Your Wealth Bulletin

Dear David,

Happy New Year and welcome to the February edition of Your Wealth Bulletin.

"You are never too old to set another goal or to dream a new dream." ~ *C.S. Lewis*

2011 - Investment Resolutions

It's that time of year when many of us think about establishing one or more New Year's resolutions.

This often means committing to improving one's lifestyle by losing weight, exercising more, drinking less, or greater wealth.

Perhaps a set of New Year's *investment* resolutions, along with an advisor capable of helping investors adhere to them, will lead to a more prosperous future.

Most of us are creatures of habit and discover that making permanent changes in our behavior is surprisingly difficult. We need every possible mental crutch at our disposal to help us adhere to a new regimen; hence we establish mental road signs, such as New Year's resolutions as behavioural aids.

To make matters worse, our commitment to change issometimes tested by examples of those who ignore prudent behavior to their apparent advantage and those who follow it to their apparent detriment.

Winston Churchill lived to age 90, fortified by an ample supply of

Did You Know?

A recent study showed 70% of the best days in the US Market occurred within 2 weeks of the worst day. 100% of the best days occurred within 6 months of the worst day.

(Evensky, Jan 2011)

Money Links

Education Rebates

Environment Rebates

NSW Hot Water & Toilet Rebates

Fridge Buyback

Free NRMA roadside(For 16-20 year olds)

Child Care Estimator

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champagne and cigars, while author and jogging enthusiast Jim Fixx died of a heart attack at age 52.

In the financial world, the investor who sunk every dollar into Apple shares ten years ago watched her investment multiply over forty-fold while a globally diversified equity portfolio lost money.

These isolated examples may test our faith but should not encourage us to abandon a proven set of prescriptions; continuing to apply them will still improve our odds.

So courtesy of Dimensional, and for those who find making such promises useful, here are ten investment-related resolutions that will hopefully result in better long-term wealth:

1. I will not confuse entertainment with advice. I will acknowledge that the financial media is in the entertainment bsuiness and their message can compromise my long term focus and discipline, leading me to make poor investment decisions. If necessary, I will turn off the Stock Market News and turn on the Sports Channel.

2. I will stop searching for tomorrow's star money manager, as there are no gurus. Capitalism will be my guru because with capitalism there is a positive expected return on capital, and it is there for the taking. And for me to succeed, someone else doesn't have to fail.

3. I will not invest based on a forecast, whether it is mine or anybody else's. I will recognise that the urge to form an opinion will never go away, but I won't act upon it because nobody can repeatedly predict the future. It is, by definition, uncertain.

4. I will keep a long-term perspective and appropriately consider my investment horizon (i.e., how long my portfolio is to be invested) when determining my performance horizon (i.e., the time frame I use to evaluate results).

5. I will continue to invest new capital and work my plan because it is time in the market-and not timing the market-that matters.

6. I will adhere to my plan and continue to rebalance (i.e., systematically buying more of what hasn't done well recently)

rather than "unbalance" (i.e., buying more of what's hot).

7. I will not focus my portfolio in a few securities, or even a few asset classes, as diversification remains the closest thing to a free lunch.

8. I will ensure my portfolio is appropriate for my goals and objectives while only taking risks worth taking.

9. I will manage my emotions by learning about and acknowledging the biases and cognitive errors that influence my behaviour.

10. I will keep my cost of investing reasonable.

Most of us find it hard to follow a sensible diet or a sensible investment strategy 100% of the time. If you must stray when managing your wealth or well-being, moderation is the key. Chocolate cake is OK, as long as it's not for dinner every night.

Speculating on a stock or two is all right as well, as long as you don't do it with all of your investment capital.

Finally, just as successful athletes rely on coaches and trainers to help them achieve their goals, most investors can probably benefit from having a "financial coach" to remind them about their New Year's resolutions and keep them on track toward a more prosperous future.

I wish you both good health and good wealth in 2011.

2010 - The Year In Review

The second year coming out of the global financial crisis was more mixed than in 2009, as investors looked for convincing signs of economic recovery in the US and Europe, worried about the legacy on public balance sheets of the bank bailouts of the year before and continued to see salvation in emerging markets.

In this review by Dimensional Funds, we look at the major themes and events that dominated headlines. In considering all of this, investors should remember that markets are forward-looking and that news is quickly built into prices. As always, the best defence in all cycles is diversification and discipline.

The Detail

Stocks performed well in most developed countries in 2010 despite fears of a double-dip recession in the world's biggest economy, rising public sector deficits in Europe and the US and competing concerns over inflation and deflation.

Of 45 countries tracked by index provider MSCI, 37 posted positive equity market returns in both local currency and $US terms. For Australian investors, however, the $A's very strong gains through the year against the other major currencies marred unhedged returns.

To put this in perspective, the $A was the second best performing currency against the $US over the year, reaching parity for the first time since it was floated in 1983. It also hit record highs versus the euro and 25-year highs against the pound sterling.

Fuelling its gains were Australia's substantial interest rate advantage, the ongoing strength in commodity markets and unilateral weakness in the $US, euro and pound.

Over the full year and in $A terms, Australian small caps were the single best performing asset class globally, followed by global small caps and global real estate trusts.

The bottom three performing asset classes were global value, global large and Australian large cap stocks.

The Australian equity market delivered only modest returns for the year of 1.9% in $A terms, including dividends, but this masked a wide divergence between marked strength in resource stocks and weakness in financials, consumer discretionary and telecommunication sectors.

Along the market capitalisation dimension, small caps outperformed large caps by substantial margins in the Australian, US, developed, and emerging markets. Value stocks had more mixed results in international developed and emerging markets. In Australia, value performed broadly in line with the wider market.

Fixed interest returns were positive, despite worries in some quarters of a "bubble" developing. For investors in Australia, where the Reserve Bank stood against the global trend to raise interest rates, the benefits of global diversification were evident. Short-term rates in other developed markets remained anchored by central banks and at the long end by low inflation.

This trend started to change late in 2010 as global economic recovery signs emerged.

Despite still patchy property markets globally, real estate securities had excellent returns, performing comparably to the equity asset classes.

Summary

The news has been mixed this year in many ways.

The major economies of the US, Europe and Japan made faltering steps out of recession. On the other hand, developing economies - particularly in East Asia continued to thrive. Australia, whose major export markets are in Asia, enjoyed the tailwind of this regional growth through buoyant commodity prices.

However, higher interest rates and the strong Australian dollar were by year end showing signs of squeezing domestic activity and domestic-oriented industries.

Market concerns for much of 2010 focused on the legacy on public sector balance sheets, particularly in Europe, of the fiscal stimulus undertaken by governments during the financial crisis.

For all this, though, globally diversified investors had some reasons to cheer. Small company stocks, both locally and globally had another stellar year, emerging markets and global real estate remained strong and fixed interest and cash provided solid returns.

No-one knows what 2011 will bring.

But once again, the returns of capital markets are there for the taking for those who spread their risks and exercise discipline.

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!

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