YOUR FUTURE

FUTUREPLUS SUPER
ABN 76 829 356 693 - Silver

6 months to 31 December 2009

The markets

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In September 2008, the bankruptcy of Lehman Brothers transformed the financial world. Panic ensued, triggering a run on money-market funds and financial institutions. The global financial crisis has been widely analysed and I won't revisit it here but it is worth remembering how dramatic and severe the crisis was and how close the world financial system came to breaking down.

More than twelve months on from that shock, a number of closely watched indicators have returned to more normal levels: credit markets have started to flow; commodity prices have risen; goods and capital are both flowing more freely once again through the global economy. All this as a result of a globally coordinated government response using all the necessary monetary (interest rates) and fiscal means (essentially government spending or tax cuts) they could muster.

Share markets here and overseas have also recovered from the lows they reached in March 2009. For example, the Dow was up 60% from its March low as at the end of November 2009. The gains we have seen so far can be split into two phases. The initial gain in share markets was the result of the market coming to the view that the world economy was more likely to suffer a recession rather than the expected global depression. From there, a combination of government spending, tax cuts and falling interest rates along with corporate cost-cutting led to an improvement in the prospects for company earnings and this spurred the second leg of the rally. In Australia, the unemployment rate has stabilised at a much lower rate of 5.8% than the 8.5% first anticipated and our resource exports to Asia, as well as commodity prices for those exports, have significantly increased. The RBA has raised interest rates for a record three consecutive months from October this year to 3.75% in December on the back of the improved economic outlook.

The recovery so far is welcome but looking ahead into 2010 we see considerable headwinds that may constrain further economic growth. The share market is in essence a forward looking indicator and its value is based on future expectations of corporate earnings. At current share market levels much of the good news seems to have already been allowed for.

In order for the markets to move higher company earnings will need to start growing again. For this to happen consumers will need to start spending again on goods and services. However, there are several factors that are likely to discourage consumers from spending. First, the increase in unemployment around the world or the fear of becoming unemployed has put a dampener on people's willingness to spend. Second, in the US and parts of Europe we have seen a significant fall in residential property prices and the ability of homeowners to use that equity (which contributed to much of the spending in the recent past) has decreased significantly. Third, financial institutions have suffered significant losses from bad loans and as a result they are lending less and have also made their lending standards more stringent. This has led to businesses cutting back on purchases of new plant, equipment and inventory which all contribute to economic growth.

What this all means is that there needs to be further evidence of stabilisation in unemployment and positive economic growth feeding through to corporate revenues. With the unemployment rate and government debt in the US and Europe at elevated levels and consumers still struggling to reduce their own high levels of personal debt most indicators point to subdued consumer spending and lower corporate profits in 2010. Our view is that 2010 will be a tough year with most of the positive sentiment driven by the more favourable economic outlook for the Emerging Markets and in particular Asia.

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The dangers of investment switching

When you look at your superannuation account statement and find that your investments have gone backwards due to the global financial crisis, it's extremely tempting to consider switching out of the more volatile balanced or growth investment options and put your money in a much more stable cash option.

But is this actually a wise move, particularly for members who are some way off retirement?

The fact is that all investments, including super, go up and down with changes in financial market conditions. But while your money is sitting in your super fund's portfolio, any losses you incur are just "on paper". They only become real losses when you "crystallise" them by cashing in and switching to another option. Because when you do that, it's irreversible. You've settled for the low price and suffered the loss. It's real money you'll never get back.

On the other hand, if you leave your money where it is, you're likely to benefit when the market recovers and your investments start to grow again. History shows us that's exactly what happens. Markets generally recover after a fall, and with them so too do investment returns. In fact, it's possible that if the market rallies, you'll not only make up what was lost, but grow even further.

It's the same as house prices. They are forever going up and down. When they're down, you're better off just sitting still, because if you sell, you could end up with far less than the property is actually worth.

Having said that, if you have actually reached retirement and need to draw down on your super, there is no choice but to crystallise a proportion of your losses during a market downturn. The trick is to make that proportion as small as possible.

As we've said, markets generally recover after a fall, and with them investment returns also improve, so one way of minimising loss crystallisation is to draw your minimum living expenses from your cash investments and try to leave as much money as possible in more aggressive growth oriented investments. That way, you'll give these investments the best possible chance of capitalising on any market recovery.

Naturally, everyone's individual circumstances are different and you would be wise to seek financial advice before you make substantial alterations to your investment allocations. If you would like advice in this area please call **1800 800 002** to speak to one of our qualified financial planners.

Take advantage of the 5 Star Chifley Home Loan

With interest rates on the rise, it's vital to ensure you have the most competitive home loan possible. Every cent saved on your mortgage is money that can be better invested or used elsewhere.

So, why not take advantage of the 5 Star Chifley Home Loan? Despite all the recent uncertainties in the financial markets, a Chifley Home Loan is still rated 5 Star by CANNEX, the independent financial services monitoring agency. This means our mortgage loan offers "superior value", giving you the reassurance that you are making the best possible choice!

Products awarded 5 stars by CANNEX are the best 5% of similar products available in Australia. So when you consider that there are literally hundreds of similar products around, the award gives you the reassurance of knowing that with your Chifley Home Loan you are considering a competitive solution.

There are no mortgage application fees and no monthly account keeping fees. You can make extra and lump sum repayments without any restrictions which allows you to use any extra funds to reduce interest and pay out your loan faster*.

For more information on these or any of our competitive loans, either call us on **1800 800 002** or visit our website **www.chifley.com.**

*Limitations apply to Fixed Rate products. Terms and conditions apply. The credit provider is Select Credit Union Ltd. Fees, charges and all loan details will be disclosed in the loan contract. Some charges such as valuation fees and costs charged by the lender's solicitors are payable. These charges are non-refundable should they be incurred and the loan is not proceeded with. An early repayment fee may be payable. Chifley Financial Services Limited (ABN 75 053 704 706, AFSL 231148) provides services through an agreement with Select Credit Union Ltd (ABN 20 058 538 140, AFSL 238257). Chifley Financial Services does not guarantee the obligations of Select Credit Union Ltd.

Frequently Asked Questions

How do bonds work?

Over the last 10 years, bonds have generally been thought of as an unimaginative financial instrument for an unsophisticated investor. But in the wake of the recent global financial crisis, bonds have become increasingly important in the world of finance and it's worth understanding why. Here's how they work.

Bonds are part of an investment class called fixed-interest securities. When you buy a bond from the government or a company, you are essentially lending them your money. They, in turn, promise to repay you the entire sum at a specific date in the future, but they also promise to make interest payments at regular intervals along the way.

For example, a five-year, $10,000 Commonwealth Government Bond might pay 5% per annum at six monthly intervals and repay the original $10,000 at the end of the five years. This means the investor would receive $250 every six months for the life of the bond, and the original $10,000 back at the end.

Bonds are generally regarded as defensive assets because they experience lower volatility (and generally lower returns) than more aggressive asset classes such as shares. Bonds are rated by credit agencies and given ratings like AAA (investment grade) or B (highly speculative). Poorly rated bonds usually offer higher returns.

What if I want to get out of a bond mid-term?

You are not obliged to hold your bonds for the agreed period, or to what is called maturity. You can agree to sell them on the secondary market to another investor. However, depending on the market conditions at the time, you may lose money on the deal. This is because while the return on your bonds is guaranteed if held to maturity, it can be affected by inflation and interest rate fluctuations if they are being traded early.

How does that work?

Let's say our Commonwealth Government bondholder decided to sell two years into the five-year term. Let's also assume that since the original bond was purchased, interest rates have risen by 0.5%. Any prospective purchaser of the bond would naturally take into consideration the interest rate being offered on bonds at that time and would be unlikely to purchase a bond returning 5% when they could get 5.5% elsewhere.

In order to make a successful sale, the seller of the bond would need to lower the face value of the bond so that the return on investment to the purchaser would match the 5.5% available on the open market. In this example, the asking price for the bond would need to reduce to $9,863, a loss of $137 on the original face value of the bond. Naturally, if interest rates had fallen since the original purchase, the opposite effect may apply.

How do unit prices work?

As a member of FuturePlus Super, every dollar you invest buys 'units' in the investment option(s) that you have chosen. Each Superannuation Guarantee contribution, salary sacrifice or personal contribution, rollover or Government co-contribution that is received purchases units in the investment option(s) you have selected.

Let's say you contribute $10 to your super account and the unit price is $1 per unit, you will get 10 units. You will retain these units until you switch investment options or cash in your super. When withdrawals are made, units are redeemed to fund these payments.

When you receive your statement you will be able to see how many units you have in your account. If you compare previous statements, you will see that the number of units you own has increased because your contributions have purchased more units throughout the year, assuming that you have not made any withdrawals.

Just like the share market, which fluctuates on a daily basis, unit prices in superannuation change daily according to changes in the market value of the investment option you have chosen. So your account balance may increase or decrease in line with the unit price.

Fluctuations in unit prices are completely normal and should be expected. However when you make a withdrawal your payment will be based on the unit price at that particular moment in time.

How many units do I get?

The number of units you get depends on the unit price at the time your contributions are received.

For example, if you invest $100 each month, and in the first month the price of each unit is $1 then you will get 100 units. If in the next month the unit price increases to $2 you will only get 50 units. If, over time, the price decreases to 90 cents you would get 111 units.

Increase the potential of your super. Start saving YOUNG!

It's always easy to put things off, but one of the smartest decisions you can make is to start investing in superannuation sooner rather than later. The reason? So you can take advantage of compound interest—which can turn even small amounts of money into larger sums over time.

What is compound interest and why should I be interested?

Essentially, compound interest is interest paid on interest. In other words, you're earning interest not just on the sums of money you actually deposit in your super account but, as time goes on, also on the interest you're earning on those deposits.

And the longer you invest, the greater the impact of compound interest, so it really pays to get started as soon as you can. Let's look at how this could work.

Troy is a 21 year old who earns $545 a week. His employer is contributing the compulsory 9% of his gross income into super, which is $49 per week. Assuming no adjustments to this rate of saving take place over the years, by the time Troy retires at age 65, he will have contributed a total of $114,660 to his super. But based on an average interest rate of 7% per year, Troy's account balance is more likely to be $779,000!

And all Troy did was contribute the absolute minimum compulsory amount to his super. Compound interest and time did the rest.

That might sound like a lot of money now, but remember Troy's retirement is 44 years away and everything is likely to be much more expensive by then. So rather than relying on contributing the absolute minimum amount to his super, Troy decided to deposit an extra $15 per week. As a result, his total contribution would rise to $149,760, but his account balance leaps to a whopping $1,017,542.

So by topping up his super by just $15 a week, Troy can retire on more than a million dollars. Thanks again to time and the magic of compound interest.

Just imagine if he saved a little more, or even if he took advantage of the Government Co-contribution Scheme, where the Government matches your after-tax contributions to super dollar-for-dollar under certain circumstances.

It's true, getting started in super early really doesn't cost much but can make an enormous difference to your retirement savings. To find out more about options that can help your super grow, call Member Services on **1800 067 059**.

Fair Go

Fletcher Jones showcases a range of business and casual pieces for both men and ladies.

Fletcher Jones is pleased to offer a 15% discount on all full retail price items at all their stores.

Garments co-ordinate back together to create outfits that are classic, with a contemporary twist to ensure that you are up to date with the current trends.

Fletcher Jones can create a look for many occasions. It really is a one-stop shop for your all-year round wardrobe.

Free trouser and slack alterations only.

To access this benefit please email fairgo@memberbenefits.com.au for a letter of introduction, which you will need to hand to the Fletcher Jones store staff.

This letter contains a special Fletcher Jones customer reference code, which will ensure you receive your discount. Alternatively, call Member Services on **1800 067 059** for further assistance.

For further information and store locations visit: **www.fletcherjones.com.au**

Investment performance

6 months to 31 December 2009

Managed Portfolio Program

Strategy	%
High Growth	17.7
Diversified	14.4
Balanced	11.0
Capital Guarded	7.7
Cash	2.4

Member Choice Program

Investment pool	%
Australian Equities	24.1
International Equities	12.2
Listed Property	19.6
Aust Fixed Interest	2.6
Int Fixed Interest	2.8
Capital Guaranteed*	0.4
Cash	2.4

LifeCycle Objective Management Program

Number of years to retirement	%
Over 25 years	17.7
25-14 years	14.4
13-5 years	11.0
4-2 years	7.7
1-0 years	2.4

All returns are shown to one decimal place.
* Closed to new members

5 year returns at 31 December 2009

Strategy	%p.a.
High Growth	4.3
Diversified	4.0
Balanced	3.8
Capital Guarded	3.5
Cash	5.2

Investment pool	%p.a.
Australian Equities	9.1
International Equities	-1.4
Listed Property	-4.8
Aust Fixed Interest	2.1
Int Fixed Interest	5.3
Capital Guaranteed*	5.0
Cash	5.2

Number of years to retirement	%p.a.
Over 25 years	4.3
25-14 years	4.0
13-5 years	3.8
4-2 years	3.5
1-0 years	5.2

All returns are shown to one decimal place.
* Closed to new members

Seminars

Would you like to have a better understanding of how to manage your money, increase your savings, improve your investment portfolio or ensure you have enough on which to retire?

As a valued member you can attend a **FREE** seminar.
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*Bookings are essential. Phone 1800 067 059 to make an appointment.

How have investment markets performed?

The second half of 2009 could have left many investors wondering what all the fuss was about over the previous two years with record breaking short-term returns and a general improvement in investor confidence.

However, these unprecedented returns were a reaction to the severity of the market decline between late 2007 and early 2009 and the rally only served to return stock markets to more 'normal' levels. Some commentators argue that the rally was unsubstantiated and based on false optimism rather than solid economic data.

For instance, unemployment remained high in developed nations giving a strong indication that full recovery is still a long way off. US unemployment peaked at 10.1% in October whilst Australia peaked at 5.8%. This is a key statistic as economic growth is constrained while so many individuals are out of work and others are fearful of losing their jobs.

Interest rates remained at emergency levels throughout developed nations in order to encourage investment and therefore economic activity. Only Australia bucked the trend during the six months with three consecutive rate rises in October, November and December. Never before has there been three consecutive interest rate rises in Australia and this action was received favourably by investors who took it as a sign that the economy had recovered to a level that no longer required emergency action.

The US, however, was unable to follow suit largely due to the significantly higher unemployment rate and the high number of home owners whose mortgage is bigger than the value of their home. Interest rates in the US have been at 0.25% for the past twelve months in a bid to stimulate economic activity. This does appear to be working, but it is expected that rates will stay at this level for an extended period until the recovery is secure.

The market commentary below is provided to give an indication of the various factors affecting the investment performance of individual asset classes. It is based only on the gross performance of the relevant market index and no allowance is made for taxes or fees as they apply in your superannuation investment. It is provided merely as an indication of relative performance between asset classes and should not be used as a measure for judging the performance of your investment strategy.

Australian shares

The Australian stock market rose by 25.6%* in the second half of 2009 as the market recorded five positive months out of six. Record low interest rates and continuing government stimulus encouraged investors to return to the stock market.

The positive earnings announcements from companies were an encouragement to investors throughout this period. The earnings season was watched very closely for clues on how major financial institutions have weathered the post-credit crisis environment. On the whole, investors were not disappointed with most company profit announcements exceeding expectations, supporting a feeling of renewed optimism in the market.

* as measured by the S&P/ASX 200 Accumulation Index.

International shares

International stock markets rose by 20.4%* over the six months on a hedged basis. Like the domestic stock market, investors have been enticed back into the equity markets following the sharp declines of last year as the credit crisis left many companies looking too cheap to pass up. We are now seeing stocks being priced in a range that is considered to be more normal, but this will require company fundamental data to justify the stock prices. Earnings announcements were generally positive, which helped stocks to rally, but this will need to be sustained into 2010 in order for global stock markets to continue upwards.

* as measured by the MSCI World ex-Australia Accumulation Index (Hedged).

Fixed interest and cash

Due to the rally in equity markets and the move towards more risky assets, fixed interest investments were less favoured by investors, reflected in their relatively modest returns.

Australian bonds returned 2.8%* for the six months, which was a far cry from the double digit returns received for the previous financial year. Meanwhile, global bonds returned 5.1%** for the same period.

Australian cash investments produced record low returns during this six month period. Cash returned 1.7%^ for the period as the cash rate had been reduced to emergency levels in order to stimulate the economy.

*as measured by the UBS Australia Composite Bond Index.
**as measured by the Barclays Capital based Aggregate Index - $A hedged.
^as measured by the UBS Australian Bank Bill.

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