

September 2013

The global economic recovery story is breathing life into equity markets in all corners of the globe. With governments committed to stimulating long term growth, economic conditions are now stabilising, debt markets steady, and the volatility index is only a shadow of its former self. With such a dramatic change in market conditions it is important portfolio structures are adjusted to adapt to these economic changes.

The 2012/13 financial year was the best performing year in over 5 years for domestic equity markets. The S&P/ASX 200 returned 17% over this period, led by the financial sector providing an overall return of 28.75%.

This growth was not confined to domestic markets as the year provided growth to a number of international markets, notably the US and Japan returning 15.75% (Dow Jones) and 51.63% (Nikkei) respectively. Growth over the 2012/13 financial year has considerably increased market confidence and the decision last week by the US Fed Reserve to continue pumping money into the US economy has continued positive market sentiment into the 2013/14 financial year. In the three months beginning this financial year US markets are up 12% and domestically markets are up 9%.

Low interest rates and high inflation are a by-product of the US Federal Reserve bond buying program and as such interest rates have fallen to historic lows, 2.5% domestically and as low as 0% abroad. The current low interest rate environment means fixed interest has not shared the same success that domestic and international equity markets have in the past 12 months.

This poses an issue for retirees who have relied on a large weighting toward fixed interest and cash to derive an income from their portfolio.

The low interest rate environment has also seen a rush of money flow toward residential property investment. Although traditionally bricks and mortar have been a safe haven for capital growth they do fall short in achieving sufficient cash flow for income intensive portfolios, generally fetching a gross yield in Melbourne and Sydney of only 3.5% and a net yield of only 2.0%.

For investors drawing down on superannuation this issue is heightened as minimum pension drawdowns are no longer subject to the pension relief program and from July 2013 minimum drawdowns have returned to normal. Depending on your age, minimum pension drawdowns can now range from 4% to 14% making it difficult, if not impossible, to obtain the required cash flow from a portfolio through fixed interest securities or direct residential property without having to draw down on capital or selling properties.

Fixed interest and direct residential property currently fail to provide the income investors require, so investors have rushed to yield plays on the Australian stock market. Telco's and banks providing a fully franked cash dividend in excess of 5% are now a more appealing option for income intensive portfolios.

Our Income model portfolios are positioned to meet these needs. They are structured to deliver an attractive and frequent income stream and also provide exposure to capital growth. Maintaining a diverse exposure to domestic markets, international, property and varied fixed interest, our income portfolios aim to provide a grossed up dividend yield of 7%.

Interest rates are likely to remain on hold or subject to further cuts. Therefore yields on direct equity markets and assorted fund managers are more likely to play a greater role in income intensive portfolios. Therefore it is vital your portfolio has adequate exposure to a diverse range of holdings in order to provide sufficient cash flow.

If you would like to discuss any matters relating to these newsletters or require specific advice on any of the above, then please contact myself or Daniel on (03) 8825 5500 or via email adviser@chartertowers.com.au

Sincerely,

A handwritten signature in dark ink, appearing to read 'A Blackwell', with a stylized flourish at the end.

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