

Cash and Fixed Interest – Quarterly Report



OCT—DEC 2008

Cash and fixed interest is a relatively low risk investment, offering low returns over a short period of time. Generally, you're looking at a set fixed rate of interest at the time of purchase and, unlike shares, you pretty much know what you're going to get.

One thing to bear in mind is inflation. For example, if the interest rate on your cash is 5% p.a. and the annual inflation rate is 4% p.a., your real return is 1% p.a.

Quarter 4 review.

All the negative news in the sharemarket, again led investors to buy up big on fixed interest and cash securities. Globally, fixed interest securities closed the quarter up 6.3% and cash rose 1.7%, with lots of positive vibes flowing after world governments brainstormed ways to resolve the financial crisis.

Australia

Although not in recession, the effects of the global downturn started filtering through to the Aussie market. This prompted the Reserve Bank to slash interest rates by a hefty 2.75% to 4.25% and the Government to introduce an \$A10.4 bn aid package with the possibility of another aid package proposal in the near future.

The US

The US cut interest rates by so much, they're now effectively at 0% and the Federal Reserve aims to keep rates low for a while yet. Other measures rolled out as part of their \$US700 bn financial aid package included an agreement to buy assets and equity from financial institutions and to purchase billions of dollars of short term commercial paper.

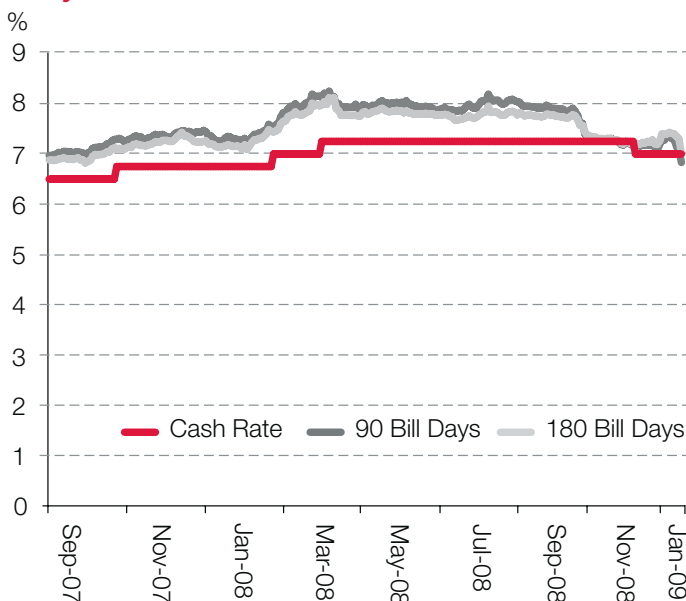
Outside the US

Efforts to boost cash flow saw Central Banks in the UK, Europe and Japan cut interest rates, with Japan's rate now down to an effective rate of 0%. China announced a \$US586 bn package aimed at infrastructure investment, which should help stimulate export growth, particularly for Australia.

Outlook – more promising.

With so much uncertainty clouding the share and property markets, fixed interest and cash securities will be at the forefront of investors' minds for the near term. Globally, more rate cuts are likely, because governments want to restore confidence and encourage spending. And, the Federal Reserve's decision to keep rates low will prove promising for bond yields.

Daily Yield Over 12 Months



The legal bits.

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