

OCT—DEC 2008

International shares make up 98% of the world's financial markets. So you get great diversity across companies, sectors and countries. But, they're also quite risky and you can make or lose a lot of money in the short term. In fact, the sharemarket is famous for falling after long stretches of good performance. At the end of the day, history shows us that if you're investing for the long term, you'll usually recover any short term losses.

Quarter 4 review.

The International Shares Fund finished the quarter down 11.1%, mostly due to fears about global recession. Deciding enough was enough, world leaders united to sort things out.

Governments introduced deposit guarantees to ensure investors won't lose money deposited in banking institutions. Central Banks in the US, Europe, the UK and Japan have cut interest rates, with the US and Japanese rates now effectively at 0%.

As part of its \$US700 bn package, the US agreed to buy assets and equity from financial institutions and purchase billions of dollars of short term commercial paper, to strengthen the financial sector. China also announced a \$US586 bn package aimed at infrastructure investment over the next two years.

The US

The S&P 500 fell 22.6%. With the mainstream US industry suffering, the Federal Reserve warned that the recession will weaken the US economy well into 2009 and expressed a willingness to cut interest rates as well as implementing quantitative measures to minimise the severity of the downturn. The best performing sectors were telecoms and utilities. The weaker links were financials and materials.

Europe

European markets fell 18.6%. Major economies in the Euro region faced economic contraction with weaker oil prices and lower demand. Financial Institutions continued to struggle with more companies seeking government assistance. The best performing sectors were telecoms and energy. The weaker links were financials and materials.

Japan

The Topix fell 21.0%. The Japanese economy posted a consecutive second – quarter contraction for the first time since 2001, officially putting the country in a recession. This can be largely attributed to the strengthened Yen which resulted in decline in demand for Japanese exports. Toyota and Sony faced their first operating losses since World War II. The best performing sectors were utilities and telecoms. The weaker links were consumer discretionary and information technology.

Outlook – wait and see.

Things aren't looking pretty, so expect more volatility. The US is predicting further weakening in 2009 and Japan's strong Yen has heavily impacted exports.

Confidence boosters.

The success of world government aid packages will be a key driver for improved returns. There are also high expectations that US President Obama, will be a positive influence in resolving global issues.

Confidence bursters.

More signs of global economic downturn will drag markets lower.

The legal bits.

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