

NEWSLETTER

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Client Referral winner for March quarter

The winner of the client referral program for the June quarter is Grahame Evans a new iPad is all yours!

No Photo of last quarter's winner as it has not yet been delivered. We will post the photo next quarter.

At FM we are always looking to help new clients as we strive to grow our business. We feel the greatest compliment for our business is to be referred by our valued clients. Remember, all you have to do to go in the draw to win is refer a friend, family member or colleague and once they become an FM client your name goes in the draw. There is no limit to how many entries you may have.

Market Update April - June 2014

Australian Share Market Graph – S&P 200



Source Eureka Report July 2014

The last 3 months of the 2013-14 financial year have seen the continuation of performance from the first 3 months of the 2014 year. We have been trading within a band of 5350 at a low point and 5550 at a high point.

Australia, corporate balance sheet strength and yield provide a solid foundation for the future. Underlying growth is likely to have picked up to a 3% pace by year end and continue through 2015 helped by a housing construction boom, a Senate induced softening in some of the harsher aspects of the Budget and strength in resource export volumes. Earnings momentum is proving difficult to generate, particularly across the industrial sector. In the absence of positive earnings surprise, valuations are full, particularly across the large-cap Industrials, where earnings growth prospects are generally modest. A weaker \$A would help.

Australian interest rates have not risen over the last 6 months and indications are that rates will remain low into 2015. Whilst the Reserve Bank closely monitors our inflation rate which currently sits at the top end of the Reserve Bank range, it is not likely to lift interest rates until the US Federal reserve has moved it rates up and that is very unlikely in the short term. The Australian dollar has remained over 90 cents against the US dollar for the last quarter and continues to pressure our export competitiveness.

Globally, the three core drivers of equity market performance – interest rates, profit expectations & risk appetite - remain generally supportive although the latter is still exposed to wild fluctuations. That said, the current issues in the Ukraine and Middle East, to date have had little impact on global markets other than Russia. European and Asian Central banks remain generous, profit expectations – although variable across sectors - are proving relatively resilient and there should be sufficient encouraging news from most of the global economy to underpin investor confidence. The US Federal Reserve is continuing to pare back its quantitative easing (QE) and is planning to stop QE in October 2014 which is positive news for the US economy.

In Summary, we can expect more of the same volatility over the next 3 months. Interest rates are expected to remain low and investors will continue to search for yield.

The views expressed above are of a general nature and based on commentary compiled from leading economists, Dr. Shane Oliver, Chief Economist & Head of Investment strategy, AMP Capital Investment, and Mike Hawkins Chief Investment Officer, Evans & Partners.

Article of the Quarter: The Power of Compound Interest

The power of compound interest is the first wonder of the investment world, so says Dr. Shane Oliver. Compound interest is where returns from an investment are reinvested to generate more returns in the future. For example, dividends from a share portfolio can be reinvested to buy more shares which will produce more income in the future. This is a powerful way to build wealth. In today's world investors are looking for how to grow wealth quickly and often overlook the power of compound interest.

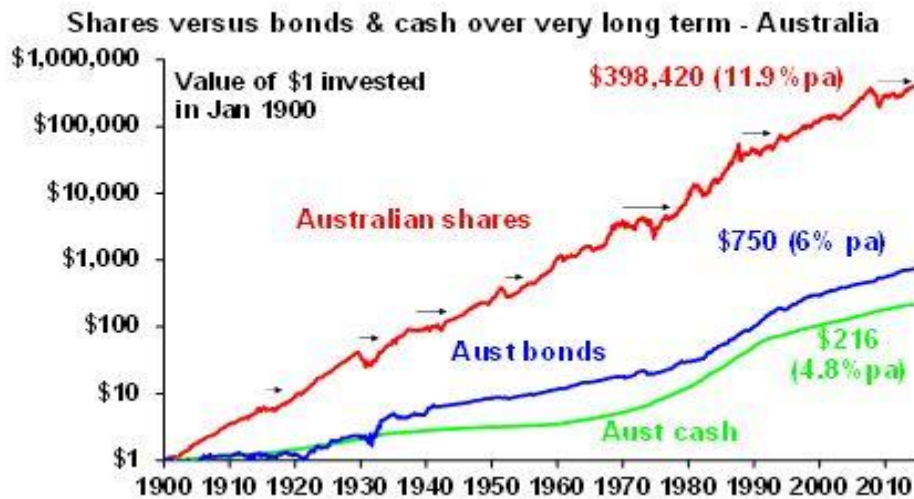
Key points for using compound interest:

1. The higher the rate of return on an investment the greater the compounding effect. For example, a 7% returns on shares will have a greater compounding effect than a 4% return from a term deposit.
2. The more you invest at the start the better. This provides more returns from the start to reinvest which increases the compounding effect.
3. Time cannot be underestimated in the compounding process. The longer the period of time the more returns can be reinvested and earn more interest.

Australian history of Compound Interest

The following chart shows how compounding works in practice. It compares the compounding effect of Australian shares, bonds and cash. It shows \$1 being invested in 1900 and how it compounds as the returns are reinvested. From this chart it clearly shows Australian shares historically have higher returns than Australian bonds and cash. Shares have provided a return of 11.9% pa, bonds 6% pa and cash 4.8% pa since 1900. While shares historically provide a higher return, they have increased risk. This is demonstrated in the graph which shows greater volatility and fluctuations compared to bonds and cash.





Source: Global Financial Data, AMP Capital

Shares are clearly more volatile than cash and bonds. The arrows in the chart show periodic, often long bear markets in shares. However, the compounding effect of their higher returns over time results in much higher wealth accumulation from them. Although the return from shares is only double that of bonds, over 114 years the \$1 invested in 1900 will have grown to \$398,420 today, whereas the \$1 investment in bonds will only be worth \$750 and that in cash just \$204.

It is good to know that your superannuation already uses the power of compound interest to grow wealth. However, a lot of younger investors are not aware of the power of compound interest. We need to encourage people to invest with a longer term outlook to allow compound interest to deliver powerful results. If you know someone who would benefit from a discussion on the power of compound interest, refer them to your FM adviser. They would be only too pleased to talk to them.

Source: taken from Oliver's Insights, The power of compound interest- an investor's best friend 16th July 2014

News from FM Financial

We are very excited to announce that FM Financial has a new website. Please logon and view the site at www.fmfinancial.com.au . We would welcome your feedback.

Congratulations to Curt Mathews (FM Financials Launceston Adviser) and the Mowbray Division 2 Mens Pennant Golf team who won their State Final last month.

We welcome Tracie Scott to the Burnie team. Tracie has started working closely with Leanne Stokes as she learns the systems processes of the business.



Denis Harrington, General Manager FM Financial

We hope that you like the newsletter. If you have any questions or wish to provide any feedback on the newsletter, positive or negative, please contact Denis Harrington. Contact details are below.

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