

Investment Market Update

July 2011



Worries about Greek debt as well as a slowdown in the US and China have seen shares fall since April's highs, in fact the worry list for investors seems to be getting longer, not shorter. Given the current outlook how should you position your investment portfolio going forward?

It is expected that the European debt troubles will take some time to resolve. The US has experienced a slow down, however the troubles with the government debt ceiling are expected to be resolved before the deadline as it is not in the interests of the Republicans or the Democrats to force a downgrading of sovereign debt.

In Australia the likelihood of an interest rate rise has reduced in the shorter term, with inflation fears on the horizon as the mining investment boom gathers pace. Domestic data over the past month has been on the soft side, particularly in those areas of the economy not directly impacted by resources. However the RBA expects medium term growth to be at trend levels.

Given uncertainty around the global recovery is likely to linger some time and volatility will continue, it is important to focus on investment fundamentals to guide investment decisions over the coming year. An ability to see longer term beyond these current issues will be key. General themes are to position yourself to buy into any market weakness to combat volatility and to utilise active investment management to ensure there is a reward for risk.

The investment plan for your portfolio will depend on your specific circumstances with the key consideration being the purpose of your invested funds which will usually be guided by your stage of life.

Accumulators

Accumulators are still looking to build wealth for the future and will still be contributing savings towards this over time. This group includes investors with geared portfolios.

Review your risk profile. This ultimately determines the proportion of growth and defensive assets you hold. If you are nearing retirement it may be appropriate to scale back investment risk. If you still have time on your side this review will make sure you are not taking too much, or too little risk.

Invest a set amount regularly. When you invest regularly you're effectively buying the average share price. If the market falls you have a lower average purchase price, which in turn means you need less growth before you are back in front.

Retirees

When you retire you stop contributing extra savings to your wealth and start drawing down on investment assets to fund retirement. You will most likely be invested in a more defensive profile now than you were as you were accumulating assets.

If the funds you hold are your sole source of retirement income you could be looking to increase the cash holding in your portfolio or looking to invest in other fixed interest investments like term deposits until volatility subsides.

If you have an existing funded pension and your investment assets are not relied on for immediate income make sure that you have reviewed your asset allocation to ensure you are not taking more risk than is warranted, seeking to protect rather than maximise growth.

For all investors it is important to adopt a long term strategy and stick to it, but be flexible with asset allocation and investment selection.

We remain of the view that the global economic recovery will continue, as some of the temporary factors weighing on growth begin to fade. With shares still undervalued, and monetary conditions likely to remain easy, we expect shares to recover into year end.

The right course of action will depend on your own specific circumstances. If you have an existing advice service with us we will be reviewing your investments on your behalf. If you do not currently receive specific advice we encourage you to contact us to ensure your current investment strategy is right for you.

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