

Planning for a healthy, wealthy and wise retirement, ensuring your income and preserving your estate, from one generation to the next



A word from Joy...

"Tis time, there must be a line of separation between honest Men & knaves, between

respectable Stockholders and dealers in the funds, and mere unprincipled Gamblers."

Alexander Hamilton, 2 March 1792

If you still have a ten-dollar bill from your last trip to the US you will see Hamilton's picture. As America's first Treasury secretary, he is honored for his role in launching the U.S. currency.

During the Civil War, his reputation and profile was even greater. Lincoln put Hamilton's portrait on the \$2, \$5, \$10 and \$50 notes.

Today's incoming Treasury secretary, Timothy Geithner, would do well to look to Hamilton for inspiration.

Hamilton went about as far as humanly possible in achieving success with improvised interventions designed to jump-start the lagging economy of his day.

In his stint as Treasury secretary, Hamilton faced a panic caused by the bankruptcy of William Duer, a speculator Hamilton had appointed the first assistant secretary of the Treasury.

Hamilton orchestrated a rapid intervention. He ordered the Treasury to buy several hundred thousand dollars worth of federal securities to support the market, and he urged banks not to call in loans. Soon, calm returned.

A Lesson from History

The United States was poorer than Haiti when Hamilton took on responsibility for Treasury. It had no finance houses. There was no commerce. Hamilton was a great pioneer of American commerce. He founded The Bank of New York in 1784. He was also the founder of the U.S. Coast Guard and the New York Post newspaper – just some of his many outstanding achievements at the time.

We can only hope that as President Obama's choice for Treasury secretary, Geithner will pay attention to the valuable lessons to be learned from history – particularly those from Hamilton.

Geithner faces a much more difficult task than Hamilton faced. He not only has to help clean up Wall Street, he also has to find a way to make debt stimulate, rather than depress, the economy. It appears that one of Geithner's ploys might be to create an official financial institution whose job will be to warehouse the bad debt.

This would involve the government using trillions of dollars of taxpayers' money to buy distressed assets from banks.

Unfortunately for the global economy right now, losses are losses and they will not go away because government throws taxpayers' money at the problem.

The reality – as difficult as it is to swallow – is that somebody is going to have to bear these losses and Government intervention is only going to prolong the inevitable, using taxpayers' money in the process.

President Obama, in his inaugural address, sent out a message of hope. Sadly, hope is not a strategy.

The mess Wall Street has created for the rest of the world cannot simply be rolled back.

Obama might help. Or he might make things worse, just as Hoover did back in the Great Depression when the government programs he put in place actually hindered the recovery.

The reality is America will come out of the recession when it's good and ready. And not before.

A Word from Segue's Investment Manager

The Sharemarket and Economic Cycles and Their Interrelationship.

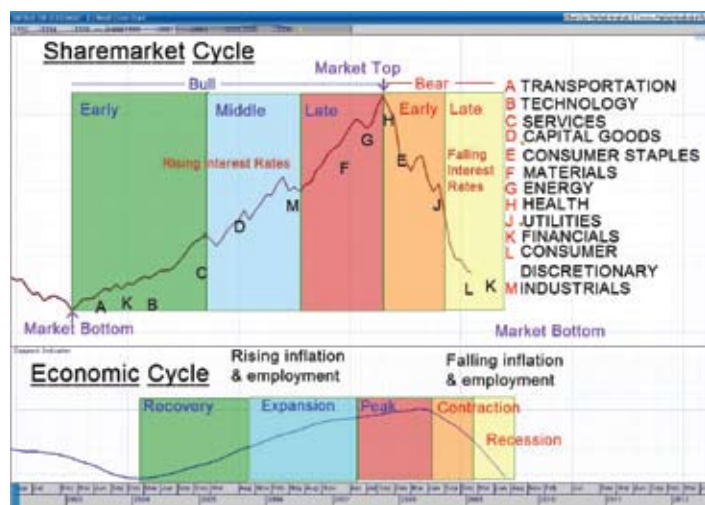
These two cycles are interrelated. The Sharemarket Cycle is measured by the market index. The Economic Cycle is measured by the Gross Domestic Product. The sharemarket anticipates what will happen over the coming year for each of the companies in the market. This means the sharemarket cycle is usually about 6 months ahead of the economy.

For example if the government cuts interest rates to stimulate the economy it takes time for the interest rates cuts to flow through the economy as reduction in loan repayments, increased spending and increased borrowing. The sharemarket however anticipates the interest rate cuts and their impact and adjusts share prices accordingly.

The chart right shows the Sharemarket and Economic cycles.

Different types of companies perform better at different stages of the economic cycle due to the levels of economic activity, interest rates, inflation and employment.

Early in the economic cycle interest rates and inflation are low, unemployment is high and economic activity is low and there is



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considerable spare capacity in the economy. This allows businesses to expand without a large increase in capital expenditure. Companies that respond quickly to economic activity move soonest, these are Consumer Discretionary, Transport and Technology. Banks start writing up their assets as the likelihood of loan defaults falls and asset values rise.

As economic conditions improve and company profits rise they start to spend more on advertising, services and capital expenditure. The last of these helps the Capital Goods sector. Industrial Companies are doing well from consumer demand. These lead to higher demand for Energy and Materials. While this expansion is occurring companies reach capacity and need to expand. This leads to demand for labour and increased borrowings to fund the expansion. These cause increases in inflation and interest rates.

The government takes steps to ease the potential overheating of the economy by using immigration to meet labour shortages. They may also increase taxes. The Reserve Bank uses interest rates to dampen the economy to reign in inflation. If these measures are successful then the peak can be a prolonged period of prosperity. When inflation becomes too strong then

interest rates become too high for the economy to keep growing at a sustainable rate. Interest rate sensitive companies, those that have borrowed heavily to expand, are now suffering significantly reduced profits. This begins a cycle of contraction, reduced economic growth and perhaps recession (negative growth). Consumers and businesses worry about the future and spend less. Interest rates and inflation fall. Unemployment rises.

During this period companies that do not have large borrowings, can control their prices and have continued consumer demand do well. These are Health, Consumer Staples and Utilities.

The government takes action to stimulate the economy by decreasing taxes and increasing government spending to offset the fall in spending by business and consumers. Eventually an equilibrium is reached, at a lower level of economic activity than the peak. Consumer confidence starts to improve and the economy starts the next cycle.

It would appear we are currently in the economic Contraction phase headed for Recession. The sharemarket is in the Late Bear market stage. The turning point will depend on how deep and prolonged the Recession is.

Secrets to staying young

In his book, *The Blue Zones: Lesson for Living Longer from the People Who've Lived the Longest*, longevity researcher Dan Buettner studied the places where people reach ripe old ages with a whole lot of grace: Sardinia, Italy; Okinawa, Japan; Nicoya, Costa Rica; and Loma Linda, California.

Summing up his findings, Buettner reveals: "There's no supplement that can reverse aging. But avoiding processed foods and making family a priority [are some of the things you can do] to slow it down."

Buettner also highlights one of the cheapest ways to ensure that you slow the aging process: stress reduction. In this light, here are three of the most popular stress management moves practised by the world's happiest senior citizens:

1. Set aside a few minutes to meditate. You have to have some quiet time for yourself each day. Find a quiet corner where you can close your eyes and just breathe calmly. Aim for at least 15 minutes each day.

2. Cultivate a sense of purpose. You have to live for bigger things. You can write a personal mission statement like, "I resolve to spread good cheer to everyone I encounter each day." This way you are always reminded that it isn't all about you. Self-absorption can speed up your aging process.

3. Try to do some yoga. Experts recommend yoga because it's a great way to maintain the strength of your joints. You don't have to get bent out of shape. You can stick to simple movements that will help you stay physically flexible.

You don't need expensive facial creams or concoctions to stay youthful and feel energetic. It's all about embracing a few simple but powerful habits that can make a whole lot of difference about the way you view the years to come. Wrinkles won't matter if you have a long, full life.

Some highlights from 2008...

- **Almost \$7 trillion has been wiped off the U.S. stock market**
- **Wall Street has posted its worst performance since 1931**
- **More than 2.6 million Americans lost their jobs in 2008, the worst total since 1945**
- **Consumer spending has dropped the most since 1980**
- **At least 108 hedge funds have imploded since August of 2007**
- **American millionaires have lost about a third of their wealth**
- **At least 38 banks have failed, been bailed out or taken over by the government since August of 2007**
- **House prices have declined at the fastest rate since 1930**
- **Analysts predict as many as 8 million home repossessions over the next 4 years**

There's never been a more dangerous, yet potentially lucrative market than the one that we're looking at right now. Even during the Great Depression fortunes were made by those who knew what they were doing. Opportunities will abound. There will be compelling value lying around on the street

as everyone heads for the hills. Actively managed portfolios will benefit from strategic action to access these opportunities.

These are no ordinary times, they call for extraordinary understanding. Segue remains committed to the extraordinary to ensure their clients' future is full of opportunity and not fear, workable solutions and not anxiety.

If you have a portfolio of \$500,000 or more and would like to know more about Segue's financial planning and/or portfolio management call Joy on 9509 1599 to discuss your personal requirements and establish if you qualify for one of our in-house briefings and a personal consultation.

Managing your health to enjoy your wealth...

We would all be better off if we focused on healthy eating rather than the latest fad diet. And, a big part of that involves getting acquainted with our kitchens.

Being able to identify which types of food are good for the body helps us a whole lot. It equips us with the necessary information so we can eat smart and stop being obsessed with eating less in order to shed pounds.

The spices that we put in our food already make an impact on our health. Here are three spices that contain a lot of healthy, life-saving substances:

1. Garlic

Various studies show that garlic can prevent heart attacks, strengthen the immune system, as well as help the body fight diseases such as colon,

breast, prostate, and throat cancers. Researchers are conducting further trials to uncover more of this pungent spice's medicinal benefits.

2. Chili Pepper

This hot spice is loaded with capsaicin, a compound that triggers the body to produce more heat and, thus, more energy. In 2007, in an article published in *Physiology & Behavior*, research teams from the Maastricht University in the Netherlands and the Laval University in Quebec, Canada reported that capsaicin may help fight obesity. Moreover, their findings indicated that capsaicin has cancer-fighting properties as well.

3. Ginger

Last year, an article in *Food and Chemical Toxicology* revealed that various studies have found that ginger can lower both blood sugar and cholesterol levels. It also has powerful antioxidant properties that protect against the toxic effects of radiation treatment, ulcers, and skin diseases.

The powerful qualities of these three spices – along with many others – should encourage you to get acquainted with what's in your kitchen and "spice up" your life with foods that are good for you.