



Your Wealth Bulletin

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Dear David,

Welcome to the December edition of Your Wealth Bulletin. On behalf of Tracey, Veronia and I, we wish you an enjoyable Christmas and look forward to working with you in a prosperous 2011.

"Gifts of time and love are surely the basic ingredients of a truly merry Christmas."

~ Peg Bracken

Crystal Ball Results for 2010

Our most popular article each year is the forecasts by the economic experts for the year ahead.

It's human nature to believe that the future is predictable, and the harder you work at analysing the future economic variables, the greater the chance of success.

It is this human trait that leads investors to pay out thousands of dollars a year for stock newsletter subscription tips, while spending hours and hours researching financial newspapers for the next big thing.

In 2008 we reviewed the lack of success for tipsters while many simply wouldn't release tips for 2009. As for 2010, well let's see how you would have fared had you invested in their expert stock selections (*using 18th January and 13th December prices*):-

Colin Whitehead (Fat Prophets)

Long Term: BHP. Was \$43.09, Now \$45.43 (5% profit)

This Year: GDY Was \$0.86, Now \$0.46 (46% loss)

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Jamie Nemtsas (The Investing Times)

Long term - Telstra. Was \$3.32, Now \$2.73 (17% loss)
This year - Asciano. Was \$1.885, Now \$1.64 (12% loss)

Steve Johnson (Intelligent Investor)

Long term - Prime Infrastructure. Was \$3.74, Now \$4.90
(Bought out, now suspended. 31% profit)
This year - Servcorp. Was \$3.78, Now \$3.11 (17% loss)

Kristian Dibble (Rivkin Report)

Long term - Tabcorp. Was \$7.19, Now \$7.12 (1% loss)
This year - Brickworks Was \$12.60, Now \$10.99 (12% loss)

So let's say you invested \$10,000 (\$5,000 in each stock) the day after this publication. The respective results would have been:

Colin = Was \$10,000 now \$7,950

Jamie = Was \$10,000 now \$8,550

Steve = Was \$10,000 now \$10,700

Kristian = Was \$10,000 now \$9,350

From a total of 8 stock selections, 6 ended up as loss makers. The only two profitable were BHP and the other was a buyout (Prime). So it's probably safe to say that the publicised stock tips of 2010 didn't do too well.

The alternative? Well, let's say you invested as a buy and hold investor into the DFA Value Fund and the DFA Small Companies Fund. To make it fair, you put \$5,000 each. The result? \$10,704 even with fund manager fees paid for.

While this strategy doesn't sell many newspapers, it's fair to say that it remains the logical and academically proven method to grow your wealth over time.

Source - Sun Herald, 17th January 2010

What about the Economist Forecasts?

On the 8th November 2009, the Sun Herald published forecasts for the 2010 year from a variety of fund managers and economists.

Their task was to predict where the sharemarket index would be, while also recommending the best and worst sectors of the market to be invested into.

The index at the time (9th November '09) was sitting at 4604. What were their predictions?

4 out of 6 predicted the market to climb to 5400-5600, a rise of about 19%.

As of the 13th December 2010, the index is at 4841, a rise of about 5%. A significant 14% difference.

And the other 2 predictions?.....John Sevier from Perpetual was sort of the closest with his comment of 'where it is, give or take about 10%'. But i'm not so sure a forecast spread of 20% is really that accurate in nature. Dale Gilham from Wealth Within expected the market to be 'roughly where we are after a correction'. I'm not so sure that was on the money either as we certainly didn't see any sharp dips over the last 12 months.

As for their sector predictions, half of them predicted Health Care to be the star performer of the markets, along with Resources. In terms of the worst performers, there were few similarities as Banks, Property Trusts, Telcos and Health Care were suggested as the sectors to avoid.

Looking back at the performance, it would appear that the best sector was Metal & Mining, while the worst sector was Telecommunications.

None of the forecasts nominated these two sectors.

But Health Care did perform okay (up 4.5%) i'm sure to the chagrin of Shane Oliver from AMP whom predicted that sector was likely to be the worst.

It's always an interesting exercise to review the market tips from economists and stockbrokers alike. Very rarely are they totally accurate, yet based upon magazine and newspaper coverage, investors genuinely are interested in what they have to say.

The lesson is to educate yourself and have an understanding of the commentary, but to follow their tips is likely to harm your wealth.

2011 - What's ahead?

So what are the forecasts for next year you ask?.....well maybe you didn't after last years results, and the year before and the year before that as well!

But still, the law of averages must surely soon produce some positive results. So let's see what's predicted for 2011 so we can check up on their success (or lack thereof) this time next year.

Goldman Sachs are a well known stockbroking firm, and they have listed their top 10 stock picks for 2011:-
Ancor, BHP, James Hardi, News Corporation, Qantas, Asciano, Computershare, Lend Lease, Onesteel and Woodside.

What Goldmans doesn't like includes Telco's, Insurers, Property Trusts, Health Care, Consumer Staples and Gaming. Source:[The Australian](#)

As for other research analyst predictions, these 24 selections were listed in [The Bull](#) website recently:

Roger Leaning, Head of Research, RBS Morgans
ANZ Banking, Fairfax Media, Fortescue Metals Group, Origin Energy, Campbell Brothers, Eastern Star Gas, Gloucester Coal and Watpac.

Michael Heffernan, Senior client advisor and strategist, Austock
CBA, Leighton Holdings, Rio Tinto, Oz Minerals, Matrix Composites, Monadelphous, Mineral Resources, Mc Millan Shakespeare.

Andrew Quin, Research and strategy coordinator, Patersons Securities
QBE, CSL, Computershare, BHP, Cooper Energy, CUE Energy Resources, Horizon Oil, Aspen Group.

Another source that we have listed for "Hot Stocks" in the past has been Lincoln Indicators (software research company).

They have again graciously provided their [2011 recommendations](#) for investors, which consist of:-
Credit Corp Group, Silver Chef Limited, David Jones Limited, Forge Group Limited, Thorn Group Limited, ANZ Bank, CSL, iiNet Limited, Western Areas Limited.

Our final inclusion for the 2011 Forecasts is one of our favourites, Economist Shane Oliver from AMP. Mr Oliver kindly makes forecasts in precise percentages, and usually (with the exception of this year), reviews his forecasts and explains where it went wrong.

His [forecasts for 2011](#) are very bold indeed. His predictions include:

- Australian sharemarket: 18.5%
- Global shares: 13.5% (in AUD)
- Emerging markets: 25%
- Global listed property: 15%
- Australian listed property: 18%
- Australian residential property: 2%
- Cash: 5%

So there you have the stock recommendations for 2011. We will once again review their performance this time next year and see how stock forecasting would have impacted your wealth.

If you would like to discuss any of these issues further with us, please feel welcome to ring me on 9525 0777 or emailenquiries@reedfinancial.com.au

Warm Regards!

David Reed



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