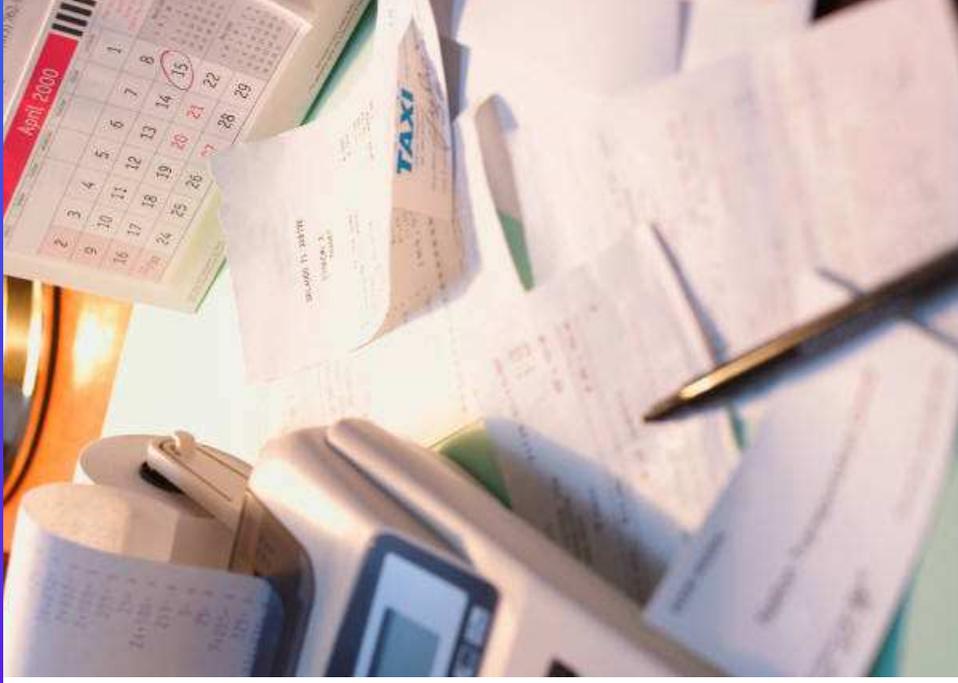




McDonald consulting
Chartered Accountants & Business Advisors

Financial Wisdom



New Super Borrowing Rules

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Market Volatility

Wealth creation in *volatile*
investment markets

Important Information

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What caused the recent market volatility?

- Issues are primarily not home grown
- US sub-prime issue has effectively spread to other areas and it continues to impact financial markets
- Problem of 'illiquidity' creates problems for companies with large amounts of debt
- Fears of a US recession
- Results in volatility in Australian sharemarket

What's been happening?

- July/August 2007 – Australian sharemarket fell 12%
- By November 2007 it had rebounded, rising more than 20% to an all-time high of 6,854 points
- Market then slumped, with 12 consecutive days of losses in January 2008
- International sharemarkets also fell on fears of a US recession

What's been happening? (cont.)

- On 22 January, the US Federal Reserve cut interest rates by 0.75%
- All Ordinaries index had dropped 23.8% to 22 January 2008 from its November high, but recovered more than half these losses by 25 January 2008
- Significant volatility since then
- RBA concerns over inflation leading to higher Australian interest rates against the global trend

Asset class returns in AUD

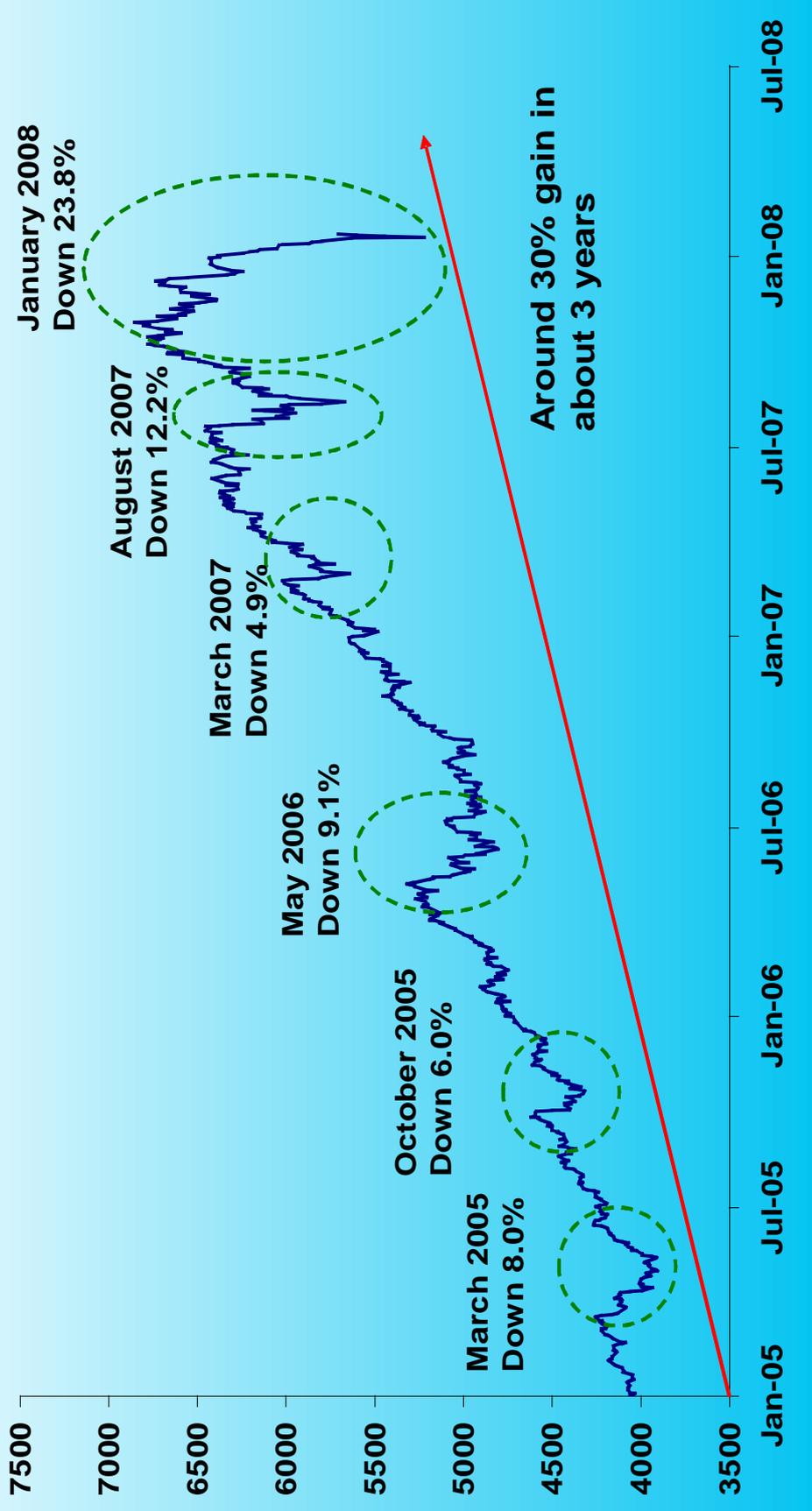
	2007	2008 to 29/1/2008
• Australian shares	16.2%	-10.0%
• International shares	0.4%	-9.4%
• Australian listed property	-8.4%	-13.1%
• Global listed property	-19.2%	-5.8%
• Global infrastructure	10.8%	-9.9%
• Global resources	38.2%	-8.7%
• Cash	6.7%	0.6%
• Bonds	3.5%	1.3%

Sources: Colonial First State. S&P/ASX 300 Accumulation index; MSCI AC World Free index (net); S&P/ASX 200 Listed Property Accumulation index; S&P/Citigroup BMI World Property; S&P Global Infrastructure index; UBSA Bank Bill index; UBSA Composite Bond index, all maturities. 2008 data current as at 29/01/2008.

Putting it in perspective

- Growth assets, like shares & property, can be volatile
- Need to keep the recent decline in perspective
- In 2007, the All Ordinaries Accumulation index rose 17.9%*
- Australian share prices are still up over 70% since early 2003
- Markets will fluctuate, but growth assets have higher expected returns over the longer term
- Investments such as shares should be regarded as long-term investments (timeframe of 5–7 years)
- Don't lose sight of the goals set out in your financial plan

Taking a longer view of the Australian sharemarket



Outlook for the Australian sharemarket

- Is the end of the volatility in sight? Probably not
- Markets do not fall forever
- Investor sentiment is currently cautious
- Any uncertainty in global financial markets will affect the Australian sharemarket
- The Australian economy continues to grow strongly

Back to investment basics

- In volatile markets, remember the investment fundamentals
- Shares are a long-term investments (minimum time frame of 5–7 years)
- Superannuation investments can have a time frame of 20 years or more, even for retirees
- Share prices fluctuate over the short term
- Appropriate asset allocation is key to long term results

Trying to time the market can cost you



The importance of diversification

- The recent volatility has demonstrated the value of a diversified portfolio
 - Invest across a range of different investments
 - Chart a smoother, more consistent course
 - Diversify in different ways to reduce risk
 - Diversification reduces the risk that income will fall short of your needs

Still worried? We can help

- If you're concerned about your investments, we can help
- Review your total financial position
- Reassess your risk profile
- Have your investment goals changed?
- If you've retired and rely on investment income, do you need to review your investment portfolio?