



# THE COUNT REPORT

01 CEO Report 'Back to the Future' for portfolio returns

03 A message from the Chairman

04 Case Study

06 Market Update

08 The seven deadly sins of Christmas spending



## 'Back to the Future' for portfolio returns

### CEO REPORT

Welcome to our Summer edition of the Count Report.

You will be aware that Count has entered into a Scheme of Arrangement for Commonwealth Bank (CBA) to acquire Count Financial (Count). Count's Chairman Barry Lambert reports separately on this matter in this edition.

Now to a matter close to your own interests – your investment portfolio.

It would be fair to say the pattern of share market returns over the last 20 years has been atypical, with share price growth exceeding dividends. This atypical trend was driven by the great debt binge of the last two decades.

I agree with many financial experts that we are now returning to a more normal pattern where most of the return from your shares will be income based – from dividends.

continued on page 2

# ‘Back to the Future’ for portfolio returns

Based on the last 100 years, most returns from shares have come from dividends. Consider the following:

|                | Australian Shares – Average Returns per annum to June 2011 |                |               |
|----------------|--|----------------|---------------|
|                | Dividends  | Capital Growth | Total Returns |
| Last 10 Years  | 4.07%  | 2.65%          | 6.72%         |
| Last 20 Years  | 4.18%  | 4.98%          | 9.15%         |
| Last 100 Years | 6.15%  | 5.63%          | 11.78%        |

Source: DataStream, Russell Investments 11 November 2011

In the Spring 2011 edition of the Count Report (Issue 105), Matt Sherwood, Head of Investment Research at Perpetual, presented a compelling case for investors interested in reliable income and growth of that income, to invest in shares. Over the medium term, five years plus, the income potential from dividends on a quality share portfolio is generally superior to cash and term deposits. As Matt noted, the income attraction of shares is particularly relevant in a sideways trending market of the type we’ve witnessed in the past two years, and which may continue for a while yet. The case for shares is even more compelling when term deposit rates are falling, as they are now. Also note that as an investor in Australian shares, you also have the benefit of imputation credits.

Further, data from Dimensional Fund Advisors in the US demonstrates that over the last 85 years:

- Over rolling 5 year periods, US equities outperform US bonds 77 % of the time<sup>^</sup>
- Over rolling 10 year periods, US equities outperform US bonds 85% of the time<sup>^</sup>
- Over rolling 20 year periods, US equities outperform US bonds 100 % of the time.<sup>^</sup>

<sup>^</sup> Source: Dimensional Fund Advisors/DFA Australia and Fama/French Total US Market Index Portfolio and “Stocks, Bonds, Bills, and Inflation”, Ibbotson Associates, Chicago.  
All data obtained from period January 1926 – December 2010.

The patterns in Australia are not vastly different.

Please note that this article is not intended to be a blanket argument in favour of shares over all other assets, but it is designed to make you pause for thought if you are tempted by a ‘flight to safety’ into cash and term deposits. Inflation will significantly erode the value of any cash investments over time, and the real value of any income they generate.

If you’ve been sitting on the share market sidelines, the difficulty is in trying to time your entry or re-entry. You could take the timing decision away through dollar cost



Andrew Gale

averaging, where you contribute a small amount of money on a regular basis. Another cautious approach is through exposure to absolute return funds.

Of course, if you have a medium-to-term-long term investment time horizon (between 5-20 years) you can afford to rely on average long-term investment returns working in your favour.

It’s different if you are close to retirement or in retirement where the sequence of investment returns can be quite important and lead to very different portfolio outcomes (for example, negative or flat markets for several years running versus broadly positive markets). To assist those investors, Count has entered into a strategic alliance with Mercer Investment Consulting to offer you the Retirement Stress Test Simulator. This is a very sophisticated modelling tool which:

- Demonstrates a range of possible investment outcomes for a particular retirement investment portfolio, including allocated pensions, account based pensions, managed investments, direct equities, cash and term deposits, annuities and so on; and
- Based on your income, capital and estate goals and your appetite for variation of returns, allows our advisers to construct a portfolio to meet your objectives in retirement.

While we believe this to be the most sophisticated retirement advice tool in the market, it’s also able to demonstrate results through diagrams and charts, with an ability to adjust ‘levers’ to achieve different investment outcomes in real time. If you’d like to know more, please contact your Count Wealth Accountant/Adviser.

Best wishes for the festive season and a happy and prosperous 2012.

**Andrew Gale**  
CEO and Managing Director

# A message from the Chairman

The CBA, Count and you

## What will be the impact of the CBA takeover of Count?

I believe the impact for you will only be positive. Whilst Count has an enviable record of solid financial advice and successful trading over the last 30 years, the expected CBA takeover brings the added strength of Australia's largest Bank and one of the highest rated Banks in the world. The great news for our clients is the fact that the CBA has confirmed that it will maintain the professional and independent culture of Count, and to ensure this happens, they have invited me to remain as the Chairman of Count.

Until the shareholders vote is held, out of respect for the Court approved process, and other regulatory approvals required, the CBA will not assume success. However, they have indicated that they will maintain the professional accounting focus and they will use their massive resources to ensure that your Count Adviser remains competitive.

The ownership of your Count advisory firm will not change. The CBA is only buying the service provider to your Financial Planner – Count, and not your adviser's business – your adviser's firm will remain at your service, but they will be supported by Count which, if the bid is successful, will be strengthened by CBA's ownership.

As Chairman of Count, I look forward to communicating with you again in 2012.

## Merry Christmas and Happy New Year

For those who celebrate Christmas, on behalf of the team at Count I would like to wish you a happy and safe Christmas and holiday period.

As a child Christmas was the time we visited our grandmother at the beachside village of Tuncurry. More than half a century later our ten grandchildren (soon to be eleven in 2012) visit us at our holiday getaway – Crowdy Head in NSW. Life goes on! I hope time is a joyous occasion for you too.

Thank you for the continued support of your Count Adviser.



**Barry Lambert**  
Chairman



Barry M Lambert

Ownership  
of your  
Count  
advisory  
firm will not  
change.

# A family stretched to its limits

## and the practical strategies they used to cope



Meet the Ditchfields. Dad Warren, mum Beverley and daughter Monique, members of a close and loving family who live near each other in the quiet suburbs of the Gold Coast hinterland. Warren is a local bus driver, Beverley works part-time at Australia Post and Monique is a stay-at-home mum with two small children. They enjoy family gatherings and getting together to celebrate special occasions.

The last three years however, have presented the Ditchfields with a series of challenges that would test the resources of any family.

Between April 2008 and September 2011, Warren suffered a heart attack, Beverley had a stroke, and Monique was diagnosed with breast cancer.

Apart from the emotional impact of these incidents, and the additional caring responsibilities required from close family members, the Ditchfields also faced serious financial strain as a result. It was under these circumstances they discovered first-hand the benefits of having trauma insurance on each of their lives.

For Warren and Beverley, in addition to everyday financial pressures such as living expenses and loan repayments, there was also the importance of caring for Beverley's elderly mother. The amounts paid from their trauma policies meant that they could manage their financial pressures and caring responsibilities, while focusing on their own recoveries.

Warren and Beverley have now returned to work and resumed as regular lives as possible.

For Monique, her claim payment afforded the young family peace of mind and the ability to have excellent care, so she could regain her health and ensure her young children were well looked after. For her husband Scott, this meant he was in a position to be flexible with his working arrangements during this difficult period.

While the claims process for Warren went smoothly, the Insurer managing Beverley's and Monique's claims had additional requirements. Fortunately, the experienced and dedicated team at the Count Wealth Accountants and Advisers member firm, The MBA Partnership diligently drove the claims process to see each claim through successfully. For Monique's claim, The MBA Partnership drew on a support network which included Count's team at head office, fellow Count member firm Curo Financial, and life insurance veteran Col Fullagar.

It was fortunate that the Ditchfields had the foresight to seek advice from The MBA Partnership before these unexpected circumstances struck. With a professional ongoing service and claims support from their advisers, their trauma policies delivered on each occasion. The result is that during these difficult times the Ditchfields were able to focus on what mattered most – supporting each other in their recovery to good health so they could get on with life.



## Did you know?

- **Life Insurers pay:** In Australia in 2010, over \$3.5 billion was paid in life and disability claims.<sup>1</sup> Not one of these claimants ever expected they would have to make a claim.
- **Impact on family:** Carers have higher rates of depression, are more likely to experience chronic pain and injury, and worry about losing their jobs.<sup>2</sup>
- **'It won't happen to me':** For a husband and wife aged 40, there is a 1 in 2 chance they will experience a major medical trauma or premature death before they reach age 65.<sup>3</sup>
- **'It's too hard to insure me':** Your Count Adviser has access to a national specialist placement facility within the Count network if needed.<sup>4</sup>

### How can you ensure you and your family are protected?

It is important that your insurance policies deliver when you need them most. Your Count Adviser can help by:

- confirming your family's goals and priorities to establish appropriate amounts of cover
- obtaining suitable cover terms, as they vary between insurers and types of products
- seeking competitive premiums that are appropriate for your circumstances
- structuring your cover for appropriate tax deductions, cashflow advantages via superannuation, and beneficiary considerations
- reviewing changes to your circumstances as the need arises
- most importantly, guiding and supporting you and your family in the instance of needing to make a claim.

### What events can you be financial protected for?

Your Count Adviser can assist you in obtaining the right mix of insurance cover, so that you and your family are protected for a wide range of situations, from an accident that puts you off work for a few months, to more serious events that have long-term effects. For example:

- **Income Protection** provides an ongoing income to assist with living expenses in the event you cannot

work, whether it is a temporary or long-term health problem

- **Trauma Cover** provides a lump sum for approximately 40 serious medical events including heart attack, stroke, and cancer. This can help provide answers to questions such as 'do you require home care?', or 'would your spouse like to take time off work?'
- **Total and Permanent Disability Cover** provides a lump sum in case of a serious and permanent disability that prevents you from working altogether, or stops you from carrying out basic daily activities. These funds can pay off your debts, provide for ongoing care assistance, or assist with living expenses
- **Term Life Cover** provides a lump sum in the event of a terminal illness or premature death. These funds can help pay off debt, go towards a nanny or schooling if you have young children, or simply make up for any serious shortfall in income that could occur.

1. The Risk Store: Life Insurance Industry Statistics 2010.

2. Cummins R.A. et al (2007). Australian Unity Wellbeing Index Survey 17.1. Special report: The Wellbeing of Australians – Carer Health and Wellbeing. Melbourne: Deakin University. [http://www.deakin.edu.au/research/acqol/index\\_wellbeing/index.htm](http://www.deakin.edu.au/research/acqol/index_wellbeing/index.htm)

3. Actuarial data supplied by General Reinsurance Life Australia Limited. Based on Australian population data as at 2002.

4. Specialist placement facility is available via Count Member firm Special Risk Managers. Speak to your Count Adviser for more information.

# Perpetual

## A challenging year for sharemarkets and investors



**Matthew Sherwood**  
Head of Investment Market Research  
Perpetual

2011 has undoubtedly been a frustrating year for global investors and shareholders. Markets have primarily focused on macro themes, rather than each company's earnings outlook and this is the time in the cycle when markets behave the most irrationally and the most volatile. Major themes have included, slowing regional economic growth (with the exception of Asia) as the impact of previous stimulus faded and global supply chains were blocked, following the Japanese natural disasters.

### The European debt problem is complicated

More recently, market attention has centred on Europe's sovereign debt concerns, which sparked memories of the losses experienced during the GFC in 2008/09 and sapped market confidence globally. The European situation is more complex as regional authorities need to simultaneously deal with excessive government debt, subdued economic conditions, fragile banking systems and countries at vastly different stages of their business cycle. Debt issues have also been evident in the global

household sector, with consumers raising their savings rates to begin unwinding a multi-decade leverage boom. Consequently, advanced economies' growth is well below average rates, but there is no evidence that recent market turmoil has further slowed growth outside of Europe.

### Four things to watch out for going forward

#### 1. The northern hemisphere

The European debt bailout is likely to be tested in the period ahead. The US also has similar challenges in relation to its elevated government debt and the subdued recovery in the US housing and labour markets. With a US Presidential election due in late 2012, there is likely to be a hostile exchange in the US Congress on how to reduce government debt and enhance job creation. This may prolong the uncertainty about how to solve the US debt situation.

#### 2. The Chinese and Asian growth profile

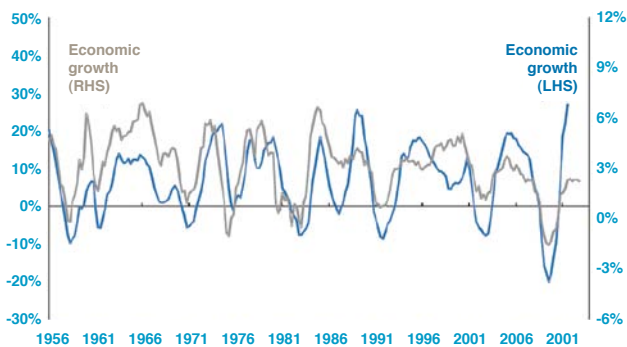
The flow through of the recent market turmoil in the northern hemisphere to Asia (which has been the largest contributor to global growth for several years) is important. To date, there has not been the freezing up of trade finance that damaged Asian economies in 2008, but some flow-on is to be expected. Fortunately, growth in the large Asian economies, such as China and India, is driven primarily by internal demand and not by export growth. Should these economies slow more than expected, respective authorities have considerable scope to provide support by reducing banking reserve requirements, cutting interest rates, expanding fiscal policy and spending the US\$3trillion-plus of foreign exchange reserves.

# The best defence against market volatility is 'quality'

## 3. Corporate earnings outlook

The key for long-term share price growth is the outlook for corporate earnings. While the US economy is experiencing a weak recovery (due to household and government debt issues), earnings growth is at a 55-year high (see Chart below). This difference reflects the large investments that US companies have made in Asia, which have supported earnings growth despite a subdued domestic economy. Any significant change in global earnings prospects is likely to prompt a share price response.

### US earnings growth has separated from US economic growth



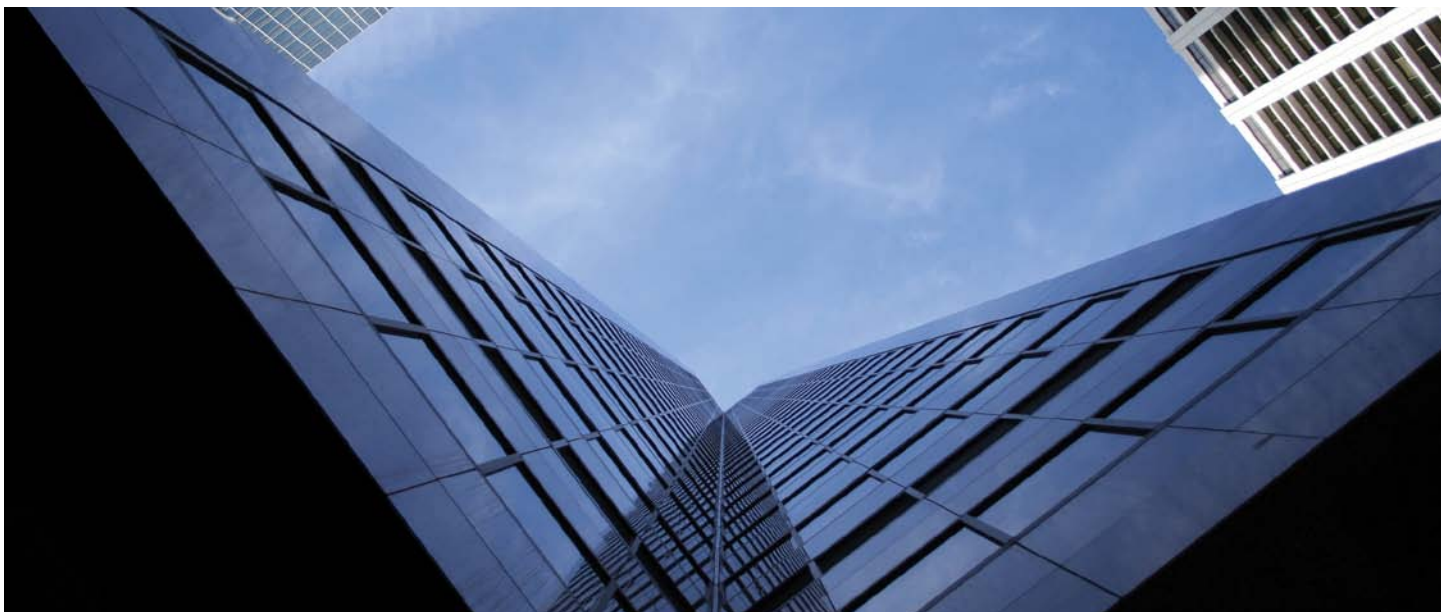
Source: DataStream as at 30 June 2011.

## 4. Valuations

It is important to be mindful that markets recover before economies do. Markets that are forward looking are currently priced (relative to earnings) around the levels that preceded the Australian and global sharemarket recoveries of 2003, 1992 and 1983. Accordingly, market trends could rapidly change if earnings sentiment improves.

The question for investors in this environment is how to have exposure to productive enterprise and how to manage the risk of this exposure. Regardless of whether investors invest in equities, credit securities or other assets, the best defence against market volatility is 'quality'. Listed companies with strong balance sheets, consistency in cash flow generation and reliable earnings growth are likely to outperform their peers in a more difficult than normal environment.

This information has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. The views expressed in the article are the opinions of the author at the time of writing and do not constitute a recommendation to act. Any information referenced in the article is believed to be accurate at the time of compilation and is provided by Perpetual in good faith. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not indicative of future performance.



# The Seven Deadly Sins of Christmas Spending

The festive season is just around the corner and Australians are expected to spend \$23 billion this Christmas. It's quite easy to spend up big at Christmas, and overspending can wreak havoc on your finances as well as your stress levels.

We've put together the Seven Deadly Sins of Christmas Spending and tips to avoid them, so you can wake up on Boxing Day without a credit card hangover!



- 1. Pride** – Many people buy expensive gifts to give the impression of wealth. However over-spending can get you into debt which ruins your financial plans for the rest of the year. Remember Christmas is about showing you care – thoughtful gifts are not necessarily expensive gifts.
- 2. Sloth** – If you're lazy and leave your Christmas shopping until the last minute, you're likely to pay too much and miss out on the best deals. Start shopping early – either at the shops or online.
- 3. Wrath** – If you are stressed or angry when you go shopping it can lead to some serious retail therapy. Overspending can provide temporary relief but long-term problems – try not to shop when stressed.
- 4. Envy** – It can be difficult when it seems like everyone else is buying expensive Christmas gifts like iPods or PlayStations. Children can put a lot of pressure on the family to buy the latest expensive gifts that 'everyone' at school is getting for Christmas. Try to set realistic expectations that are within your budget.
- 5. Gluttony** – We've all spent a fortune on food for Christmas dinner, only to have most of it uneaten. While eating leftover ham for the next three weeks is a Christmas tradition, try to resist going overboard with the catering.
- 6. Greed** – Does your family really need everything on their Christmas wish list? An important life lesson is that you can't have everything that you want and it's important to prioritise.
- 7. Lust** – Lust can overtake reason when it comes to Christmas shopping. If you see something you simply have to have but can't afford it – wait 24 hours and see if you still want to buy it.

## Season's Greetings!

CONTACT YOUR COUNT ADVISER AT:

**HEAD OFFICE:** Level 19, 1 Alfred Street, Sydney NSW 2000.

**P 1800 026 868. [www.count.com.au](http://www.count.com.au)**

Disclaimer: 'Count' and Count Wealth Accountants® are the trading names of Count Financial Limited ABN 19 001 974 625, Australian Financial Services Licence Holder Number 227232. Professional Partners of the Financial Planning Association of Australia Limited. The contents of this newsletter have been prepared without taking into account your objectives, financial situation or needs. You should therefore consider whether the information provided is appropriate to your objectives, financial situation and needs before taking any action to acquire any of the financial products mentioned. You should obtain and consider the Product Disclosure Statements relating to the relevant financial products mentioned before making any decision whether to acquire those financial products. Pursuant to Corporations Law, Count Financial Limited states that its Directors and Advisers may have an interest in any of the securities mentioned by way of investment, brokerage and/or fees. All opinions expressed within this publication are those of Count Financial Limited August 2011.

Looking after your financial life