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Did You Know?

There is a free government website that is handy to use when reviewing your private health insurance. It is very comprehensive and easy to use.

Many advertised health cover websites (eg. iSelect) are limited in their choice of insurers based upon their access to commission.

We highly recommend this: www.privatehealth.gov.au

Money Links

Fridge Buyback

Free NRMA roadside(For 16-20 year olds)

Child Care Estimator
Education Rebates

Environment Rebates

NSW Hot Water & Toilet Rebates

Private Health Comparitor

Your Wealth Bulletin

Dear David,

Hi and welcome to the March edition of Your Wealth Bulletin.

"There are two kinds of investors, be they large or small: those who don't know where the market is headed, and those who don't know that they don't know..." - William Bernstein

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The Marshmallow Test

A recent documentary on the ABC called 'Life at 5' examined children as they grow older and it offers an insight into traits that predict their character later in life.

One of the interesting tests was based upon a 1960's study by Stanford University named 'The Marshmallow Test'. This involved the placing of a marshmallow in front of the child, and then telling them that they can eat that one now, or if they can wait a few minutes, upon the adult's return to the room they can 3 instead of one. Not easy huh!

The really interesting part is that the psychologist on the ABC series outlined that in past tests, they found about 2/3rd's of kids ate the marshmallow straight away. 1/3rd of kids waited til the adult returned so as to get more.

When the children were interviewed as young adults, those that shown self discipline by not eating the marshmallow were much more successful in life. The US results showed similar results with the 'disciplined' children growing up to be more self-assertive, dependable, socially competent and averaging higher on exam results.

While this is very interesting as a parent, there is a strong

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parable to be taken for wealth management.

A key success factor of wealthy individuals can often lead us to believe that they have a high income or a great business, but rather they usually display a strong self discipline to delay gratification.

Here are our 5 tips for disciplined wealth accumulation:

1. Avoid temptation - stay away from the shops when you're bored.

2. Saving is a habit - the magic of money lies in compound interest and time. Ensure that you keep saving regularly for a wealthy retirement.

3. Use imagination - use your mind to imagine that you have what what you want, but wait until you have the cash to actually purchase it. Avoid credit.

4. Know your goals - manage your risks by knowing what you want, and then adjusting your allocation of money to more conservative assets when you reach your goal to enjoy a smoother investment experience.

5. Teach your kids - give your children the opportunity to manage money. Provide an allowance and educate them about saving, charity and spending.

If you'd like to see parts of the Life at 5 program, including the Marshmallow Test [<< click here >>]

And here's an amusing video of the marshmallow test with kids filmed in the USA:

Kids Marshmallow Experiment

Investor Discipline Rewards

We are all aware that the economy moves in cycles. It's probably true that with globalisation, those cycles appear to be a little quicker nowadays and more volatile too.

Since 1970, there's been about 8 bear markets in Australia. A bear market is defined generally as a market fall of more than 20% from it's last peak.

The average market decline has been about 31% (the last fall was about 54% in 2007-09) and they last for about 16 months on average according to Rod North (Understanding the Investment Clock).

Nothing exciting about those numbers, that's for sure.

The interesting part is that when the bottom is finally reached (and nobody can predict when that is), the ASX index has jumped by an average 28% in the first 6 months of trading.

The average return from the markets for the 3 years following a bear decline was 17.4% per year.

Now we all know that both property market and stock market graphs rise at an angle of about 45 degrees over a 20-30-100 year period. The reason for this is that the market always exceeds it's last all-time-high. Nobody can predict how long it takes, but if the next high didn't rise above the last high, then those same graphs simply couldn't rise upwards.

Based upon the previous bear markets, it's somewhat surprising to know that within 33 months (so just over 2 1/2 years), on average the market has rebounded from it's previous bottom and climbed above that of it's last high.

Now looking back at the ASX around the Global Financial Crisis period, we can see that the last high of the Index was 6,873 on the 1st of November 2007. It's low was 3,111 on the 6th of March 2009.

As at 4th March, 2011, the All Ordinaries index was 4,902 representing an increase of 57% from the previous low, and still about 40% from it's previous high.

Based upon historical averages, it would seem that the 2 1/2 year rebound to take us to our next high may seem to be slightly optimistic in timing. However, the upward trend reiterates the point that markets do recover, and they will reward investor discipline over longer timeframes, no matter what hysteria you read or hear.

And if you think that the upward trend is due to our fortunate circumstances in Australia, then think again.

You may be interested to know that the US stock market originally fell a similar margin to us (54%) however has now bounced back by over 88%. It is only 16% away from creating it's next new high.

Similarly, the UK and German indices are only 12% away from their previous highs.

What about the expansionary wonder that is China you say?

Well, their market fell by over 72%. So far, their index has climbed back by 74% and remains a whopping 110% away from reaching it's previous high.

Recent history again tells us that a diversified portfolio combined with strict investment discipline significantly increases your potential to maximise investment returns.

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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