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Financial *focus*

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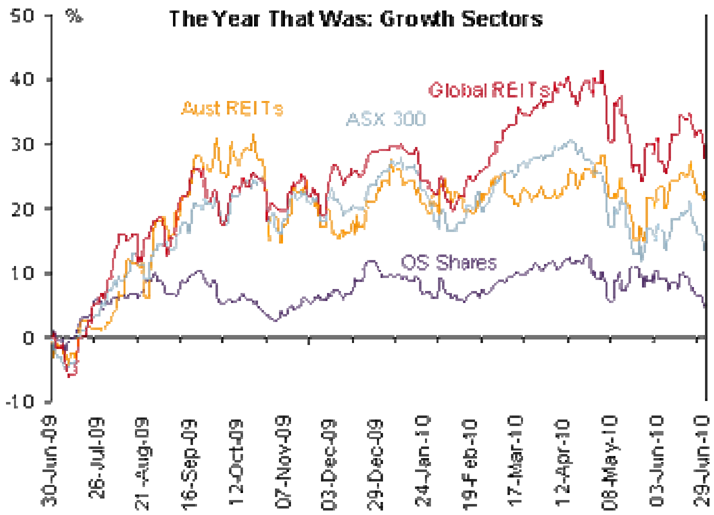
MARKET WATCH

STARTED WITH A BANG, ENDED WITH A WHIMPER

Looking back on the last 12 months, it wasn't that bad a year for investors, with all of the major asset classes generating positive returns. However, the sell-off in share markets, which began with the downgrading of Greek debt in late May, took the gloss off what was shaping up to be a stellar year for equity returns.

It is worth reminding investors that sell-offs in share markets were a regular event over the last financial year and that markets recovered, as the focus shifted from fear about the pace of recovery to reassessing stock fundamentals, actual data and policy responses.

The sell-off in early July 2009 coincided with sharp falls in US consumer confidence and concerns about the recovery. The subsequent rebound reflected a strong US reporting season. The next sell-off came in late October 2009, with weak US economic and earnings data leading to renewed jitters about the pace of the recovery. Another sell-off during January and February was caused by concerns that China was about to tighten its monetary policy, coupled with concerns about the fiscal position of some European economies.



The final and largest sell-off began in May 2010 and was triggered by the downgrading of Greek debt and fear that the fiscal tightening required (mainly in advanced economies) could choke the fragile and two speed global recovery (where emerging and developing economies recover ahead of developed economies).

Despite these repeated sell-offs, most share markets posted double digit returns for the financial year. On top were REITs, global up 42.3% (in local currency terms) and Australian up 20.4%. These benefited from a recovery in risk appetite and trend to lower gearing levels. Next came Australian shares, which end the year up 13.1%. Overseas shares in Australian dollar (AUD) terms posted single digit returns. The strength of the AUD, particularly against the Euro, capped returns.

HOW DID DEFENSIVE ASSETS GO?

You could be mistaken for thinking that with the global recovery getting underway and the Reserve Bank of Australia executing one of the quickest shifts from easy to neutral monetary conditions in Australia's history that fixed interest returns would have struggled or even been negative. They weren't, with both overseas and Australian fixed interest recording returns well in excess of the cash rate. There were two main reasons for the good performance of fixed interest. The first was a narrowing in the spread between non-government debt and government debt. The second was the fall in yields from May onwards, which was driven by flight to quality flows as equity markets fell sharply.

WHAT'S IN STORE FOR THIS FINANCIAL YEAR?

The Global Economy: To dip or not to dip?
As this recovery began over 2009, fuelled by fiscal and monetary stimulus, and with countries facing significantly different debt positions, it was expected to be two speed in nature and below long run trend growth rates. This has transpired and a continuation of this theme is likely over the next 12 months. However, as the "easy" growth from rebuilding inventories is already in the bag and the time is coming where countries that borrowed to boost growth will have to pay back debt by tightening their fiscal belts. It is the fear this process could be mismanaged or excessively draconian that lies behind the double dip hypothesis.

What is the historical precedence for a double dip?
The best place to look for this kind of data is the US where, according to the National Bureau of Economic Research, there have been 33 recessions registered in the US since 1854. Over this entire time frame, there have been only three recorded instances of a double-dip recession by this standard definition. The first one was in 1913, the second in 1920 and the third in 1981. That is only one in the modern era, so history suggests that the chances of a double dip are low.

Could this time be different, given the systemic nature of the GFC shock and fiscal adjustment task ahead?
If the recent G-20 meeting in Toronto is anything to go by, countries and policy makers are acutely aware of the difficult trade off between withdrawing public stimulus too early and starting too late on credible medium term fiscal withdrawal. As a group, they agreed to follow through on near term fiscal stimulus over this year but to also communicate "growth friendly" medium term fiscal consolidation packages that would at least halve deficits by 2013 and stabilise or reduce debt to GDP ratios by 2016. In the shorter term, they saw a role for low interest rates and were well aware of the risks of synchronised fiscal consolidation.

A strong outlook for the Australian economy?
There is no doubt that the proposed resources super profits tax, which ultimately led to the demise of Prime Minister Rudd, led to a loss of confidence in the robustness of Australia's growth outlook. While a compromise appears on the cards, it is worth reminding ourselves that the Australian economy still has plenty going for it:

- National income has been boosted by recent gains in commodity prices
- Households have benefited from a round of tax cuts effective from 1 July 2010, a lift in hours worked and a lift in the minimum wage
- With monetary conditions at neutral levels, the RBA will likely only tighten further if growth surprises on the upside
- Business investment is expected to grow strongly over the year ahead
- Australia's trade exposure is weighted to the faster growing emerging and developing economies
- Australia is a low debt country.

HERE'S TO GOOD HEALTH

With the recent changes to taxation and superannuation, more people are expected to become eligible for the Low Income Health Care Card and the Commonwealth Seniors Health Care Card. You may be eligible for a Low Income Health Care Card if you are either a student or Australian Apprentice and get any of these payments:

- ABSTUDY or Austudy
- Carer Payment (child) for short-term or episodic care under 6 months
- Youth Allowance (student) or a foster carer
- Have a low income

A Low Income Health Care Card entitles you to:

- Cheaper medicines under the Pharmaceutical Benefits Scheme (PBS)
- Concessions offered by private companies
- State and Territory Government and local council concessions, for example: energy and electricity bills, health care costs including ambulance, dental and eye care, public transport costs & water rates.

Maximum gross income to qualify for a Health Care Card

Your income must be below the limit that applies to you for the 8-week period for you to be eligible for a Low Income Health Care Card.

Status	Weekly income	8-weekly income
Single, no children	$459	$3,672
Single or couple combined, one child	$798	$6,384
Partnered (combined), no children	$764	$6,112
For each additional child, add	$34	$272

The Commonwealth Seniors Health Care Card is available to self-funded retirees. To qualify a person must:

- Meet the residency requirements and be in Australia to retain the card;
- Not be receiving an income support payment from Centrelink or a service pension or income support supplement from the Department of Veterans' Affairs;
- Be of age pension age; and
- Meet an annual adjusted taxable income test (there is no assets test)*.

****<u>*To qualify you need to have an annual adjustable taxable income of less than*</u>: *$50,000 for singles, $80,000 for couples (combined income) and $100,000 (combined) for couples separated by illness, respite care, or goal. For each dependent child, $639.60 per year is added.***

Holders of a Commonwealth Seniors Health Care Card are entitled to:

- Prescription medicines listed on the Pharmaceutical Benefits Scheme (PBS) at the concession rate;
- Bulk-billed general practitioner appointments, at the discretion of the doctor;
- An increase in benefits for out-of-pocket, out-of-hospital medical expenses above a certain threshold through the Medicare Safety Net;
- Seniors Concession Allowance is paid to help with household costs; and
- Telephone Allowance is provided to assist people with the cost of maintaining a telephone service.

For more information about either of these cards, please contact your adviser.

WHAT'S NEW AT SECURITY NATIONAL?

- Security National would like to congratulate Michael Ibbotson and Barbara Alvarez on their recent engagement. We wish them a lifetime of happiness together!

- We look forward to meeting all your financial needs during the 2011 financial year, happy new financial year and see you soon for a review of your strategy and portfolio.

Your Privacy

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