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Swings AND Roundabouts

Of course all assets perform differently and risk can be found in many forms. Take **cash** for example. It's nice and safe, no volatility of capital and there's a steady (albeit low) rate of interest. But of course over the long term, with no inherent capital growth, the effects of inflation eat away its buying power.

For example, if you'd retired 20 years ago with \$100,000, it would now have a buying power of around \$60,000 based on an average inflation rate of approximately 2.5%. Looked at another way, you'd now need around \$170,000 to buy what you could back in 1993.

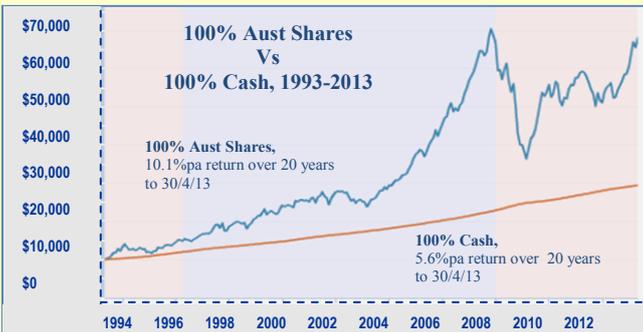
Turning to **shares** ... we might receive regular **dividends**, **plus** franking credit **tax refunds**, **and** the potential for long term **capital growth**, but the risk here is that in the short term the value of our capital

may **fall** as well as **rise**. It's called volatility and we've had quite a bit of it in recent years, as everybody knows.

But whilst cash and fixed interest assets are good for providing portfolio stability and predictability on a day-to-day basis, over the long term, as the graph below shows, having a portion of our money allocated to shares makes sense with the Aussie market (as measured by the All Ords Index) delivering 10.1%pa over the

past 20 years compared with cash of 5.6%pa.

Whilst all of this is good in theory, in practice, we **all** have a desire to avoid loss, to buy at the right time and of course, to sell at the right time. All very difficult things to do, that's why they say, it's time **IN** the market that counts, **not** timing the market.



Source: vanguardinvestments.com.au

Market Comments

Whilst some economic commentaries can take on the feel of a Horoscope, Shane Oliver's latest notes provide some useful reflections...



The current correction/volatility in overseas shares looks very different to the worries about global recession seen around mid 2010, mid 2011 and mid 2012. We haven't heard a peep out of Europe, the worries about the Fed look overblown and in any case, relates to problems of success (stronger growth) rather than failure (poor growth). Japan is looking up and China is likely to continue to grow around 7.5%. Moreover, share valuations range from cheap to fair value and the gradual improvement in global growth should boost profits, while global monetary conditions remain very easy.

So while the correction may have further to go, it is likely to be contained (more like 5-10%, rather than the 15-20% falls of mid 2010 and mid 2011), with the rising trend continuing.

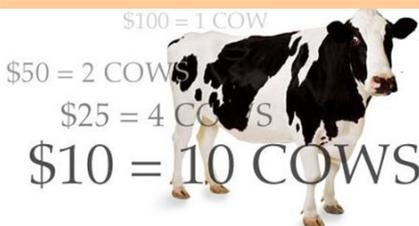


The same applies to Australian shares. Lower interest rates and a lower A\$ should help profits on a 12 month view and high yield shares are likely to regain some favour, reflecting their still high yields and falling term deposit rates. That said, the period of unambiguous out-performance by the Australian share market over the past decade on the back of surging commodity prices looks to be over. The A\$ also looks headed lower, highlighting the case for a higher long term exposure to unhedged international shares.

Dr Shane Oliver

Think of shares ... as cows?!

So what if there **was** a way to invest in shares that actually took advantage of volatility—the ups and downs of the market.



to keep you fit and healthy in retirement. You've got \$700 to invest, but you are concerned that if you buy all your cows today, the price might drop tomorrow.

So **instead**, you decide to invest \$100 in cows **every month** for the next 7 months. As expected, the price of cows **does** fluctuate and at the end of 7 months your herd looks like this ...

Month	Amount Invested in Cows	Price of Cows each month	Number of Cows bought
1	\$100	\$100	1
2	\$100	\$50	2
3	\$100	\$25	4
4	\$100	\$10	10
5	\$100	\$25	4
6	\$100	\$50	2
7	\$100	\$100	1
Total	\$700		24

Well, there **is** a way and it's called "**Dollar Cost Averaging**"; where you invest a regular amount over an extended period of time **regardless** of whether the markets are up or down. The focus is more on the amount being invested, **NOT** the price of the shares. As an example, imagine shares are cows and you have decided to buy a herd of cows so that you'll have lots of fresh milk

In summary, you now own 24 cows by spreading, or "dollar cost averaging", your purchases over 7 months. This contrasts with just 7 cows if you'd bought your herd on day one. Your average cow price therefore works out to be \$29 per cow, instead of \$100 per cow.

Of course, the more cows, the more milk and a healthier future.

Dollar cost averaging removes the need to make investment timing decisions. After all, the market over time is simply a series of "downs" and "ups". If you buy at **all times** then you naturally buy less when it's up and more when it's down, which is what everyone is trying to do anyway.

You still want to fly...?



It might be an urban myth, but we understand that after every flight, QANTAS pilots fill out a form, known as a 'gripe sheet' to tell mechanics about problems with the aircraft. The mechanics fix the problem, and then document their repairs on the form.

Here are some actual maintenance problems submitted by the pilots (marked with a 'P') and the solutions recorded (marked by an 'S') by maintenance engineers, who by the way have a sense of humour:

P: Test flight OK, auto-land very rough.
S: Auto-land not installed on this aircraft.

P: Something loose in cockpit.
S: Something tightened in cockpit.

P: Dead bugs on windshield.
S: Live bugs on back order.

P: P: Evidence of leak on right main landing gear.
S: Evidence removed.

P: DME volume unbelievably loud.
S: DME volume set to more believable level.

P: IFF inoperative in OFF mode.
S: IFF always inoperative in OFF mode.

P: Number 3 engine missing.
S: Engine found on right wing after brief search.

P: Aircraft handles funny.
S: Aircraft warned to straighten up, fly right and be serious.

P: Target radar hums.
S: Reprogrammed target radar with lyrics.

Over 75?

From 1 July 2013, the maximum age limit will be removed for all employed Australians. Previously, workers over 75 were not entitled to be paid the 9% super guarantee. This allows workers over age 75 to keep building their retirement savings.



Competition is starting to get fierce with Round 13 seeing Marcos Mate in the lead on 80, Tiger Spots on 78 and David Skinner holding onto third spot at 77. As ol' Harry used to say ... "it's a funny game football!"

Kids, or retirement?

There are numerous reasons why the retirement savings of so many Australians are inadequate. One is the sheer cost of bringing up children.

According to the National Centre for Social and Economic Modelling (NATSEM) at the University of Canberra, it costs a breathtaking \$812,000 to bring-up two children in a middle-income family. The costs have risen from \$537,000 five years ago.

The recent NATSEM report tracks the cost of raising children from birth until they leave home. Not surprisingly, the older the children get, the more costly they become.

Some say kids are priceless, others just say pricey.



Source: Robin Bowerman, Vanguard



A Dollar Down

The currency dropped below 93 cents for the first time since September 2010 as the greenback strengthened after US Federal Reserve said its stimulus program could come to an end next year. Fed chairman Ben Bernanke said that if US growth continued to pick up, the central bank could begin winding back its \$US85 billion-a-month in bond buying program later this year, and bring the operation to a close by mid-2014.

Australian Chamber of Commerce and Industry (ACCI) chief economist Greg Evans said there was an expectation the dollar would continue to decline to around 80 US cents.

Source: AAP, with BusinessDay

Destroying Wealth

As many people know only too well, one of the greatest destroyers of personal wealth is the breakdown of marriages and de facto relationships.

Separation means that a former couple's assets - including the family home and superannuation - are split. Solely from a retirement perspective, this means that not only are retirement savings divided but each individual has to pay for a separate home. And as the figures show, it costs much more to finance the retirement of two single people than a couple.

The latest-available ABS figures on marriages and divorces suggest that 40 per cent of marriages are likely to end in divorce. And these statistics don't include the breakdown of de facto relationships. That's something to think about.

Source: Robin Bowerman, Vanguard



Parenting Travel Tip No.1

Despite the risk of disturbing other passengers, for a small charge most airlines will allow children to travel inside the plane these days ...



Exciting Move in August

After more than 10 years renting here at Burwood East, in August we are moving office 6 minutes away to Blackburn North.

With the current lease up for renewal, Robert took the opportunity to buy a shop at 13 Diana Dve, Blackburn North and become his own landlord; or at least to his superannuation fund. (Some good advice he gave himself)

The *selection* of the property was largely based on "the vibe of the thing", plus easy parking and access for clients.

Dianna Dve runs off Junction road between Blackburn and Springvale roads. Stay tuned for more information in a couple of months.



VANUATU MISSION 2013

A big thank you to everyone who dropped in caps and glasses for Rob's Vanuatu mission with Medical Sailing Ministries (MSM) this year. Rob successfully sailed the boat Chimere up to Sydney in 3-4 days recently, with a volunteer crew now delivering her to Pt Vila.

As described in the last Update newsletter, Rob will take some Long Service Leave to run the medical mission in July and after returning in August will then head back for September and the early part of October.

Visit www.msm.org.au to find out more, to track the boats day-to-day movements and even to join the MSM Facebook site if you're into that sort of thing.

Again, thank you for everyone's encouragement, assistance and support.



Departure day from Westernport on 2 June. With all the donated dental, optical, medical and other stuff to be loaded aboard, we really got to thinking we need a bigger boat.