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MARKET WATCH

AUSTRALIAN SHARE MARKET RETURNS IN REVIEW

In the 109 years from 1900 to 2008, the Australian Share Market has produced an Average Annual return of 13.3% including dividends. That means that if you were lucky enough to invest \$1,000 in 1900, at the end of 2008 you would have a portfolio of approximately \$211,000,000 (ignoring fees, taxes). Not a bad effort for someone who had the patience and foresight to make a long term decision.

This achievement is as much about the value of compound interest as it is about the merits of long term investing.

The reason for this is that the last 109 years was a bit of a bumpy ride. Australia experienced two World Wars, the “Great Depression”, several recessions, and a number of upheavals as our young nation developed.


Investors tend to get distracted by the “noise” of investment professionals and forecasters (economists) that give people the false knowledge as to when and how to “time markets” and with the aim of securing over concentrated investments. This sporadic approach to investing seldom delivers a return appropriate to the level of risk taken.

In 2008 the Australian Share Market posted its worst return over a calendar year in 109 years (-43.0%) which was worse than the Great Depression during which the Australian All Ordinaries managed to fall 3.6% in 1929 and a further 28.1% decline in 1930. From there, the Australian Share market made significant gains over the following six years.

The lesson for investors remains the same. Invest via a diversified portfolio which attempts to achieve at least the market return (that is what you deserve). Maintain a disciplined structure including rebalancing, and most of all, ignore the market noise.

The following diagram illustrates the number of years that the Australian stock market has delivered a positive return, and in particular the truly extraordinary year that was 2008 in terms of negative returns.

It highlights that a long term approach to investing in the share market remains a valid and attractive proposition.



However, if you would have invested the same \$100,000 at an average Australian 12-month term deposit rate, for over a 10 years period, the original capital \$100,000 would have remained the same \$100,000 and you would have earned an income amount totalling \$69,250. Therefore, you would have received a total amount of **\$169,250**. The results of this exercise are quite astonishing. The extra return with an Australian Share Fund reflects the risk premium taken, an example of the 'risk reward' relationship at work!

INDUSTRY SUPERFUNDS VS RETAIL SUPERFUNDS

Following the close of the 2009 financial year, superannuation funds have now reported their end of year performance figures which have been accompanied as usual, with the obligatory discussion around comparative returns between Industry and Retail Superannuation funds. With this topic featured so heavily in the press over recent weeks, it is important to look at this issue in greater detail and provide some perspective into the debate.

Industry funds, or public offer funds as they are also known, typically employ a 'Non-discretionary' structure whereby the investors choose between a number of investment options ranging from the most defensive 'Conservative' options right through to the most aggressive 'High Growth' or 'Equity' options. The structure is known as non-discretionary as once the investor makes that choice to invest in that investment option, they have no further input, or choice on how that exposure is achieved. The super fund therefore takes that responsibility and with their investment committee, or through their asset allocation consultants, construct a portfolio comprising of managed funds, listed and unlisted assets to achieve the desired risk/reward outcome.

Many Retail Funds such as AMP, Colonial and ING to mention just a few, also provide similar superannuation products whereby investors can choose the investment option they wish and have their funds allocated on their behalf by the respective financial institution. Therefore when comparisons are made between Industry superannuation funds and Retail superannuation funds, it is the comparison between the 'off the shelf' Balanced option, or the Growth investment option that they are comparing on a relative return basis.

As an alternative to the 'Non-discretionary' model, the majority of our client's funds are held in portfolios whereby, the adviser along with the client will determine the appropriate investment risk profile and construct a portfolio specifically tailored to their individual needs. For instance where two investors may present with a 'Balanced' investor profile, one may still be working, or in accumulation phase, and the second may already be retired and looking to commence an income stream from their assets. While both have the same investor risk profile, the adviser may wish to structure their portfolios differently to reflect their different requirements. As an example, the two portfolios would have roughly the same allocation to Australian Shares, however the accumulation client may have a higher allocation to smaller High Growth Australian companies, whereas the retired client might have a higher allocation to larger more established Blue chip companies that pay out a high rate of dividends. Both portfolios therefore would have the same exposure to the various asset classes, but their performance would differ as a result of the underlying allocation.

In addition to the above, many clients will choose to include direct shares in their portfolios and this may also alter the net returns, based on the underlying investments chosen. For this reason then, it is important to recognise that each client's portfolio is quite unique and will behave differently depending on the type of assets chosen, and therefore certainly does not compare with the standard 'Balanced' or 'Growth' investment options offered by the various Industry and Retail superannuation funds that are often included in the discussions regarding returns.

Therefore while the discussion surrounding comparative returns is certainly valid when considering the potential impact on a client's financial position over the long term, it is equally important to ensure that when comparing various returns between funds that like is compared to like.

At Security National our number one priority is meeting and exceeding the financial planning and investment needs of our clients. And we achieve this, by creating portfolios and strategies that are individualised and customised to each investor needs.

SECURITY NATIONAL'S NEWS

WHAT'S NEW AT SECURITY NATIONAL?

- We would like to welcome Claire Flanagan. That friendly new voice on the phone is Claire, our new part-time receptionist. Claire is from London and is currently on a working holiday visa travelling through Australia. We welcome her to the team!
- Keith and Christina have safely returned from their horrifying Pirate experience in South America. We are glad to have them back!
- David & Christine Gumley welcome their first grand daughter and second grand child, Marlie Moloney. Their daughter Lisa Moloney recently gave birth to her first born child. Both mother and daughter are doing fine. Congratulations to the Gumleys on their new addition to the family!



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