



# THE COUNT REPORT

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AUSTRALIA'S LARGEST INDEPENDENTLY OWNED NETWORK OF FINANCIAL PLANNING ADVISERS

## A plan for all seasons – the value of advice

### CEO REPORT

In this, my inaugural CEO report, it is my pleasure to welcome you to the Spring 2011 edition of the Count Report

One of my key observations from more than 30 years in the financial services industry is that investors who 'stay the course' with their medium-to-long term financial goals fare much better than those who panic and seek to switch asset classes in response to volatile markets.

Unfortunately, history shows that this switching behaviour tends to occur at the wrong time, for example, the flight to 'security' and low risk assets after markets have had a significant correction, and the switch into equities after a bull run has been well established.

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## A plan for all seasons

– the value of advice

A classic example of this occurred in the first quarter of 2009, when many members of industry superannuation funds (who were largely unadvised and understandably concerned about significant negative investment returns), panicked and switched into perceived 'safer' assets like cash. This was precisely the wrong time in the cycle for this to occur as the correction 'moment' had already passed and this group risked missing out on gains as share markets recovered.

By contrast, the vast majority of clients advised by financial advisers were encouraged to remain faithful to their medium-to-long-term strategy and 'stayed the course'. This group continued to follow an asset allocation strategy well suited to their risk profile.

This is one of the most vital roles for a professional financial adviser – being a good coach or navigator for their clients.

These observations are backed up by solid research.

In a major research study by CoreData in May 2010 (commissioned by the Association of Financial Advisers) and involving 1054 investors, the key findings were that clients or investment consumers who are advised:

- plan better
- are happier with their investments
- are wealthier
- are more engaged with their finances
- have greater certainty and control over their financial future; and
- perceive that they have a financial coach to help with major life decisions, provide peace of mind and assist in facilitating a path to financial freedom

The research covered the three key roles of a financial adviser, namely:

- strategic advice
- tactical advice and
- implementation and project management

In this research, the top reasons given for seeking advice were:

- access to investment advice / expertise (68.4% of respondents)
- general investment information (53.6%)
- help with goal setting (52%); and
- feedback on investment decisions (50%)

Investors who ‘stay the course’ with their medium-to-long term financial goals tend to fare better than those who seek to switch asset classes in response to volatile markets

Finally, this research found that financial advisers were highly rated and trusted by their clients, coming in with a rating of 7.5 (out of 10), the 3rd highest rating of all professions and closely following specialist doctors and dentists.

In yet another study, the Financial Services Council commissioned KPMG Econtech to quantify the value of advice. This research was released on January 18 this year. The key conclusion from this research was that:

**‘Australians who receive financial advice will have substantially more money in retirement.’**

In particular, the research revealed that a 30-year-old would save an additional \$91,000, a 45-year-old would save an additional \$80,000 and a 60-year-old would save \$29,000 more than those who did not have a financial adviser.

These figures are obviously averages, rather than representative of all 30, 45 and 60-year-olds. However, the conclusions were only drawn after comparing people who do and don’t receive financial advice, and after ensuring they compared ‘like with like’ in terms of profile, income and other demographics of the people being researched.

So, there are compelling reasons for seeking and receiving financial advice – I do and have done so for a long time.

I know I’m preaching to the converted because you are already a client of a Count financial adviser and likely value your own adviser’s service and advice. However, I hope you find the above information of some additional reassurance. It may also be worthwhile passing on the message about the value of advice to those you know who may benefit from it.

All the best with your continued financial planning and I look forward to communicating with you next quarter.

Best wishes

**Andrew Gale**

*CEO and Managing Director*



Andrew Gale

One of the most vital roles for a professional financial adviser is to be a good coach or a navigator for their clients

# Practice what you preach

## The value of a financial plan and income protection



To understand the value of income protection, my story starts with why I took up this insurance. At age 22 I started working as a Personal Assistant to a financial planner. There was much to learn and with no formal training available then I was subject to 'learn on the job' training.

Insurance was the hardest area for me to understand. Why do you need it? Why waste money paying for something you might never use? Over the next few years I would find out.

Each year working as an adviser I saw a client unable to work due to injury or illness. However, one event affected me the most. A client's wife had passed away during childbirth; he was left with a newborn, a business that needed him and a substantial mortgage. As he was suffering from depression, we encouraged him to make a claim. The insurance company paid the claim for both his Income Protection and Business Expenses Insurance.

I was now 25, had given up smoking years ago, exercised frequently, had no known hereditary illnesses and was never sick. Despite this, that last claim affected me deeply as I now also had children.

What if something happened to me? I would be financially unable to care for them. I knew I had to do something, so in December 1996 I put in place my own income protection policy.

On 27 February 1997, I was on my way home sitting at traffic lights. Suddenly a car lost control, accelerating until it hit my car with enough force to rock it to the side before crashing back on all four wheels, then impacting again as it rebounded off a parked vehicle.

My injuries left me unable to work at all for 6 months, and then on reduced hours for a further 12 months. I was able to claim on my income protection policy, which had been in place for only 8 weeks before the accident.

Life continued, my love for Financial Planning and hard work paid off and I was now running my own practice. Obviously I was an advocate of Income Protection, using my own experience to educate clients about the importance of adequate insurance.

In December 2009 life was racing ahead of me, as there was a lot of work to do. To release the stress I ran, sometimes up to 35km a week, and it felt as if I would never get sick because I always ran my problems away. However one day, on one of those runs, I felt a lump about 2cm wide on the palette of my mouth.

When the lump didn't go away, I decided to visit a medical centre between client meetings. I was advised that, 'it would go away after six weeks'. When six weeks passed I sought another opinion, but a blood test found nothing.



## Support Desiree in the fight against cancer

On her 35th birthday, Desiree announced to all her friends that on her 40th birthday she was going to shave her head for Charity. Desiree, recently celebrated her 39th birthday. She says, 'God definitely has a sense of humour, because he gave me the only cancer known that can't be treated with Chemo, which has meant I have kept my hair'.

**Jump on board to support Desiree Fraser from Countability to achieve her goal of raising \$50,000 for Cancer Council, which will be dollar matched by the Count Charitable Foundation.**

A donation form is available on:

[http://www.count.com.au/community\\_counts/our\\_initiatives/CCF\\_Donation\\_form\\_Cancer\\_Council.pdf](http://www.count.com.au/community_counts/our_initiatives/CCF_Donation_form_Cancer_Council.pdf)

Six weeks after that I had an appointment with an oral surgeon. Having no cancer in my family I wasn't worried, and so believed the surgeon when he told me: 'it was probably just an infected saliva gland'.

Three days later I was called to the surgeon's office. This is the meeting that changed my life. I not only had cancer but a very rare form. This cancer was not hereditary or environmental, in fact, in the surgeon's own words 'It's incurable; you need to learn to live with it'. Huh?

Learn to live with it? What does that mean? Apparently, I had a 40% chance of living for the next 15 years, and despite treatment, the cancer would likely return on several occasions. During that time, it could not be treated with chemotherapy but as long as it went to places they could cut and radiate, they could keep me alive.

That was the good news apparently. In the meantime I would have to have an operation that took 14 hours and I would have to spend about 10 days in ICU to save my life 'this time'.

The operation itself was an impressive procedure. They would have to remove half my palette and a third of my top jaw, saliva glands and lymph nodes. They used skin, bone and arteries from my body to reconstruct my palette. I also needed 32 treatments of radiation to try to ensure that any

remaining cancer cells were killed. Even then I wouldn't be cured; I would just be fixed for 'Now'.

That was 18 months ago, but for someone who has had multiple operations and the many little things that can go wrong with them – I feel that life is great. While I know they can't cure me, I live for the day that they will find a cure. I only have bad moments, not bad days. I am grateful that I was smart enough to realise that income protection was necessary, as I don't have the additional pressure of worrying about how I'm going to financially support myself while dealing with this.

My insurance policy has been great, as I have now made two successful claims on the same policy.

So please for me, I ask that you take the time to talk to your Financial Planner about Income Protection.

I don't want to change just one persons' life by telling my story, I want to ensure that every one of you that reads my story protects themselves from what we don't think will ever happen.

**Please let me at least have that legacy!**

Desiree (Desy) Fraser

# BlackRock

## BlackRock Economic Outlook



### Two-speed world

Two years on the recovery remains two-speed. Whilst the Western world largely continues to de-leverage from a global consumer borrowing binge the emerging market consumer has relatively little debt, high (sometimes too high) levels of savings and rapidly growing incomes.

Nowhere is this better illustrated than China where the government is trying to encourage consumers to spend more of their income (rather than maintain their unusually high savings rates), as well as double wages by 2015 (roughly 15% growth per annum), and raise the consumer share of an already rapidly growing economy.

Whilst the emerging market consumer is a secular theme overarching the next decade or two there will be bumps on the way. Already in mid 2011 the policy tightening in China and Brazil to contain strong inflation shows that there will be cycles – perhaps even harsh ones – on the way there. But it's hard to overstate the importance of this structural shift. Today the Asia Pacific middle class is only half the size of that in Europe and America – but in 2030 it will be three times larger<sup>1</sup>.

### US & Europe

In the recoveries after the 1982, 1991 and 2001 recessions US consumers largely borrowed their way out. This time around we have seen a major and positive change in behaviour. The personal savings rate, having declined for many years, is now back around the levels it was 15 years ago.

The ratio of consumer debt to income is now the lowest since 1994.

Whilst US house prices continue to wallow around -30% below peak values US household financial assets are now higher than they were before the crash lifting total household assets to \$72 trillion in Q1 2011, \$6 trillion above their 2008 lows<sup>2</sup>. Meanwhile corporate America is in even better health with more cash on their balance sheets than anytime since 1963.

The bottom line – the US still has a few years to go but it appears to be around halfway through the process of repairing their economy, at least from the point of view of households who drive two thirds of growth.

# China is trying to encourage consumers to spend more of their income rather than maintain their unusually high savings rates

In Europe the very real problems of the peripheral countries of Portugal, Ireland and Greece will continue to bubble away. Whilst bailouts and restructuring will continue, the likely key to avoiding a meltdown is not the avoidance of default itself, but avoiding disorderly failures of banks and countries.

We are also mindful that both as macroeconomic entities and stock market representation the peripheral nations are dwarfed by the rapidly improving core Eurozone economies of Germany, France and the strongly performing northern economies.

## Global Equities

Australia did exceptionally well out of the first phase of Chinese economic growth which was heavily geared to the resource-intensive early stages of industrialisation.

Whilst we will continue to be beneficiaries of emerging world growth we note that resources don't get the same benefit from more consumer-led spending and that Australia's share market is also significantly comprised of banks that have fuelled our debt boom, with mortgages as a share of disposable income now as high as the US before 2007.

Finally as forward-looking investors we are cognisant that, with the exception of the low point of the crisis itself, global equity market valuations are now the lowest in around two decades just as the purchasing power of the Australian dollar is at thirty year highs.

As billions of new emerging consumers enter the global stage we are already seeing the impact on global consumer brands, technology companies and healthcare giants which form such a big part of global share markets.

<sup>1</sup> Brookings Institute. <sup>2</sup> US Federal Reserve

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**James Holt,**  
Director and Investment  
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BlackRock's Australian Business.

Mr. Holt is a member of BlackRock's Equity Portfolio Management Group. Mr Holt is an Investment Specialist – International Equities, providing a link between the global Portfolio Management Group and the Account Management Group.

Prior to joining BlackRock in 2008, Mr. Holt was with Zurich Financial Services. He joined the firm in 2002 and was an investment specialist for their equity and diversified funds and was a participating member of their Tactical Asset Allocation Committee. Prior to joining Zurich, Mr. Holt was Marketing & Operations Manager with Zurich Scudder Investments. He began his career as an asset consultant manager with BT Funds Management.

Mr. Holt earned a Bachelor of Economics degree from the Australian National University in 1995.

# Save fees by consolidating your super

Consolidating your superannuation accounts and investing your superannuation will assist your retirement plan

Many Australians have 2, 3 or more superannuation accounts that are being reduced every year by unnecessary fees. By simply consolidating your super into one account, you can save hundreds of dollars each year. Consolidating also cuts down on paperwork and makes it easier to keep track of your super.

With the start of the financial year, now is the time to review your superannuation accounts and consider consolidating them into one account.

ASFA, the Association of Superannuation Funds of Australia, says 'One of the most valuable things many fund members can do to help their bottom line in terms of retirement savings is to consolidate their accounts'.

If you have a number of small superannuation accounts, each account may charge an administration fee, which as a percentage of the account balance can be very high.

By consolidating your funds into one account, only one administration fee is charged, which may reduce the fee as a percentage of your account balance.

Another advantage of consolidating your accounts is that it allows small amounts of money to be combined and invested according to your risk profile, to compound for your retirement.

While it makes good sense to combine your super into one account, there are a number of things to look out for before rolling over. Your Count Adviser can help you work through the following checklist:

- **Identify all superannuation accounts** – do you have some lost super? If you have moved and the super fund has been unable to contact you then your super is registered as 'lost super'. Use the ATO's 'Superseeker' service to find your lost super accounts or ask your previous employers where they have been making contributions
- **Select the right super fund for you** – your Count Adviser can assist with selecting a super fund that meets your needs. Look for low fees, consolidated reporting, web access and a wide range of investment options

- **Consider insurance** – before rolling out of any super fund, check whether you have any insurance cover in the fund. If you need this insurance, it's important to make sure you can obtain that cover in the new fund before you roll out. It's also important to compare premiums, terms and conditions
- **Fees** – check whether there are any exit fees before rolling out of a fund. In some cases you may want to wait until exit fees no longer apply
- **Do you need to lodge a notice?** If you have made a contribution to a super fund and you want to claim a deduction for the contribution, you need to lodge a notice with the super fund before you roll your money out of the fund

Speak to your Count Adviser today about consolidating your superannuation accounts and investing your superannuation to make the most of your retirement.

## CONTACT YOUR COUNT ADVISER AT:

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# Perpetual Investment Management

## Smart investing for income and growth



The new trends and the old norms – what will lead us through the next cycle?

### Introduction

The month of August 2011 will undoubtedly go down as one of the most volatile in sharemarket history. Government debt concerns in Europe, ratings downgrades in the US and concerns over the global economic outlook amplified investor concerns and sent markets lower.

In terms of the global economic outlook, there is little doubt that a combination of household deleveraging, sustained high unemployment and natural disasters has seen the combined economic growth for the US, Europe and Japan (who contribute 60% of global economic output) barely register a positive number.

And with interest rates in these countries close to zero, fiscal deficits remaining near non-war highs and the inability to negotiate a comprehensive exchange rate realignment with the rest of Asia, it is very hard to see how growth in these regions can revert to trend any time soon.

### US earnings season has been very strong

Although global market sentiment continues to be dominated by developments in the US and Europe, it is important to be mindful that many of the key fundamentals that drive markets are holding up quite well.

Indeed, the June quarter 2011 US reporting season was very strong with three times as many companies outperforming expectations than underperforming, and the US market appears to be on track for 14% earnings growth in 2011.

The primary reason that US corporate earnings can grow at a much faster pace than US economic growth is that around half of US corporate earnings now come from global sources, particularly the emerging economies, which is one reason that despite US economic growth averaging 2.5% per annum since the end of its recession in June 2009, the sharemarket has risen 12% per annum over this period.

## Despite a stronger economy, Australian shares have underperformed

In Australia, the domestic sharemarket has struggled to lift in the past two years as the impact of a higher currency and interest rates have somewhat limited the upside potential for corporate earnings growth.

Consequently, it is no surprise that Australia, despite its relatively strong economy and trade exposure with Asia, has significantly underperformed its global peers over the past two years. In fact, over this period the Australian sharemarket has grown only 4% per annum.

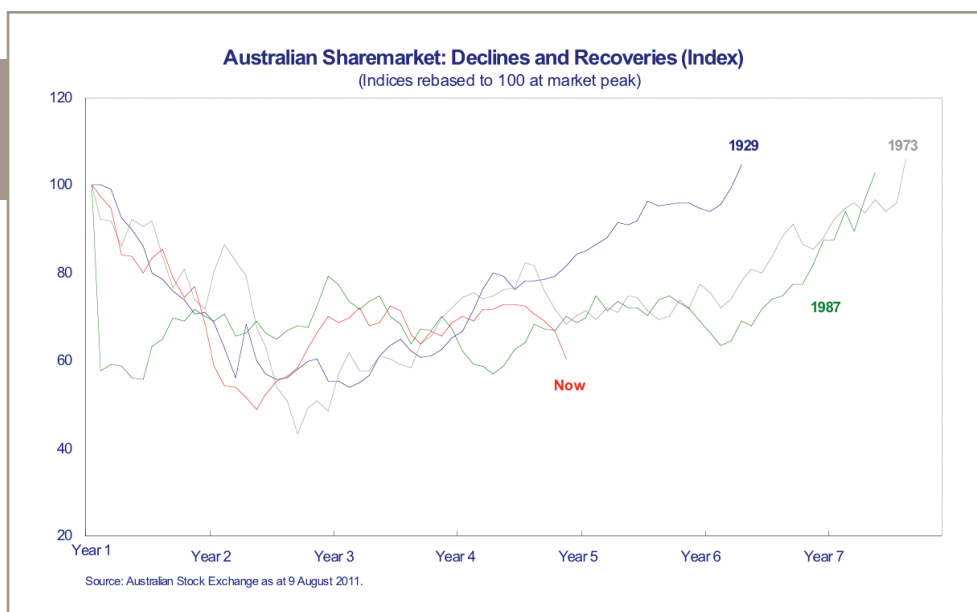
## ... but side-trending markets are quite normal and they all end

While side-trending markets after a large decline can be very frustrating for investors, sharemarket history indicates that this is quite normal.

The Australian sharemarket has experienced 13 declines of 20% or more, but only four declines of greater than 40% (in 1929-31, 1973-75, 1987-88 and 2007-09). On each of those occasions, the market experienced a prolonged side-trend as it took time for earnings to catch up with the initial rise in share prices and share valuations (in 1931-33, 1975-77, 1988-92 and 2009-11).

However, each of these side trends ended and on every occasion the market rose as earnings growth recovered and accelerated. The side-trend in 2009-11 is unique as it is the only one where there has not been a domestic recession, the exchange rate has increased and earnings per share has risen (by 28%).

**Chart 1:** Side-trending markets are quite normal after large bear markets



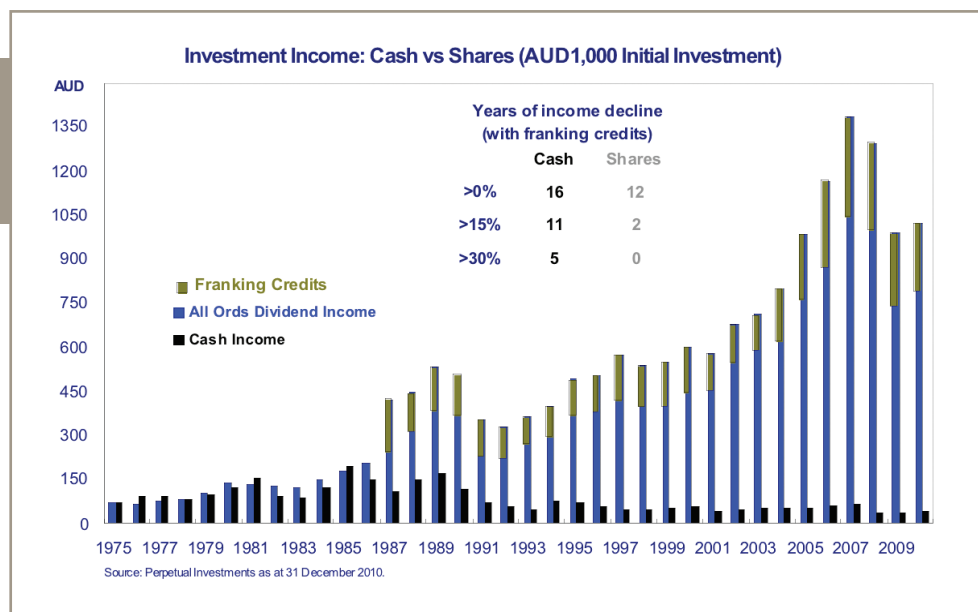
Income growth is the most important variable to overcoming the risk that inflation has on living standards

## The key in side-trending markets is income – but where do you get it from?

Although side-trending markets can be disappointing for risk-aware investors, during these periods, income generation is key. If you asked your neighbour what is the most reliable source of income, in terms of risk and return, what would they say?

Nearly everyone would think income is best received from a term deposit in terms of risk and size. Most people believe this because it is backed by the government (which means there is no risk) and it has a higher yield (which is indicative of its income generation). However, in relation to income there is more to risk, than just capital

**Chart 2:** Australian shares have massively outperformed cash as an income source



stability. Income growth is the most important variable to overcoming the risk that inflation has on living standards.

Indeed, the annual income produced from a \$A1,000 investment in bank bills in 1975 (when the Australian sharemarket finished its biggest ever decline of 59%) has declined by 40% over the past 35 years, whereas inflation has risen by 500% over this time period, which means that if you could buy 100 widgets with your cash income in 1975, you could buy only nine in 2010. That is, your real spending from bank bills has declined by 91% over that period.

### Why is Australian share income so much higher than cash?

In contrast, the annual income from the Australian sharemarket has increased by 1300% over the same period. Some of this rise is due to the impact of franking credits, but the vast majority of the rise reflects rising dividend income from Australian companies. Most investors would look at this chart and think an asset with a lower yield cannot produce higher income.

### The issue with yield

The important message here is that yield is a meaningless concept in relation to your income and more importantly your income growth.

A yield is simply a ratio that is calculated by dividing an asset's cashflow by its value. For cash only the numerator changes (due to changes in interest rates), but for shares both the numerator (the cash flow) and the denominator (the asset value) change.

So imagine a share yielding 4% and its income rises 10% every year and the asset's price rises 10% every year –

what happens to its yield? It remains the same (4%). What happens to its income? It doubles every seven years. This is why shares produce higher income for investors than cash.

### Implication for investors

Cash has no exposure to a growing economy, no compensation against inflation and no reward for bearing risk.

In contrast, Australian shares have all of these features as well as significant tax advantages. Investors may be concerned that despite this great income difference, shares can lose value. Yes they can over the short and medium term, but shares have never had a negative ten-year rate of return.

This is why investing is a long-term patience game, because it enables investors to overcome short-term fluctuations and enjoy exposure to long-term economic and earnings growth. But which companies deliver this income growth over the long-run?

Companies with consistency in generating surplus cash flow and that have quality management, a sustainable business model, bankable earnings growth and a strong balance sheet are best placed to deliver income growth to investors.

Within an environment that will be prone to quick changes in sentiment as we have seen, patience will be key for investors, as will be avoiding 'value traps' that are likely to be more prominent.

This means not buying a company because its share price has declined, but rather buying a company because it has a sustainable business model and has been oversold by the market. This is the case in all market environments, whether they are good or bad.

This market update was prepared by Matt Sherwood, Head of Investment Markets Research, Perpetual Investment



Matthew Sherwood joined Perpetual Investments in May 2005 and is our Head of Investment Markets Research. In his role, Matthew conducts research on and acts as an external voice on the global and Australian economies, financial markets and portfolio strategies. Matthew has been a regular speaker on Chinese Television and has extensive financial industry experience as an investment strategist, economist and central banker. Matthew also works with our clients to communicate Perpetual's investment process and portfolio management.

Prior to working at Perpetual Investment, Matthew was Investment Research Manager at ING Investment Management and before that he was a Senior Economist with the Reserve Bank of Australia, where he gained significant experience in monetary policy formulation and undertook detailed research into the equity risk premium, currency markets and business investment. Matthew has a Bachelor of Business from the University of Newcastle and a Masters Degree in Economics (Finance and Econometrics) from the University of Sydney. Matthew has also held a lecturing position with Kaplan Education (formally FINSIA) since 1997 and has lectured for Case Western Reserve University in the United States.

## More information?

If you have any questions or would like to know more, please contact your Count Business Development Manager.

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