

# Global markets running on fear not fundamentals

## Special update - 8 August 2011

You may be concerned about the recent market events and wondering about the impact this may have on your investments.

There are some key points that you should keep in mind during this period of market volatility:

- The significant deterioration in market confidence has led to a short term knee-jerk reaction by nervous investors.
- A response from central banks is now more likely in order to stabilise the environment and restore investor and consumer confidence.
- An appropriately constructed diversified portfolio should help smooth the overall portfolio returns by capturing returns across assets.

Global financial markets fell dramatically on Thursday 4 August 2011 amid fears of further global economic downturn. Equity markets were sharply lower however debt markets were stronger after the recent debt-related agreements in both the US and Europe. Unfortunately, the equity response resulted in the worst stock-market sell-off since the middle of the global financial crisis in early 2009.

For clients with Australian equity investments, the impacts should flow through in the short-term. Australia is positioned to withstand this volatility with strong fundamentals, such as low unemployment and strong public finances with very low debt. In addition, a strong pipeline of mining investments should help buffer our economy and generally reduce the impact on your portfolio returns.

For clients with international equity investments there are two possible outcomes:

- International equity portfolios that have their currency positions hedged will be impacted in line with the global markets. Medium to long term fundamentals remain unchanged and we remain confident of a rebound.
- Un-hedged currency portfolios will also be negatively impacted however the recent fall in the AUD/USD should mitigate some of the portfolio losses.
  - For example, if equity markets fell 4% and the AUD/USD fell 3% then the portfolio return impact is - 1%. Although still a negative return, the impact is less than the hedged investment.

In the short term we envisage a continuing environment of high volatility, uncertainty, and social and geo-political pressures. You should be confident that your current strategy can deliver long-term outcomes. It is important to keep in mind that historically there have been periods when markets overreact and overshoot fundamentals. We remain positive that the underlying fundamentals of growth markets are improving and that these market conditions present an opportunity for investors to build long-term positions.

A good financial plan is about building wealth over time, and not switching investments every time there is a market movement. As wealth advisers it is our job to develop a strategy to help build your wealth over time. No one can time markets in the short term; rather it's more important to focus on your long-term wealth creation goals and strategies. There will always be market cycles; this is a normal part of investing. It is important that we don't lose focus on our long-term goals.

We'll continue to monitor the markets closely and provide you with further updates as they are available. In the meantime, if you have any queries or concerns, please contact your adviser.

### Important information

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