



Discretion increasingly important

As the tide of easy money flows out, investors are no longer prepared to gloss over the need for structural reforms. Poor infrastructure, excessive regulation, corruption and restrictive labour laws are viewed as the key problems in India, Indonesia and Brazil.

That's not to say that investors should shy away from the developing world entirely, but discretion is becoming increasingly important. Countries with budget surpluses, such as South Korea and China, are better placed to weather the change in global investor sentiment and could enjoy trade gains as US growth rebounds.

The International Monetary Fund (IMF) expects growth rates in emerging markets to ease slightly this year, but they are still growing at three times the pace of advanced economies as the chart above shows.

Implications for Australia

Australia has been one of the chief beneficiaries of Asia's rapid economic development and one of only a handful of countries to retain its AAA credit rating in the wake of the financial crisis. The IMF expects solid economic growth

of 3 per cent this year and 3.3 per cent in 2014. But we are not immune to the global shift in money flows.

The Australian dollar has already fallen from a high of US\$1.06 to as low as US88c this year. Despite a recent spike above US95c following the US Federal Reserve's announcement it would continue its fiscal stimulus, slower growth in the Asian region and reduced demand for commodities is likely to act as a drag on the Aussie dollar for some time.

Oliver says the Aussie dollar may suffer collateral damage as investors often sell it as a proxy for less liquid Asian currencies.

Being prepared

Australian shares have not been exempt either, as investors shift their attention to the US and Europe. While Australian shares are up 13 per cent this year, US shares are up more than 22 per cent.

As the tide of global investment sentiment turns, it is important for Australians to understand the likely implications for their investment portfolios.

If you would like to discuss your investment strategy, please don't hesitate to call us.



Peter Small
Fluid Financial Planning



Suite 4a, Level 1,5 Ridge Street
North Sydney NSW 2060

P (02) 9922 4448

F (02) 8072 1386

E peter@fluidfinancialplanning.com.au

W www.fluidfinancialplanning.com.au

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