



▶ 2010 – OPPORTUNITIES & RISKS 1



▶ CAN YOU AFFORD TO BE SICK? 3



▶ SECURITY NATIONAL'S NEWS SECTION 4

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Financial *focus*

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MARKET WATCH

2010 – OPPORTUNITIES AND RISKS

As we settle into the New Year, the outlook could not be more different to that of 2009.

Globally, markets staged a strong rebound in 2009 with most economic indicators pointing in the right direction. Economies and markets were a major beneficiary of globally coordinated stimulus packages, deleveraging was undertaken at the corporate level and maintenance of low interest rates supported growth assets as global economic growth rebounded.

In the US, the S&P 500 rose 25.2%, the Australian S&PASX 300 rose 37.6% and China rallied 79.9%.

Australia was a beneficiary of growth in the Chinese economy which was fuelled by strong bank lending, rebounding exports and capital expenditure ensuring our vast natural resources remained in demand.

So what does this year have in store?


The US is expected to ease its stimulus contributions during the year as the worst of the crisis has now passed. High deficits will need to be wound back at some point as failure to do so could see government debt levels continue to rise beyond current expectations.

US GDP numbers are expected to be very strong for the December 2009 quarter, the best since the third quarter of 2003. However, this is likely to be reflective of the stimulus and massive inventory rebuild that has taken place and does not appear sustainable.

In early 2010 the Chinese Government was slowing down on bank lending in order to curtail inflation and asset prices, particularly the Chinese property market. In effect, this is a withdrawal of stimulus designed to slow (but still maintain healthy) growth in 2010.

Confidence returns

We expect that global economic activity may slow as stimulus measures are removed, however the timing is far from clear. While we expect some economies may slow, mainly the developed world, it is likely the emerging markets will not slow to the same extent. Last year has seen growth assets recover as positive catalysts emerged, however, these are less obvious in the year ahead. In our view, the US consumer might remain under pressure for some time and US interest rates may remain low.



The US housing market will remain a drag on the economy while emerging bad real estate loans will result in further capital requirements from the banking sector. While we remain cautiously optimistic, we do not rule out the possibility of downward earnings revisions in the 2nd half of this year.

Australian outlook

Our 'long term' view that Australia is a beneficiary of its trade with China and Asia remains intact, although we can expect slower growth rates for China in 2010. The Australian economy has proven resilient and relative to major OECD countries we expect this will continue to be the case.

While increasing interest rates may be a headwind for growth, low levels of unemployment, high consumer confidence, strong growth in our major export partners and a strong outlook for business investment lead us to be cautiously optimistic on the domestic economy. But again we note our caution on the extent of the earnings recovery.

Risks

Major risks for 2010 revolve around the potential for a faltering global economy as stimulus packages will begin to be withdrawn and the potential for weaker industrial activity. On a more positive note we do not expect a substantial rise in official interest rates for this year.

Summary

While we might be a little more cautious on the outlook for the global economy, the year also brings many positives. Globally, we are now past the worst of the Global Financial Crisis (GFC) with Emerging markets expected to display relatively strong growth in the longer term. We are also positive on the outlook for Australia. While increasing domestic interest rates may be a headwind for growth, low levels of unemployment, high consumer confidence, strong growth in our major export partners, support our positive view.

CAN YOU AFFORD TO BE SICK?

Your greatest asset is your ability to earn an income. Everything you do depends on this. If you're unable to work as a result of an illness or injury, what would happen?

For most of us who are balancing mortgage payments, credit card debt and every day living expenses, a sudden loss of income, combined with mounting medical bills would be catastrophic to us and our loved ones. In the event you were temporarily unable to work due to an illness or accident, income protection insurance may pay you 75 per cent of your income up to the age of 65, providing you with the ability to maintain a reasonable standard of living if you are unable to earn an income. In addition, income protection insurance is a tax-deductible expense.

Why do you need it?

You insure your house, car and other valuable possessions, why not your and your families' lifestyle? Consider how much you earn, multiply that by how many years until you reach 65 and then factor in inflation and pay increases. It doesn't take a mathematician to work out that some people may be risking literally hundreds and thousands of dollars if they were to suffer a long term medical condition without some form of income protection. Income protection insurance is not a replacement for workers' compensation, sick leave or private health insurance it is a long-term solution that should be tailored to work together with these and other insurances.

Facts

- 1 in 3 people of working age will suffer an accident or a serious illness that will keep them off work for more than 3 months.
- Nearly 50% of people who are disabled for 3 months are still disabled after 6 months.
- If someone is disabled for 3 months, the average time they are off work is 4.2 years.

Source: IFSA Under insurance key facts study — August 2005

It could happen to anyone!

Bill was a 40-year-old carpenter who broke his leg in five places when he fell off a trampoline playing with his son. His financial circumstances were:

1. Rent \$1200 per month
 2. Maintenance to his ex-wife \$600 per month
 3. Children's school fees \$600 per month (paid annually and due shortly)
 4. General living expenses (food, bills etc) \$800 per month
 5. Car repayments \$280 per month
- Due to the severity of the break, Bill was off work for ten months. The accident cost him \$42,000 in lost income and \$6,000 of his savings. He borrowed from his ageing father to cover shortfalls such as school fees and rent. After his recovery, Bill found it difficult to work as a carpenter because his injury didn't allow him to climb ladders or balance well on roofs.

If Bill had income protection insurance, with the appropriate conditions and terms, he would have been able to recuperate without the stress of huge financial pressures. Additionally, he may have received ongoing partial income while he retrained for another career.

Consider your own circumstances in the event of misfortune and ask yourself honestly — how would my situation unfold? Why not discuss your current protection and possible strategies with your Security National financial planner.

SECURITY NATIONAL'S NEWS

WHAT'S NEW AT SECURITY NATIONAL?

- We would like to welcome our latest addition to the team: Destini Papalii. That new friendly voice on the phone is Destini, our new part-time receptionist. Destini has moved recently to Melbourne from Darwin. We welcome her to our team!
- A quick reminder: At Security National we do finance, if you have home loans, equity loans and car leases, please contact your adviser.



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