

M&CO Newsflash

How not to waste a good crisis...

1. In an American centric Western World, their net worth's decline, the first in 6 years, follows a remarkable boom. Not accounting for inflation, US household wealth more than doubled from 1990 to 2000, and then, after a pause, rose again nearly 50 % before the burst of 2008. On the other hand, by then, mortgages and credit card debt alone totalled \$US 13 trillion, or 123 % of after-tax income. In 1995, it was 83 % of income or a 50% increase in only 13 short years. So its hardly surprising that their easy debts fuelled growth was to suffer an inevitable readjustment & the "toxic mortgages" debacle only being the trigger.

Collectively, US home owners have 43 % equity in their homes – the lowest level since records have been kept. The national median home price was \$US 170,300 in January, down nearly 15 % from a year earlier. Unpleasant realities check for the followers of conventional wisdom that property never goes down in value...

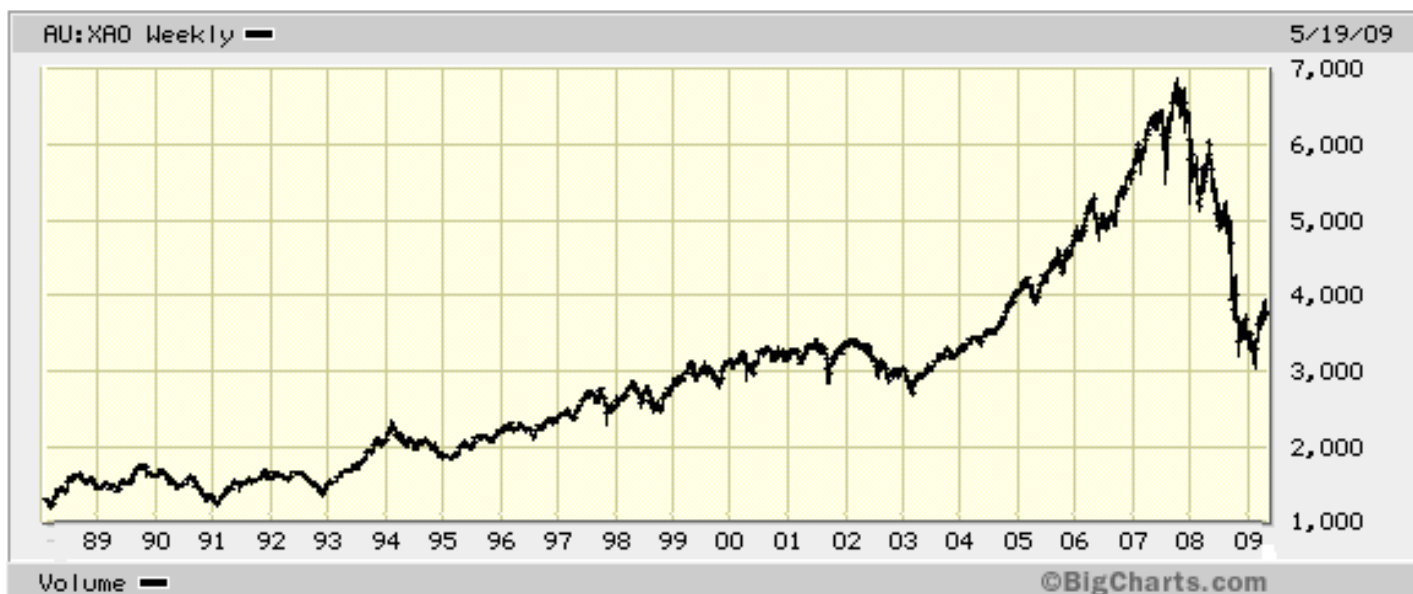
2. Meanwhile, US hence the World's richest man, legendary Warren Buffett said "I would not have any idea if the Dow is going to go to 2,000 or 12,000 or 14,300 in 2020. I don't – I only know that over time it will go higher... If you buy a cross-section of good equities, generally well-capitalized companies, you'll make money over 10 or 20 years. I haven't the faintest idea where you'll be in 10 months, but it really doesn't make any difference".
3. Another respected American luminary, GMO Investments Director Jeremy Grantham who previously described the recent/current financial and economic collapse as "the "the most widely predicted surprise in the history of finance", recently circulated a comment called "*Reinvesting when Terrified*". In it, he says: "Remember, you will never catch the lowest point. The danger is investors will get "rigor mortis" and miss the turn in the market". As someone who survived, the last great bear market in 1974, he spells out what happens as this crisis climaxes:

"Formerly reasonable people will start to predict the end of the world, armed with plenty of terrifying and accurate data that will...reinforce the wisdom of your caution (of holding cash)". Then he says, "Every decline will enhance the beauty of cash until...terminal paralysis sets in. Those who were over-invested will be catatonic and just sit and pray. Those few who look brilliant, oozing cash, will not want to easily give up their brilliance"

The result, he says," is that everyone watches and waits – and their inertia sets like concrete. Typically, those with a lot of cash will miss a very large chunk of the market recovery". There are probably hundreds of investors who have tried to pick the bottom of the market and the right moment to buy. Most of these chastened bargain-hunters are among those paralysed with inertia. Grantham's GMO has already made large moves into the market from late last year and has a schedule for further purchases. His advice is to plan on a few large steps and not many small ones.

Morality: "Buy in gloom, (& only sell in boom)", so now is a much better time to buy, for as Machiavelli is reported to have said: "Don't waste a good crisis!" Therefore, please call or email us to discuss further.

4. The choice between bank's clients and the bank's own interests shouldn't be a choice really. Wealth management remains one of the few stable and profitable areas of banking. The key to keeping investors as clients is to take the long term view, accepting the occasional missed trade today, for 20 years of steady fees later. Yet, the 'jam-and-cram' school of investment banking – pushing a financial product that the bank needs to sell, rather than one clients needs to buy – is profitable in the short term, but can be deadly in the long term. Invested in any CDO "toxic debts" or geared managed funds from your then friendly but now probably invisible "bank advisor" at the top of the market by any chance? Want an alternative view &/or a second opinion? Talk with us. Good or bad, we'll tell you for sure!



If you are one of those investors still suffering from “rigor mortis”, as per line 4 of Par 3 of the above article, don’t despair. This chart of the ASX 200 should reassure you that the market is still only at about early 2005 level.

- As you may already know, on Federal Budget night, the Treasurer revised super contribution caps and government co-contributions that will most likely apply next (2009/10) financial year.

	Currently : 2008/09	Next : 2009/10
Government super co-contribution • For max. \$1,000 non-concessional super contribution	\$1,500 (150%)	\$1,000 (100%)
Concessional contributions (CC) cap (tax Deductible) • Under age 50 • Over age 50 (until 30/6/12)	\$50,000 \$100,000	\$25,000 \$50,000
Non-concessional contributions (NCC) cap (Non tax Deductible)	\$150,000	\$150,000

These changes will apply from 1 July 2009 (in respect of the 2009/10 financial year onwards).

It’s important therefore that we meet to discuss how this may affect your retirement funding strategy before end of next month. Please call or email us now for an appointment.

JDM & Team, Brisbane

Acknowledgements: The Weekend Australian Financial Review, The Australian , GMO Assets management, ASX website & and MLC Technical Services

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