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INVESTOR UPDATE

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From the Editor's Desk

The market's worst year for more than a quarter of a century is giving way to green shoots of recovery – Before we look at the better news, however, let's see just how bad the last 12 months have been for world markets. Out of the five share markets tracked in this table, only China ended the year in the black.

World Share Market Performance (July 2008 – June 2009)*

Index	Actual	% Change
S&P/ASX 200	3892	-19.2
US (Dow Jones)	8497	-22.5
Japan (Nikkei)	9669	-24.2
UK (FTSE)	4278	-16.9
China (Shanghai Comp)	2721	+0.03

*** Source: tradingeconomics.com July 1 2008 - June 24 2009**

However, if we look at Australian economic indicators for the year as a whole, they are not all that bad.

	June 2009	June 2008	
Official Interest Rates	3.0%	7.25%	Better
Unemployment	5.7% (May 31)	4.3%	Worse
Growth (GDP)	0.4% (March Qtr)	3.0%	Worse

Source: tradingeconomics.com

It's important to remember, however, annual statistics are simply numbers that don't describe geography and trading relationships. China is our biggest export market and due to our proximity we are China's favoured supplier of raw materials.

Market Review

Too quick a recovery?

The ASX 200 hit its highest level in almost 9 months, having rallied +465 points or +12.4% in just 13 trading days (at the time of writing). While plenty of experts think the markets have shot ahead of themselves, they are still below the post-Lehman collapse.

Looking back at the rally

Let's look at the collection of better news that supports the comeback in cyclical stocks as stock markets surged higher recently off record lows.

- Since early March the Dow is up 39%, the S&P 500 is up 45%, the Nasdaq, 52% and our own S&P/ASX 200 has put on 35%.
- Three weeks ago the consensus was our market could be at 4,900 by mid-2010 but more analysts are becoming increasingly bullish.
- In the USA, the best performing Dow 30 stock in the USA for July was Caterpillar, which manufactures equipment for mining and construction. It rose 33%.

- The worst performer in the Dow was McDonald's, losing 5%. (This stock went up when most were falling last year.)
- GE copped a Goldman Sachs upgrade and could hold onto its capital financial arm.
- Bank of America looks set to open a Chinese subsidiary.
- From the week commencing the 3rd of August, 77% of the 184 companies in the S&P 500 that have reported have beaten expectations, while the long-run average is only 61%, according to Reuters.
- US financials, seen as basket cases, have reported much better earnings than expected.
- 2010 earnings for US companies now expected to rise 25% next year after falling 22% in 2008 and forecasted to be off 11% this year.
- US GDP in the June quarter contracted at an annual rate of 1% while economists expected a 1.4% fall.

The good news in the US confirms further upward scope for Australian equities. At home, unemployment rose in June to 5.8% - a 6 year high but relative to the US and the UK the job losses are modest. This is a critical factor in that consumer sentiment is at a 19 month high and the housing market is beginning to rise. The odds of another interest rate cut have been diminished by the RBA's assessment but producer price inflation (Price increases or decreases as measured by the producer price index [PPI]) is the lowest in 10 years so there is no pressure to increase rates soon.

Looking ahead to the second half

The rally took much of the extreme undervaluation out of the equity markets, meaning that second half returns will be driven more by earnings than valuations. With economic growth still in question, as there is still much uncertainty about the ultimate success of the stimulus efforts, we believe the scope for earnings-driven equity returns is far from certain too. In the short term, share prices may consolidate after such a solid rebound. In the long-term, however, we are confident that company earnings will begin to rebound over the next few years and in turn this should drive our market higher.

Have we got your email address?

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Investing without speculating

Investing is a long-term process. Ignore the noise and stick with your plan.

Markets continue to be volatile and uncertainty continues to plague global economies. It is difficult to overcome the fear of investing when you are 'once bitten, twice shy'. Furthermore, the idea of trying to pinpoint the exact time to jump back in to the market really falls into the category of speculation.

The aim of wealth creation is to invest regular amounts over a medium to long time frame. The definition of wealth creation is very specific in excluding speculative short-term trading strategies. Often the decisions to buy and sell speculatively are based around the more frequent 'noise' price fluctuations.

Speculating is a stressful way to live. It is very easy to find yourself checking share prices and portfolio balances daily (or more frequently). Such frequent observation can only lead to stress and anxiety.

Wealth creation is supposed be about removing these stressful decisions and looking at the longer term prospects. One useful strategy to avoid the dangerous practice of 'picking the right time' is to invest on a regular basis – the concept is known as 'dollar cost averaging'.

The idea of dollar cost averaging is that regular amounts are invested at regular intervals. By investing at regular intervals, you can take advantage of price falls and price rises and, therefore, pay an average price over the duration of the investment process. Such a process also accommodates smaller regular investment amounts as opposed to one large capital outlay. In one sense, dollar cost averaging is also a form of diversification.

For example, Peter had $50,000 in a term deposit that matured four months ago. As interest rates had fallen, the rate at which he was able to reinvest was no longer as attractive as some blue chip dividends. However, he was not comfortable investing the whole amount in the share market at that time. So with the help of his adviser he selected a portfolio of managed funds. For simplicity, we will look at just one of the funds he invested in, called Fund A.

If, over the last four months, he invested $1,000 in Fund A each month, the unit prices would be as follows:

	Unit Price Cost	Investment	No. Of Units	Average Cost Per Unit	Average Value
Month 1	$ 7.00	$ 1,000.00	142	$ 7.00	$ 7.00
Month 2	$ 7.75	$ 1,000.00	129	$ 7.36	$ 7.38
Month 3	$ 6.50	$ 1,000.00	153	$ 7.05	$ 7.08
Month 4	$ 7.25	$ 1,000.00	137	$ 7.10	$ 7.13
Total Investment		$ 4,000.00			
Total Units			561		
Average Paid	$ 7.13				

The average unit price paid was $7.13, which is lower than the unit price of $7.25 paid in Month 4. And so the process continues.

However, and most importantly, it is the recurring income from those units over time that is most important. If you are interested in exploring a strategy suitable for your budget and income generation needs, please contact your adviser.

FFA's Website gets a Facelift!

The new site looks clean, crisp and fresh and is more logical and user friendly, helping you to easily find the information you are looking for. The menus have been revamped for easy reference and are located across the top bar of every screen, allowing you to effortlessly click between key topics. Please visit us at http://www.financialfoundations.com.au.

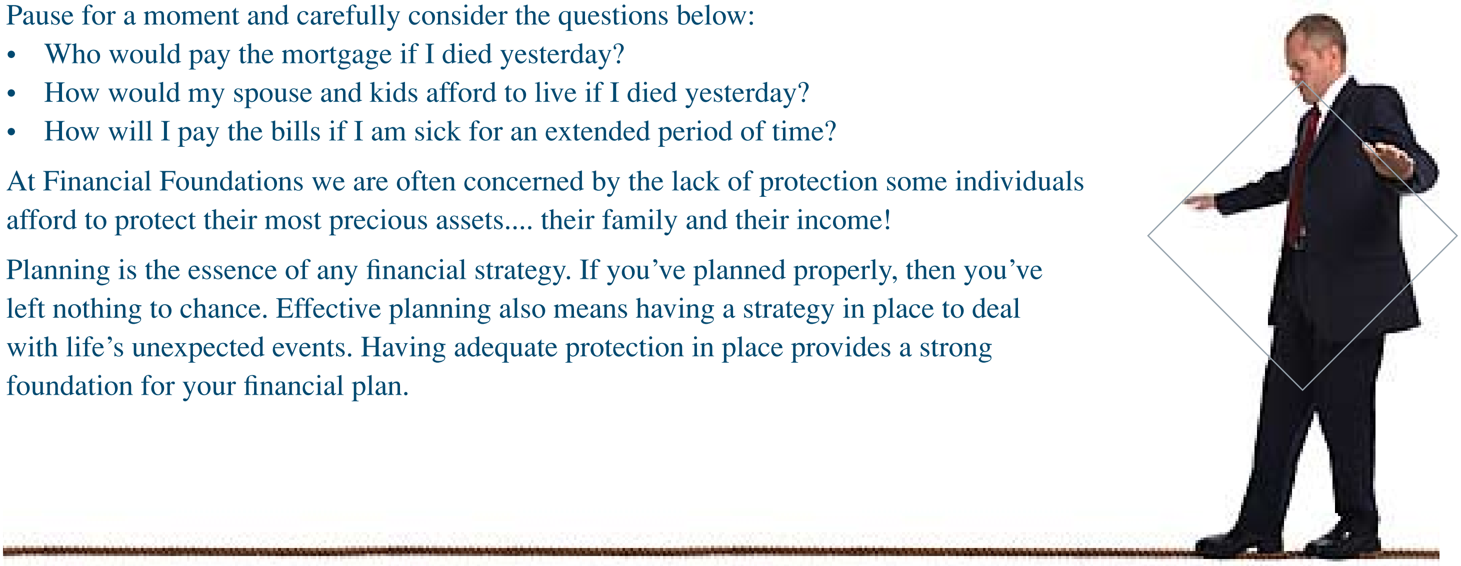
Walking the Tightrope without a Safety Net

Pause for a moment and carefully consider the questions below:

- Who would pay the mortgage if I died yesterday?
- How would my spouse and kids afford to live if I died yesterday?
- How will I pay the bills if I am sick for an extended period of time?

At Financial Foundations we are often concerned by the lack of protection some individuals afford to protect their most precious assets.... their family and their income!

Planning is the essence of any financial strategy. If you've planned properly, then you've left nothing to chance. Effective planning also means having a strategy in place to deal with life's unexpected events. Having adequate protection in place provides a strong foundation for your financial plan.



Providing an Incentive

Ensuring you have adequate insurance given your individual circumstances can be a difficult task. We can sit down with you and discuss your current financial situation to provide that safety net and ensure that in the unfortunate event of illness, injury, disablement or death, the last thing you and your family will have to worry about is financial security.

As an incentive for you to address these issues urgently, we would like you to accept a double pass to Village Gold Class cinemas once the protection cover we have recommended for you is accepted by the insurer. This offer will only apply for applications lodged up to December 1st, 2009 and we are happy to extend the offer to family or friends you have personally referred to us.

For a free initial consultation please call us today.

Gazing into the crystal ball...

And where does this tentative optimism leave investors in the next 12 months?

Nobody is denying the Australian share market will recover its losses at some time in the future, but nobody is proposing a time frame either. All we do know, based on a study of past recessions, is it could happen any time. It could happen without warning and anyone who is not in the market when it does happen could miss the best and fastest opportunity to recover their losses.

In the meantime, we are still in a bear market – even if the bear has yawned a few times and might just be beginning to think about going into hibernation. As Forbes magazine once explained, the rules for surviving a bear market are the same as the basic rules for surviving a real bear attack in the wild: Sit tight. Don't panic. Don't try and run away.

Finally, as Forbes pointed out, if you love the great outdoors you wouldn't spend the rest of your life huddled indoors following an unpleasant encounter with a bear. For investors, this means if you want to benefit from the growth potential of the share market, you should never forget the basics like time frame, diversification and patience.

New Staff Welcomed to FFA

Since our last newsletter in January, we have had several new additions to the FFA team. Many of you would have been in contact with one if not all three of the new members. So we thought it was time to provide an introduction to these people, their background and experience as well as seeing what they enjoy in their spare time.

Ron McBean – Mortgage Broker

Many of you would have organised your home loan or other finance through our in-house mortgage broking service, Integrated Mortgage Solutions. From the 1st of June we welcomed Ron McBean as our new mortgage broker.

Ron has over 30 years experience as a Bank Manager and Finance Manger for major builders and lending institutions. Ron will be based at FFA's head office in Dandenong and is also available for evening appointments in the comfort of your own home if you are unable to make a time during business hours. Ron's commitment to a highly personalised and professional service is evident in the way his clients do not hesitate in recommending his services to others.

As a special introductory offer, Ron is offering all FFA clients a free no obligation "Home Loan Health check-up". This will allow Ron to assess your current situation to ensure that the home loan facilities you have in place are the best suited to your requirements, and if not, assist you in refinancing or restructuring those facilities into more appropriate ones.

Ron can be contacted on **(03) 8791 0150**, by mobile **0418 371 418** or via email **ron.mcbean@ims4finance.com.au**.

Business Development Officers

James Wilson, Candice Brown and Rebecca Jensen commenced working at FFA since our last newsletter was published. Their roles incorporate all aspects of administration and assisting advisers with their day to day duties.

No doubt some of you would have already been contacted by James, Candice and Rebecca over the last few months regarding your particulars as they have avidly been familiarising themselves with our current clientele.

James holds a Bachelor of Commerce and will eventually be part of the Para Planning team with his future goal of becoming an adviser. In his spare time James plays football for Old Trinity Football Club, loves snowboarding and enjoys the occasionally round of golf.

Candice joined FFA in May 2009, where she was previously working as a Superannuation Consultant for Equity Trustees. Along with travelling, Candice loves to shop, socialise with friends and enjoys working out.

Rebecca recently joined FFA and brings along some experience from her previous role as a Planner Assistant with Westpac. When she is not at FFA Rebecca enjoys hitting the gym, dressmaking, spending time with family and friends.