

# NEWSLETTER TO SUPER FUND MEMBERS



## IN THIS NEWSLETTER

Rudyard Kipling once said that it is good to "keep your head when all about you are losing theirs". This is never more true than during the market downturns we have seen in recent weeks.

Recent events have caused many of us some pain and perhaps also some sleepless nights. The purpose of this newsletter is to help you gain a better perspective on what's been happening and from this, to be better able to make informed decisions about your financial future.

## NOT MUCH TIME ? READ HERE .....

The heart of the recent market turmoil resides in the U.S. "Sub-Prime" mortgages (loans made to people with poor credit histories) have begun to default in large numbers. Prior to all these defaults, these loans were packaged up and "on-sold" to many financial institutions around the world. Unfortunately, these loans, because of the high number of defaults, now have significantly lower value and the true extent of how many organisations hold these loans is yet to be fully revealed. This uncertainty has shaken market confidence which has flowed through to higher interest rates and share market volatility.

Strictly Super's message to clients is to focus on your long term investment horizon and not get too caught up in short term movements. Focus on your *timeframe to retirement* and your *investor style*. If these have not changed, then think carefully before switching your investments or changing your contribution levels.

A *well diversified investment* that includes Australian and overseas shares, property, cash and bonds – formulated as part of a long term investment plan, has the best chance of weathering any short-term market volatility.

## GOT A LITTLE MORE TIME ? READ HERE .....

The heart of the matter resides in the U.S. "Sub-Prime" mortgages (loans made to people with poor credit histories) were being made several years ago at very low "honeymoon" rates (many percentage points lower than "normal" rates). These "honeymoon" periods were often for 3 or more years – before going up to a much higher rate *for the remainder of the loan*.

This may have seemed like a good deal at the time (remember, interest rates in the U.S. were around 2% in 2001) and house prices were booming across the country. In 2007 however, many people came off these very low rates - at a time when interest rates had by then risen to over 5% and house prices were *falling*. On top of this, wages growth in the U.S. was *slowing*.

### So why is the "sub-prime" loans issue having such an impact ?

Many borrowers were unable to meet the higher repayments when they came off their honeymoon rate – which resulted in them either defaulting or having to sell their home. This contributed to falling house prices.

But the damage extended beyond people simply losing their home. This is because sub-prime loans were "packaged up" into complex financial products called "collateral debt obligations" [or CDO] – which other financial institutions purchased and traded. CDO's were popular because they offered higher returns than other financial products of supposedly "similar" risk.

To make matters worse, many of these financial institutions actually *borrowed* money to buy these CDO's. When things started to sour, they tried to sell their CDO's – but of course by then, no-one wanted to buy them – and in many cases these CDO's became almost worthless.

### How does all this effect me?

Market confidence worldwide has been shaken and although many Government Central Banks have stepped in to try to stabilise things (through interest rate cuts and/or tax rate changes), the market is likely to remain volatile for some time.

## OUR MESSAGE TO SUPER FUND MEMBERS

**Your long term investment horizon.** It's important to focus on your long term investment horizon and not get too caught up in short term movements. Always keep market movements in perspective. The Australian share market (ASX200) for instance dropped to as low as 5,187 on Tuesday 22 Jan, 2008 – which took it back to what it was in late 2006. Not ideal, but we need to remember that we've had 3 plus years of sensational gains prior to that.

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## A CHANGE FOR THE BETTER IN SUPER!

All superannuation members and retirees will benefit from the Government's changes to superannuation from 1 July 2007.

The biggest change is the removal of tax for all superannuation that is accessed after age 60, be it by way of lump sum withdrawal or pension income. That means that there are no more "reasonable benefit limits" on how much you can have in superannuation – you can have as much as you want in your super now, access it after age 60 and PAY NO TAX at all.

It really is making Superannuation the "preferred" vehicle for retirement now, as the tax breaks are fantastic. These new rules and opportunities will be covered at future Strictly Super workshops.

## IMPORTANT NOTE TO ALL FUND MEMBERS

Strictly Super reminds all fund members to ensure that your super fund has been advised of your Tax File Number (TFN). If they haven't, there could be severe tax consequences for your super.

To find out if your TFN is recorded, have a look at your most recent Annual Statement or you can call your super fund direct, and ask them.

## NEED HELP / HAVE QUESTIONS?

Strictly Super is a Corporate Super consulting firm with offices in Brisbane and Sydney that specialises in consulting to corporate groups like yours.

The Strictly Super team would be more than pleased to assist you with any enquiries you may have.

Our Brisbane office contact details are:  
GPO Box 2220  
Brisbane Qld 4001

Ph: 07 3010 9799  
Email : adminteam@strictlysuper.com.au

Our Sydney office contact details are:  
GPO Box 850  
North Sydney NSW 2059

Ph: 02 9929 6121  
Email : adminteam@strictlysuper.com.au

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Remember, the stock market crash of 1987 looks like a little blip on the chart when you look at it over a 20 year period. It felt huge (falling well over 30% in value) over the days and weeks following but washes out to almost nothing when you look at it over the longer term.

**Focus on your *timeframe to retirement and your investor style.*** We need to have our super money invested in something that matches our timeframe to retirement and in something that won't keep us up all night worrying about it. At Strictly Super, we've run education sessions for our clients that focus on this very point. We suggest all super fund members re-read (and revisit if necessary) their investor profiles. We ran through profiles in the workshops. If your profile or investor style has not changed, then you need to ask yourself why you want to change your investments or alter your contributions.

**Think before you switch.** Be aware that by switching your super out of more growth oriented investments (i.e. those investments with a strong leaning to shares and property) for investments that are more defensive (i.e. a leaning to more cash and bonds); you turn what was a paper loss into a real loss. Then when shares do recover, you now hold less shares than you did before and you miss out on the upward wave.

**Don't put all your eggs into one basket.** This was said over 300 years ago - and it's as true today as it was back then. A well diversified investment that includes Australian and overseas shares, property, cash and bonds – formulated as part of a long term investment plan, has the best chance of weathering any short-term market volatility.

**There are two types of risk.** One is that you will lose money in the short term. The other is that you won't make enough money in the long term.

## SOME INTERESTING STATISTICS TO HELP GIVE YOU PERSPECTIVE

- Over the past 25 years to the end of 2007, the Australian share market has delivered compound returns of over 10% p.a. – with tremendous returns in the last 4 years: 22% in 2004, 22% in 2005, 25% in 2006 and 16% in 2007.
- Most super funds in Australia have an investment default fund (the place your money is invested if you don't make an active investment choice). Most default funds will have somewhere around half of its money invested in Australian and Overseas shares. The rough rule of thumb is that these type of funds will post a negative return (i.e. go backwards) about one year in every seven (on average). The last time super funds returned negatives was 2002. The time before that 1994 – about every seven years (on average). Market movements in recent times show that shares are simply behaving in a way that can be expected.

### Falls in Australian Shares greater than 20% since 1960

Fall	% decline top to bottom	% return over 12 months from low
Sep 1960-Nov 1960	- 23	+ 12
Feb 1964-Jun 1965	- 20	+ 9
Jan 1970-Nov 1971	- 39	+ 52
Jan 1973-Sep 1974	- 59	+ 51
Aug 1976-Nov 1976	- 22	+ 5
Feb 1980-Mar 1980	- 20	+ 39
Nov 1980-Jul 1982	- 42	+ 39
Sep 1987-Nov 1987	- 50	+ 35
Aug 1989-Jan 1991	- 32	+ 39
Feb 1994-Feb 1995	- 23	+ 25
Sep 1997-Oct 1997	- 21	+ 18
Mar 2002-Mar 2003	- 22	+ 27

Source: Bloomberg, AMP Capital Investors

This newsletter has been prepared on a general advice basis only. The information has not been prepared to take into account your specific objectives, needs and financial situation. The information may not be appropriate to your individual needs and you should seek advice from your financial adviser before making any investment decisions.