JAN 2009

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Financial Services

Goodbye and good riddance to 2008!

Snapshot

2008 is a year that will never be forgotten. It was the worst year for the Australian Stock Exchange since 1930[1]. It was the year the decade long Australian resources boom went bust, and also the year many companies started laying off their workers – some with no alternative such as ABC Learning and Babcock and Brown, and others simply to weather the storm.

It was the year the USA went broke, officially in recession for more than four successive quarters. And the year the Chinese economic juggernaut faltered and slowed as its export markets dried up. As you can see from the table below, just about every index in the world hit rock bottom this year.[2]

Equity Markets Price Indices	Index	% Change 2008 (1 Jan - 31 Dec)
Australia	All Ordinaries	- 43.0%
Japan	Nikkei	- 42.1%
Hong Kong	Hang Seng	- 48.3%
UK	FTSE 100	- 31.3%
Germany	DAX	- 40.4%
US	Dow Jones	- 33.8%
Europe	Euro 100	- 43.2%
World	MSCI – Ex Aus	- 40.1%

And yet, like a patient responding well to intensive care, the Australian economy still has a steady pulse and is in better shape than many other world economies. Our reserve bank aggressively dropped interest rates by 3 per cent in the latter half of the year to help Australian business combat the credit squeeze and save jobs, with analysts tipping more rate cuts for 2009.[4] This together with the sharp fall in petrol prices, should provide more cash flow to Australian households, allowing them to save more, pay down their mortgage and spend. Of course this presumes Australia's unemployment rate doesn't blow out, a key issue for 2009.

Snapshot

The Rudd Government is investing billions of dollars in the next 12 months to mitigate this possibility. By accelerating spending on large state infrastructure projects, it is hoped that economic activity will be stimulated and more jobs will be created - offsetting the job casualties from the global financial crisis in the banking industry, retail and mining sectors. Keeping employment strong is the next big battle for the Rudd Government in 2009.

We could easily fill this snapshot with doom-and-gloom statistics of what went wrong or equally, we could cite snippets of good news, but this is not what you really want to know – which is what you can realistically expect in 2009? The answer is that nobody knows and we can't tell you, BUT we will make a few cautious predictions.

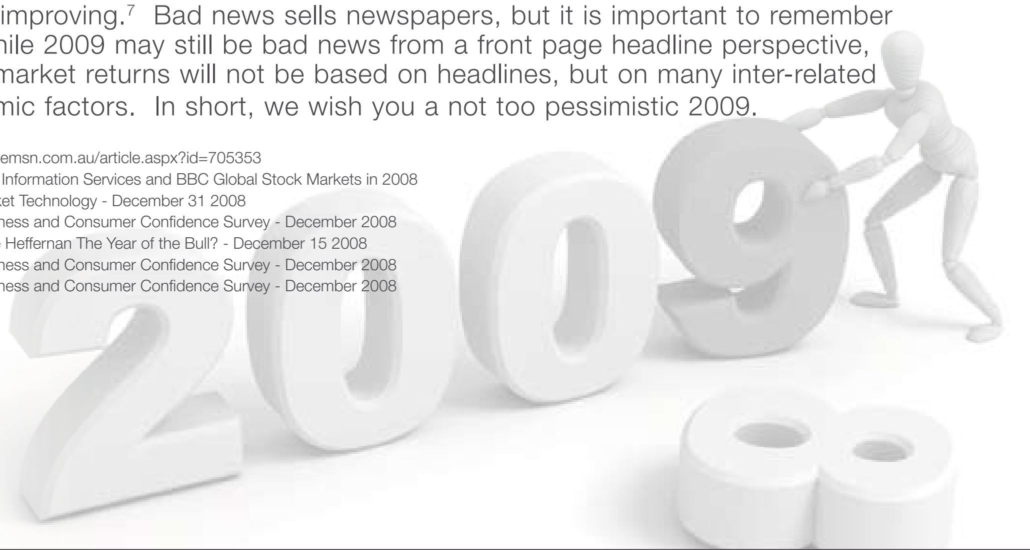
In the first place, if the share market has not quite bottomed yet, it could be close. That does not mean that it will recover any time soon – even the most optimistic predictions for hitting the comeback trail are factoring in a tough 6 months – but there is certainly no argument that the recovery will take place at some point and, judging by past recessions, it could be unexpectedly swift.[5] If it is, anyone who is not in the market at the time, loses out on their first and best chance to make up some of their losses.

Falling interest rates also have a message for those considering whipping their money out of the share market and into cash investments. Fixed interest income can be volatile, albeit far less so than the capital value of shares. Whilst share investors will require patience before their capital losses can be reversed, at least dividend income for some blue chip companies continues to flow in with dividend yields as high (and in some cases higher) than their fixed interest alternatives.

Interestingly, 2009 begins as a very atypical year, with poor consumer and business confidence indicators leading many investors to 'sit on the sidelines' or for some, to consider 'cashing out' their share investments until things start to look better.[6] While many Australians are likely to tighten their belts and spend a little less in 2009, most companies in Australia and globally continue to meet the demands of everyday consumers and earn profits doing so. Let's face it, we still need to be fed, clothed, housed, transported, insured and entertained …even in a recession!

The most important prediction we can make for 2009 is this: the positive signs are small, but they are real and the economic data shows the economy is slowly improving.[7] Bad news sells newspapers, but it is important to remember that while 2009 may still be bad news from a front page headline perspective, share market returns will not be based on headlines, but on many inter-related economic factors. In short, we wish you a not too pessimistic 2009.

1 money.ninemsn.com.au/article.aspx?id=705353
2 NetQuote Information Services and BBC Global Stock Markets in 2008
3 Iress Market Technology - December 31 2008
4 NAB Business and Consumer Confidence Survey - December 2008
5 Madeleine Heffernan The Year of the Bull? - December 15 2008
6 NAB Business and Consumer Confidence Survey - December 2008
7 NAB Business and Consumer Confidence Survey - December 2008



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