



Eastwoods  
Wealth Management

## Staying on track

**Over the past few weeks, the world's share markets have fallen, risen just as sharply, then fallen again, so it is no surprise that investors and superannuation fund members are concerned about what tomorrow holds. For many there is one big question: Is there another major financial crisis around the corner?**

### Looking for perspective

Most commentators put the market turmoil down to unresolved concerns about debt levels in Europe, first in Greece, then in the larger economies of Italy and Spain, followed by worries about the US.

The spotlight shifted from Europe to US debt with a display of political brinkmanship in the US Congress. Agreement on a deal came at the 11<sup>th</sup> hour, and a subsequent US debt downgrade by ratings agency Standard & Poors acted as a trigger for the pent-up concerns of investors. Markets dived as fears of slowing growth or even another recession took hold.

Amid the regular headlines of billions stripped from market values — but never about the billions added back in the next session! — companies continue to operate as normal: raising funds, selling products, generating profits, and paying dividends to their shareholders.

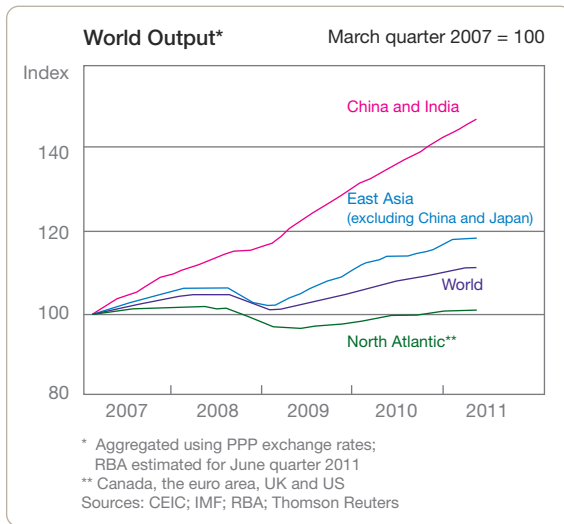
### A stronger world?

While there is concern about a return to dark days, there are also significant changes that have happened since the GFC. Government debt may be high in some countries after the bailouts of 2008–09, but many companies both here and in the US have strengthened their balance sheets and are now sitting on significant cash reserves. And locally, household savings have soared, reaching levels not seen since the mid 1980s.<sup>1</sup>

These are significant changes, and coupled with a stronger and more transparent banking system, provide some basis for greater confidence in the share markets.

One factor that has not changed is that throughout the turmoil of the past few years, the emerging economies have continued to forge ahead. While we still have a strong trading relationship with the US, Australia's economic health is very much tied to Asia, especially China and India, two powerhouse economies. While our economy has softened during the first half of 2011, it is still in a position of some strength, and recent RBA data, set out in the graph below, shows that it is likely to remain strong.

Snapshot



Source: Reserve Bank of Australia, International Economic Developments, Aug 2011

While genuine concerns remain about growth rates in the US and Europe, it's likely the US Federal Reserve's commitment to keeping interest rates low will provide a basis for sufficient growth to avoid a US recession.

## Opportunities

In this confusing climate it is good to remember the fundamentals of market investing. One of the key advantages of shares is, unlike a term deposit, they provide both income and capital growth.

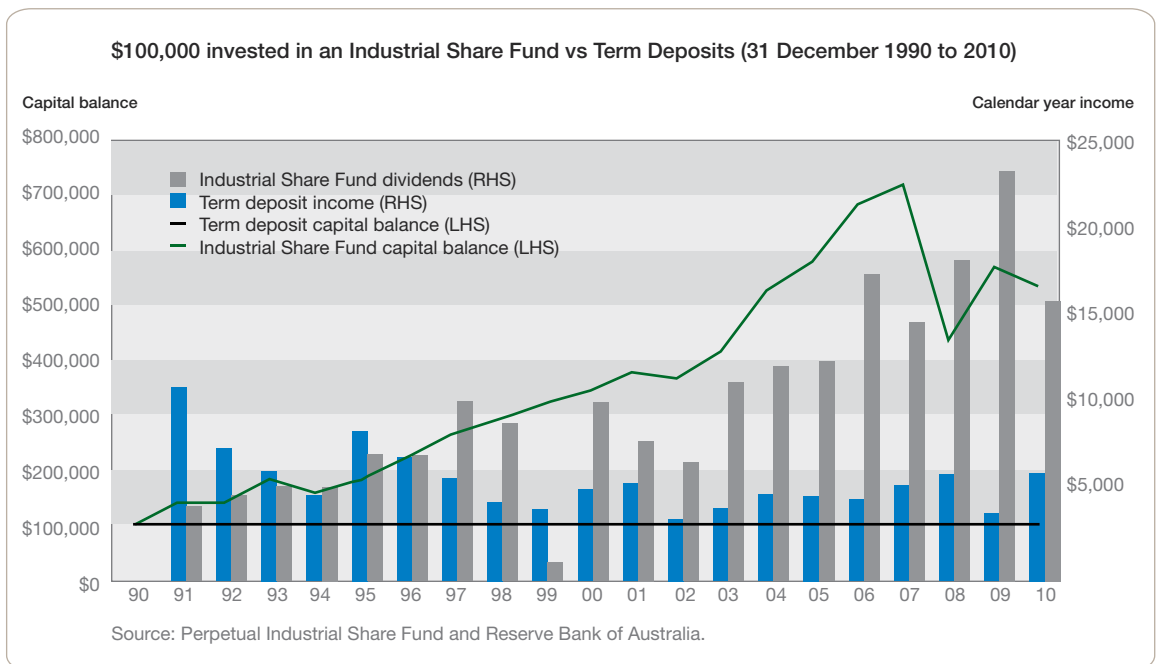
The graph below illustrates the growth of both the dividend component of distributions and the growth in capital value for a typical industrial share fund, compared to the interest and capital value of term deposits over the 20 years to 2010.<sup>2</sup>

\$100,000 invested in the fund at the end of 1990 would have earned \$200,000 in dividends and seen the investment's value increase around five times, while the same amount in term deposits would have earned around \$111,000 in interest, with the investment's value remaining steady.

It is also worth noting Australian companies are in the middle of reporting season. So far the results have been solid. While some retailers and others have come in below expectations, majors like Wesfarmers and Origin are reporting good results, along with mid-range companies like Seek and SMS Technology. Dividend payments are also holding up well.

## Next steps?

To recap, it might be wise for investors with a short-term investment horizon to remain cautious. However, for those looking further ahead — as most investors should be — attractive share market yields, falling yields on bonds and bank deposits, and the likelihood of more monetary stimulus in the US, suggest shares may be attractive on a longer term basis.



<sup>1</sup> Reserve Bank of Australia, Domestic Economic Conditions, Aug 2011

<sup>2</sup> The Real Value of Shares, 2011, Perpetual

Eastwoods Wealth Management Pty Ltd

62 The Parade  
NORWOOD SA 5067

P 08 8132 9288

F 08 8132 9277

E [wealthmanagement@eastwoods.com.au](mailto:wealthmanagement@eastwoods.com.au)

W [www.eastwoods.com.au](http://www.eastwoods.com.au)

**General Advice Warning:** This advice may not be suitable to you because it contains general advice that has not been tailored to your personal circumstances. Please seek personal financial advice prior to acting on this information. **Investment Performance:** Past performance is not a reliable guide to future returns as future returns may differ from and be more or less volatile than past returns.

Eastwoods Wealth Management Pty Ltd, ABN 17 008 167 002, AFSL 237853.