

Remain focused on the long term

Global equity markets have faced a turbulent month, with Australia being no exception. Since reaching a twelve month high in mid April of 5001.90 points, the S&P/ASX 200 has fallen nearly 14% to a mark just above 4300 as at Friday 21 May 2010. The downward trend has accelerated in the past week and you may be feeling less confident as a result of the uncertainties facing the Euro zone and the impact of proposed government regulatory changes both domestically and abroad.

It's important to remain focused on the long term

Despite the rise of the Greek debt crisis earlier this year and a volatile equity market, global economic data has continued to improve with companies globally reporting solid results. This is positive for long term equity market returns.

Unfortunately, whilst the implementation of the European Union (EU)/International Monetary Fund (IMF) support package for Greece has been positive, the long-term viability of the Euro Zone remains a concern (please refer below). As a result, it is expected negative sentiment in the medium term will create more headwinds than tail winds and the market will remain highly volatile. This has been evident in the last week with global equity markets falling 7-10%.

The Australian equity market is being driven by a global macro environment which is displaying mixed signals.

- Euro zone uncertainty
 - The announcement of the 750 billion euro bail out of Greece had a positive impact on markets but lacked the detail needed to give the market long-term confidence that European powers are working together (note that the German parliament is voting on their portion of this package tonight).
 - This lack of coordination means the long-term viability of the EU remains a concern and if there is an eventual break up, the debt issues faced by Greece will spread globally as a result.
 - Even if the rescue package is successful severe concerns remain around what effect the burden of repaying \$1.3trillion will have on an economic recovery in Europe.
- In the US
 - Increasing both consumer and business loan defaults continue to put pressure on financial institutions in the US and as a result have impacted investor confidence.
 - An ongoing battle to reduce double digit unemployment rates continues. While recent figures have shown a slowdown in the rate of jobless claims, US unemployment is currently at above average levels which has lead to lower consumer confidence and spending.
 - Proposed financial regulatory reforms could further restrict earnings potential from large US banking and investment firms leading to additional short term volatility as valuations are re-established.

Whilst we remain cautious of the Euro zone issues outlined above, we see this adjustment as potentially leading to opportunities for the Australian market. We expect the Australian economy will continue to grow in the 2011 financial year. This will also contribute to market

opportunities. Specifically these opportunities will involve companies where the underlying trend and momentum for earnings is positive.

For more information and to discuss how this may impact your situation speak to your Financial Adviser.

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