacy Board and chief commentator for *Money Magazine*.



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