

## Farrellys long-term outlook for markets

The forecasts shown in the table below are provided by farrellys Investment Service and are used as part of our asset allocation process.

It should be noted that Farrellys focus is on long term returns (10 years) and does not give a lot of attention to short term returns, (unlike most of the investment media) however at Morvest we factor in short to medium term returns by updating broad economic data, asset class valuations and reweighting / rebalancing portfolios on a quarterly basis.

As can be seen in the table below, Farrellys expect Australian Equities to be the stand out performer in the decade to come. With 'grossed up' yields now exceeding the yield from Tier 1 Debt (expected return on the Big 4 Bank term deposits, and investments rated A or better) and current prices factoring in a global worst case scenario it's hard not to agree. Australia is in a unique global position, an 'in-between' economic position if you like, wedged between developed and emerging markets it has many potential quality investment opportunities.

One area in which we differ with Farrellys is in Tier 2 Debt (a well diversified portfolio equal to a mix of 50%BBB, 30%BB, and 20%B issues). At Morvest we believe our managers can profit from this sector as we believe borrowing costs are likely to increase and there is the opportunity for added returns without significant increases to risk.

### Forecast 10 year average returns

	Aust Equities	International Equities	REITs	T1Debt	T2 Debt	Hedge funds	Private equity	Cash
<b>Forecast Returns</b>								
Current Yield	6.1%	2.9%	6.1%	5.4%	8.9%	na	na	4.9%
Currency impact		1.9%						
EPS growth (2011-2021)	3.4%	0.8%	2.3%		-2.6%	na	na	
Valuation Effect	2.6%	3.1%	-0.9%					
<b>Forecast 10 year average return</b>	<b>12.0%</b>	<b>8.6%</b>	<b>7.4%</b>	<b>5.4%</b>	<b>6.3%</b>	<b>6.9%</b>	<b>12.1%</b>	<b>4.9%</b>
PE Now	12.4	12.5						
PE 2021	16.0	16.9						
Yield 2021			6.7%					

Source: Farrellys Proactive Asset Allocation Wizard – Dec 2011

#### Market data

All Ords Index	4239.5
S&P500	1277.3
ASX 200 A REITS	810.8
Major bank 5 year term deposit rate	5.4%

#### Notes:

Market data as at; 04/01/2012

'Major bank 5 year term deposit rate' has been substituted by the Reserve Bank of Australia's, average 'special' rate (all terms) which is a weighted average of the five largest banks' 'special' rates. The rate is based on the banks' advertised 'special' rates.