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Belmores Wealth Management

Don't ignore a **world** of opportunities

One year after the global economy plunged into the worst recession in decades, Australia has cemented its reputation as the Lucky Country. Investors could be forgiven for asking why anyone would live or invest anywhere else.

In fact, Australia is the only advanced nation to escape recession this year. According to figures from the International Monetary Fund, Australia's economy is on track to grow by 0.7 per cent in 2009, compared with an average of -3.4 per cent for the top 33 economies.

The economy is in such good shape that the Reserve Bank of Australia (RBA) has gone out on a limb and started lifting interest rates. The Australian cash rate of 3.5 per cent (November) is a substantial premium on the US cash rate of 0.25 per cent and the UK rate of 0.5 per cent.

As a result, overseas investors have been piling into Aussie dollars, shares and bonds. The Australian share market recovered 48 per cent from its low in March to the end of October and the dollar managed a similar feat, up 50 per cent from its low of US61c in October last year to above US90c in October this year.

While there's no question that Australia is a great place to live, there are compelling reasons why it is as important as ever to build a diversified investment portfolio with a range of asset classes and geographic locations.

The attraction of international investments

When it comes to investing, size matters. The US accounts for more than one fifth of the world's gross domestic product (GDP), twice that of China, and one third of world equities, real estate and debt securities. Australia accounts for just 1.2 per cent of GDP and 1.7 per cent of world assets.

Choice is another reason to look beyond Australia's shores. If Australians want to share in the future profits of global heavyweights such as Microsoft, Google, Sony, Toyota, Johnson & Johnson, Nokia and British Petroleum they have to invest overseas, even if they do so via an Australian-based managed fund.



Timing and market cycles should also be taken into consideration. While Australian shares are enjoying their moment in the sun, at some point they will be eclipsed by other markets. As the past year proves, it is impossible to predict what lies ahead. So it is prudent to ensure you are not overly exposed to a single market or investment.

Asset consultant Mercer believes overseas shares have been undervalued for the past year. In its October market valuation report it points to the stronger outlook for earnings growth in the US and notes that while Australian shares are fair value, they are no longer trading at bargain basement prices.

We're not suggesting selling Australian shares to buy US shares. Far from it. There is still good reason to buy Australian.

We have the good fortune to be a major exporter of commodities in a region where demand is high.

The better-than-expected performance of company profits is another reason why Australian shares have been able to recover a significant amount of lost ground. While company profits were actually down around 15 per cent in the year to June 30, the market had been bracing for worse.

The rapid rise in the Aussie dollar has also increased the attraction of Australian shares for local investors.

How do currency fluctuations affect the mix?

While it's prudent for Australians to diversify their investments beyond the local market, currency fluctuations add another layer of complexity. When the Australian dollar strengthens, investment earnings measured in foreign currencies, especially the US dollar, are worth less when converted into Australian dollars.

For example, while the MSCI global market index excluding Australia jumped 17.1 per cent in the year to October 31, in Australian dollar terms it actually fell by 14.5 per cent. This occurred because the Aussie dollar moved higher over the period.

Of course, the currency effect works both ways. When the Australian dollar weakens, foreign investment earnings are worth more when converted back into Aussie dollars. Hedging can help to reduce the impact of currency fluctuations, especially for Australian investors with a stake in international markets.

In other words, investing is always a case of swings and roundabouts with good reason to diversify your investments while you stay the course. If you want more information about the extent to which your investments are diversified just give us a call.



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