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Count

AUSTRALIA'S LARGEST INDEPENDENTLY OWNED NETWORK OF FINANCIAL PLANNING ACCOUNTANTS AND ADVISERS

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Financial Planning Industry- Regulation & Reputation

The Australian financial services industry, despite the ongoing examination and recent negative media is one of the world's leaders.

The regulatory framework we have does apply tough standards on Financial Planners, however I can understand standing in your shoes that you would question this given the collapses and failures that have been in the media. The unfortunate issue we have is that the whole Financial Planning industry gets dragged down by what every industry would have, that is some "bad apples". Current regulation and the industry itself have failed to indentify these "bad apples" and it's taken a global financial crisis (GFC) to shut down these operators. The GFC has dampened consumer confidence and the fall out has negatively impacted on the financial planning industry. In this article, I'd like to give you an insight into the views of Count and how we are positioned.

We can only begin to improve the industry's reputation if we focus on three key areas.

1. Improve industry practices

This begins with our current licensing regime; (issuing operators a licence to give advice, or promote a product) this responsibility lies with the Australian Securities & Investment Commission (ASIC). The barriers to entry need to be lifted, currently it is too easy to get a licence and until this area is tightened the problems we have seen can never really be resolved. Once a licence is issued, ongoing supervision and monitoring is required. Count has an industry reputation for being very effective in our compliance, and has always imposed more stringent policies then what is required by legislation on your Count Adviser. This is because we are committed to ensuring when you choose a Count Adviser, the advice you receive comes from a professional delivering real value, efficiency and a broad range of services that suit your needs.

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Count has an independent research process, this means the solutions a Count Adviser can select for you must be approved. Our tough and conservative approach has resulted in products like Westpoint, Opes Prime and Basis Capital having never made it to the list. We have been one of the very few groups to have this track record. Further, we have conservative polices that have maximum levels for gearing (borrowing) or alternative asset classes that are more "risky". Count clients have not been immune from negative market performance – but that is all they have been subject to – not losing their money on bad quality investments. Currently the industry is talking about moving to "back to basics" strategies for clients – these strategies have been Count's investment view for over 20 years.

2. Enhance financial literacy standards

The role of the Adviser is to explain the strategy and discuss with you the risks associated so you can make more informed decisions about any recommendations. Legislation to protect the client enforces documents such as a Financial Services Guide and Statement of Advice are provided. These documents outline your strategy and fees that you will be charged. These documents do need to improve as they are very long and cumbersome; Count is working to ensure these documents move to be more clear, concise and easy to understand.

Financial services is complex, Count enforce ongoing training requirements on our Advisers. Education is a long term investment, but the industry does need to enhance financial literacy to improve understanding. I always tell people the basic life skill that applies to all areas and especially Financial Planning, if you see/or are told something that is too good to be true then chances are, it usually is. Wealth Creation is a long term process that requires discipline. Count Advisers are not interested in making you an overnight success; they are interested in helping service your needs over the long term. A big part of this is ongoing and proactive communication through all periods of the market cycle.

3. Demonstrate the value of Financial Planning advice

Financial Planning is more than just placing investments; it's about an experienced and well qualified individual understanding your needs and goals and providing you with solutions to help you achieve them. This process also needs to take into account your changing needs and lifecycle. The industry does need to better demonstrate the value of advice to Australians, current debates on this issue always focus on investment performance and fees and do not address the two real issues facing Australia.

The first real issue is inadequate savings (i.e. as a nation we like to spend more than we save) and secondly we are underinsured. (i.e. we like to insure material possessions but not our income or life). Your Count Adviser will address these with you as they are important to help you achieve your goals, help you create wealth, give you the ability to make independent choices and importantly protect your wealth in the adverse event that something happens to you and you lose the ability to earn an income.

You may read a lot about debates on commissions. Your Count Adviser has the ability to offer you a fee for service agreement. Under the Count service offering, the way you pay for your advice is your choice. This could include commissions, a fee for service or a combination of both. Either way you can rest assured that Count sets a maximum fee that represents the value of your advice. It is our view that the payment method is irrelevant, what is important however is to ensure the payment process is transparent and that you are fully informed.

Australians need advice and the one stop Financial Planning service Count offers means your Count Adviser can assist you throughout your life stages. We embrace industry developments that drive the cost of investment down for clients and we support and stay ahead of government and industry initiatives aimed at simplifying the advice process. There is a lot of positive change that will come and you should rest assured that your Count Adviser is the best person to service your needs. Each Count Adviser is backed by head office who is working with regulators and industry bodies to ensure management of any change is in the right hands, so industry participants don't repeat mistakes and the Financial Planning industry reputation as a whole is improved. Thank you for your trust in Count and your Count Adviser we never lose sight of ensuring any decision we make is always made with your best interests in mind.

Economic Insights - two leading economists share their views

The Australian economy is likely to remain in recession for much of this year with the global slump yet to really impact. Global conditions are also likely to remain poor this year, with the global economy contracting.

This should lead to falling inflation and further monetary easing in most countries, including Australia, which along with fiscal stimulus, will aid recovery later this year and/or through 2010. Shares have rallied in recent times with increasing evidence that worldwide monetary and fiscal easing is gaining traction and that the severity of the pace of decline in global activity is easing, which may be the first step on the path to an eventual recovery from later this year and through 2010.

But with economic news likely to remain poor over the next six months, further profit downgrades are likely, meaning it is too early to say for sure that we have seen the bottom for this bear market.

The Australian share market is likely to remain volatile over the next few months. However, shares should improve on a 12-month view. Valuations are attractive and interest rates are low, and shares are likely to anticipate better economic conditions in 2010. Reflecting a much higher divided yield and reasonable growth prospects on the back of policy stimulus, medium-term returns of around 12% per annum are now possible.

Turmoil may continue in the international share market over the next six to twelve months on uncertainty regarding the depth and duration of the global recession. However, global shares are likely to provide reasonable returns on a 12-month plus view, given the likelihood of better economic conditions in 2010 and attractive valuations. Looking further out over the next five to ten years, improved dividend yields following the share slump and profit growth around nominal GDP growth will see medium-term returns from mainstream global shares of around 9% per annum on average.

In particular, listed property securities have probably seen the worst. Although further volatility is expected to remain over the next few months due to worries about gearing levels, capital raisings and the underlying property outlook, they represent very good value from a long-term perspective.

Both locally and worldwide, government bond yields may fall further in the short term on the back of the global downturn as it becomes apparent that short-term interest rates will stay low for a lengthy period. Global excess capacity continues to build, inflation falls further and central banks are buying increasing amounts of government bonds, all of which offset worries about an increase in the supply of bonds and rising sovereign risk. Longer term, bonds offer poor returns as yields are so low.

Dr. Shane Oliver is the Head of Investment Strategy and Chief Economist for AMP Capital Investors.

Economic Insights

The world is currently experiencing what the International Monetary Fund (IMF) calls the "great recession", with the global economy expected to contract in 2009, the worst performance in over 60 years.

This is obviously a very difficult environment for markets as they deal with the combined effects of a significant break-down in the world's financial system and the dire economic circumstances. The other defining feature of the economic environment is, however, the unprecedented nature of the policy response. After the significant market failures in late 2008 and the shift downwards in economic activity that flowed from this, the leaders of the world's major economies have engaged in massive stimulus and stabilisation policies.

Interest rates have been slashed around the world, while in those countries where interest rates have reached zero (including the US, Japan and the UK), authorities are undertaking what is called "quantitative easing" (lowering longer term interest rates and providing the banking system with extra cash to lend to the economy). In addition, there has been significant easing of fiscal policy, with tax cuts and government spending leading to a sharp increase in budget deficits around the globe.

Of course, there has also been extraordinary efforts to stabilise the global banking system, through direct capital injections, nationalisation and various government polices to provide the banking system with all the money they need in an effort to rebuild confidence in the system.

As a small economy with large trade links to the rest of the world, it would have been impossible for Australia to escape the effects of the global recession. While both the Reserve Bank (by cutting interest rates from 7.25% to 3.00%) and the government (via increased spending, tax cuts and stabilising the banking system) have put in place a significant policy response it seems clear that the Australian economy will also experience a recession this year (the first in 18 years).

Like most other countries around the world, in Australia the recession and financial crisis have led to a sharp fall in sharemarkets, falls in commodity prices and property valuations, an increase in the cost of borrowing for companies and a fall in official interest rates.

The good news is, however, that a significant amount of bad news has already been priced into markets. There have also been recent, very tentative, signs of some stabilisation in global economic data and the strong co-ordinated policy stance from the world's leaders has seen some markets recover.

While it is early days yet and the fear remains that there is more bad economic news ahead of us, especially with regard to the unemployment rate, markets are beginning to look forward to the recovery. Caution is still needed and markets are likely to remain volatile, but there is now some evidence that the unprecedented policy response from the world's major economies, and Australia, could be taking hold.

Stephen Halmarick
Head of Investment Markets Research
Colonial First State Global Asset Management

Count's 12 monitored investments– 14 years on

Nearly 14 years ago, Count invested $10,000 into each of 12 different investments to illustrate how different types of investments perform at different times and especially over the long term.

We invested across Australian and International shares, property, fixed interest and cash, but how have we fared?

What did we predict in 1995?
Share funds would be the top performers
Diversified funds would be next
Listed property would be a solid performer, but over the long term, would not overtake share funds
Cash and interest based investments would be at the lower end of the performance scale

It's been 14 years... and for the most part, our predictions have been correct! Except the worst global recession for 60 years has temporarily elevated the cash based investments, but with interest rates very low these will again under perform.

How have our investments fared?

Tax advantaged

Count's 12 monitored investments- all initially made 24th July 1995 and valued as at 31 December 2008*

2008	2007	Investment	Valued at 31/12/2008*	**Valued at 31/12/2007***	Invests in:
1	2	Colonial First State Imputation Fund	$39,159.51	$57,269.32	Australian shares
2	1	BT Smaller Companies Fund	$38,405.83	$68,000.31	Australian Shares (Smaller Public Cos)
3	3	Perpetual Industrial Share Fund	$34,577.76	$53,032.48	Australian Shares
4	4	ING Tax- effective Income Trust	$28,703.99	$40,371.42	Balanced diversified
5	8	CBA Team Deposit	$20,659.26	$19,422.93	Bank Term deposits
6	6	BT Future Goals Fund	$19,484.37	$26,241.13	Growth diversified
7	7	MLC Balanced Fund	$18,714.80	$25,093.96	Balanced diversified
8	10	Macquarie CMT	$18,589.81	$17, 941.98	Cash
9	9	Invesco Protected Growth Fund	$18,205.27	$17,941.98	Conservative diversified
10	5	Colonial First State Property Securities Fund	$15,758.75	$35,249.34	Listed property trusts
11	11	BT International Fund	$13,177.88	$16,087.36	International shares
12	12	Challenger Asian Share Fund	$9,685.66	$10,849.64	Asian Shares (Ex.Jpn)
		TOTAL PORTFOLIO VALUE	$275,122.89	$387,072.03	* Including distribution

*All income has been reinvested. Past performance is not indicative of future performance. Asset classes will perform differently throughout the economic cycle. History shows that quality businesses (shares) outperform cash in the long term. Note: The investments chosen were not intended to be the best, but a selection of a broad range of investments from different fund managers.

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Portfolio Performance in Difficult markets

Global sharemarkets rose to an all time high in late 2007. The onset of the global credit crisis caused 2008 to be a disaster year for equity and property markets and Count's predictions for the 12 monitored investments were really put to the test.

2008 saw dramatic falls in the value of Count's 12 monitored investments. The worst performance was from the Australian property exposure, with the Colonial First State Property Securities Fund falling 55.3% over the year. To highlight how quickly relative performance can change, this fund was the 5th best performer over the life of the investment until the start of 2008, and the 10th best performer at the end. Australian shares had a very difficult year, with The Perpetual Industrial Share Fund (-34.8%), and the Colonial First State Imputation Fund (-31.6%) both recording large negative returns.

International shares experienced similar difficulties but the falls in values were moderated in Australian dollar terms due to the depreciation in the Australian dollar against the US dollar.

The diversified funds in the portfolio also posted large negative returns with the exception of the conservative diversified fund. The ING Tax-effective Income Trust (-28.9%), the BT Future Goals Fund (-25.7%) and MLC Balanced Fund (-25.4%) were all negative.

The portfolio's cash based investments were the best performers with the CBA Term Deposit and Macquarie CMT returning 6.4% and 6.2% respectively.

Performance vs. Predictions

In 1995 when the portfolio was established, we predicted that the share funds would be the top performers, with diversified funds following. We also predicted that listed property would be a solid performer, with cash and interest based investments at the lower end of the scale.

2008 highlighted how quickly investment markets can change. Taking a one year view, the initial predictions made for the portfolio appear completely off. Cash has been the best performer, followed by diversified funds, then equities then property. But interestingly, even after one of the most historically volatile years on record, the performance of the portfolio remains largely in line with expectations. The CBA Term Deposit appears to go against the predictions being the 5th best performer over the life of these investments. This is not expected to continue over the long term and is consistent with the argument for portfolio diversification.

Overall portfolio performance

Despite going through one of the most difficult years faced by equity and property markets, the long-term performance of the 12 monitored investments remains healthy. In almost 14 years, our initial investment of $120,000 has increased by around 129% to $275,122.89. This is an average yearly return of approximately 6.4%.

Where should investors look in 2009 and beyond?

2008 was a year that most investors would like to forget. It did however, re-iterate some of the key principles of investing described below. While the property, Australian and International sharemarkets had a very difficult year, over a longer time frame they are still expected to be be the strongest performers. The performance of Australian shares over the full period clearly demonstrates this. It is important to remember that markets can change quickly. What performs well over one year can be quite different over five or ten years. Keeping in mind your investment time frame is crucial in determining which asset classes should be included in your portfolio.

Our own portfolio demonstrates two key principles of successful long term investing:

Minimising risk through diversification

By investing across sectors, assets and markets, we have diversified our portfolio and ensured that our risk is minimised. Over the years, the positive returns from the strong performers of the group have smoothed out negative returns from the poorer performers. If we had invested solely in one area, such as Asian shares, our overall portfolio return would have been much lower, and overall, a very high-risk strategy – despite the positive returns this sector has produced in recent years.

Ride out volatile markets and stick to your long-term plan

The performance of our investments has varied over time. What performs well one year, can falter the next – showing that it is very difficult to be able to predict when and where to invest.

Even the top performing fund has had its fair share of ups and downs over the years, but by sticking it out over the long term, the investment has paid off. Rather than trying to pick the best investments from year to year, the safer strategy is to ride out the bad times and adhere to your long-term investment plan.

Chairman's Report:
The Budget we had to have?

It never pays to get too political in articles as you immediately turn off 50% of the readers, however, as a swinging voter without allegiance to any party, I trust you will see my views as a-political.

Fortunately Australia went in to the Global Financial Crisis (GFC) in a very strong financial position. The Howard government likes to take credit for that but I have always believed that Paul Keating was the architect of our good times, along with the Chinese - resources boom.

When the GFC hit, the Rudd government took early decisive action ("cash splashes") to try and keep domestic consumption and jobs going. The wisdom of this will be debated for years to come. It is interesting to note the relatively new New Zealand government didn't do this and has much lower unemployment!

We have had the handouts and no one can begrudge the increased payments for pensioners, but how will these "cash splashes" impact you going forward?

Large budget deficits for the next few years will mean the government has to borrow the funds to finance the deficits. This means as soon as the economy does pick up interest rates will rise rapidly. The government has also predicted above average growth when we come out of recession. If correct, this is another reason why interest rates will rise.

In summary a price will be paid by all Australians for the "cash splashes" and the massive budget deficits. Many will therefore ask did we really have to have this budget? Like the recession we had to have, that will be debated for years to come.

Budget changes that will impact readers include:

- Pensions up;
- "Elections" tax cuts honoured from 1 July 2009;
- First Home Owners Grant extended then reduced;
- Annual carer supplement introduced.
- Those on Superannuation pensions have had the minimum pension amount reduced for another year.
- Small businesses investment allowance increased to 50% until the 31st of December 2009.

These changes all increase the deficit and have to be paid for. The question is how and when. Unless the economy, employment and business taxes increase rapidly, you can expect a horror budget after the next election. Or will it be increased GST?

Changes were also made to Superannuation, yet again. If you have been or are intending to contribute more than the compulsory 9% you should speak with your Count Adviser as to whether or not these changes will impact you. The good news on Superannuation is the non-tax deductible amount has not been changed, so if you don't have enough in super and you have the money, you can still put relatively large amounts into tax advantaged Superannuation.

They say you get the government you deserve. I guess I will have to take some responsibility for this government and the next one!

Barry Lambert
Executive Chairman and Founder
Count Financial Limited

Have you got a back-up plan?

A majority of Australians are significantly underinsured. In conjunction with Lifewise, an initiative aimed at encouraging Australians to protect themselves, Count will enable you to protect the things that matter to you most.

A Count Advisor will be able to look at your entire financial situation, your family commitments and lifestyle and help you determine your actual life insurance needs. They will also be able to advise you on the most appropriate insurance product for your particular needs.

By having a back-up plan in place you will be able to protect the things that matter. Your lifestyle, your family's security and your freedom to make choices.

Research conducted by the Investment and Financial Services Association in 2005 showed that those that had a professional financial planner were most likely to have adequate levels of insurance cover. Count can help you make informed decisions about your life insurance needs, preserving your freedom to choose the life you want for you and your family, regardless of what may happen.

www.lifewise.org.au

Taking some time to consider the risks and having a contingency plan is like carrying an umbrella – it can't stop the rain but can provide much needed financial protection during life's storms. Speak to your Count Adviser for more information.

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Pass on this form to your family and friends to help them better secure their financial future. Give them a FREE, no-obligation introduction to Count's services. This free introduction is at the adviser's expense, and will not include specific financial planning advice or a Statement of Advice (financial plan), but it will help them decide whether the services offered by your Count adviser are right for their needs.

Yes I'd like to arrange a FREE initial discussion on: (*tick all that apply*)

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- ☐ Debt management
- ☐ Managed funds
- ☐ Investment reviews
- ☐ Superannuation & retirement
- ☐ Wealth protection
- ☐ Home & investment loans*
- ☐ Business loans & leasing*

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