

## Farrellys Tipping Points

The table below shows how forecast returns vary as the markets rise and fall and can be used by investors as, a guide, or indication of when to start reducing or increasing exposure to a particular asset class.

The table below shows Farrellys forecast 10yr average returns for; Australian Equities, International Equities and Listed Property based on differing market valuations and a 'risk free' rate of 5.4% pa.

Australian Equities			International Equities			Listed property		
All Ords Index	F'cast return	Status	S&P 500	F'cast return	Status	ASX LPT Index	F'cast return	Status
6500	5.8%	Fully priced	1700	4.7%	Overpriced	1000	4.2%	Overpriced
6250	6.3%	Fully priced	1600	5.4%	Fully priced	975	4.6%	Overpriced
6000	6.9%	Fully priced	1500	6.2%	Fully priced	950	5.0%	Overpriced
5750	7.5%	Fully priced	1450	6.6%	Fully priced	925	5.4%	Fully priced
5500	8.2%	Fair value	1400	7.1%	Fully priced	900	5.8%	Fully priced
5250	8.9%	Fair value	1350	7.5%	Fully priced	875	6.3%	Fully priced
5000	9.6%	Fair value	1300	8.0%	Fair value	850	6.7%	Fully priced
4750	10.4%	Cheap	1250	8.5%	Fair value	825	7.2%	Fully priced
4500	11.3%	Cheap	1200	9.1%	Fair value	800	7.7%	Fully priced
4400	11.6%	Cheap	1150	9.7%	Fair value	775	8.2%	Fair value
4300	12.0%	Cheap	1100	10.3%	Fair value	750	8.7%	Fair value
4200	12.4%	Cheap	1050	10.9%	Cheap	725	9.3%	Fair value
4100	12.8%	Cheap	1000	11.6%	Cheap	700	9.9%	Fair value
4000	13.2%	Cheap	950	12.3%	Cheap	675	10.5%	Cheap
3900	13.6%	Cheap	900	13.1%	Cheap	650	11.2%	Cheap
3800	14.1%	Cheap	850	13.9%	Cheap	625	11.9%	Cheap
3700	14.5%	Cheap	800	14.9%	Cheap	600	12.6%	Cheap

Data as Dec-11

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The table shows that based on current market data (see below) Australian Equities are 'Cheap', International Equities are 'Fair Value' and Listed Property is 'Fully Priced'.

- Overpriced:** Expected returns are less than the risk free rate.
- Fully priced:** Expected returns less than 2.5% pa above the risk free rate.
- Fair value:** Expected returns of 2.5% to 5.0% pa above the risk free rate.
- Cheap:** Expected returns of greater than 5.0% pa above the risk free rate.

**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.