

OCTOBER 2010 – DECEMBER 2010

Shares generally offer potential to grow your money over longer time periods. However share prices can also rise and fall a lot in short spaces of time – sometimes in one day. At the end of the day, history shows us that if you're investing over long time periods, a well diversified Australian share portfolio generally achieves positive returns.

## Quarter Review

The S&P/ASX 300 Accumulation Index was up 4.7% over the December quarter. The quarter was relatively flat until the final month where the market ramped up solidly. Following on from a strong third quarter, the Australian market finished 2010 cautiously optimistic. The Australian market continues to benefit from its resource-rich nature. Strengthening commodity prices remained a feature of markets during the quarter. Solid macro data out of China and the US provided further evidence that economic growth is stabilising with domestic consumption increasing. It was not all smooth sailing though with investors concerned that Chinese authorities may over tighten as a result of sustained growth.

The big four banks began to announce full year results. National Australia Bank reported NPAT of \$4.6b, slightly ahead of consensus. Australia and New Zealand Banking Group then topped their peer by reporting NPAT of \$5.0b, also ahead of consensus. AGM season provided some consistent themes across sectors. Key amongst these were the competitiveness of market conditions generally, the negative impact of interest rate rises, a strong Australian Dollar and abnormally wet weather.

Domestic interest rates were a contentious topic during the quarter. Consensus expectation of a 0.25% hike by the Reserve Bank of Australia in October proved misplaced, with the Board instead hiking the cash rate target by 25bps in November.

The Australian Dollar gained 5.8% against the USD to finish the quarter at USD1.02.

The best performing sectors were Materials, Pharmaceuticals & Biotech and Energy. The worst performing sectors were Transportation, Food & Staples Retailing and Food, Beverage & Tobacco.

## Outlook

Domestic economic data flow was mildly positive in December. While the unemployment rate reduced further to 5.2%, the Australian consumer does not yet appear convinced that the time to spend is now. Even though the economy is growing at or above average levels these figures make it clear current growth is not driven by the Australian consumer, rather by demand for resources. When the consumer decides it is time to spend, however, there may be some upside surprise to Australia's domestic growth. Investors showed their collective hand in December with the broader market posting strong gains, and with risk assets again in favour, the Australian equity market looks well positioned to benefit through 2011.

## A note from our legal team

This market report has been prepared by Virgin Money Financial Services Pty Ltd ABN 51 113 285 395 AFSL 286869 (VMFS) for The Trust Company (Superannuation) Limited ABN 49 006 421 638 AFSL 235153 RSE L0000635 as Trustee for Virgin Superannuation ABN 88 436 608 094. This information is current as at 31 December 2010. You should consider the Product Disclosure Statement, which can be found on our website. Please note this information does not constitute personal financial product advice, and you may wish to consult your financial advisor before making a decision about whether Virgin Super fits your objectives, financial situation and needs. The information is based on reports provided by Macquarie Investment Management Limited ABN 66 002 867 003 AFSL 237492. We haven't verified its accuracy so we can't guarantee that it is correct, and accept no liability for inaccuracies, errors or omissions. It is very important note this information is general market commentary only and past performance is not indicative of future performance. The opinions, estimates and other forward looking statements are subject to various risks and uncertainties. It is impossible to predict future events and results, so actual events or results may differ significantly from those mentioned.

## S&P/ASX 300 Accumulation Index

