



Quarterly Investor Sentiment Research Report

Quarter three 2010

Financial Services Council/CoreData
Investor Sentiment Index

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Executive Summary

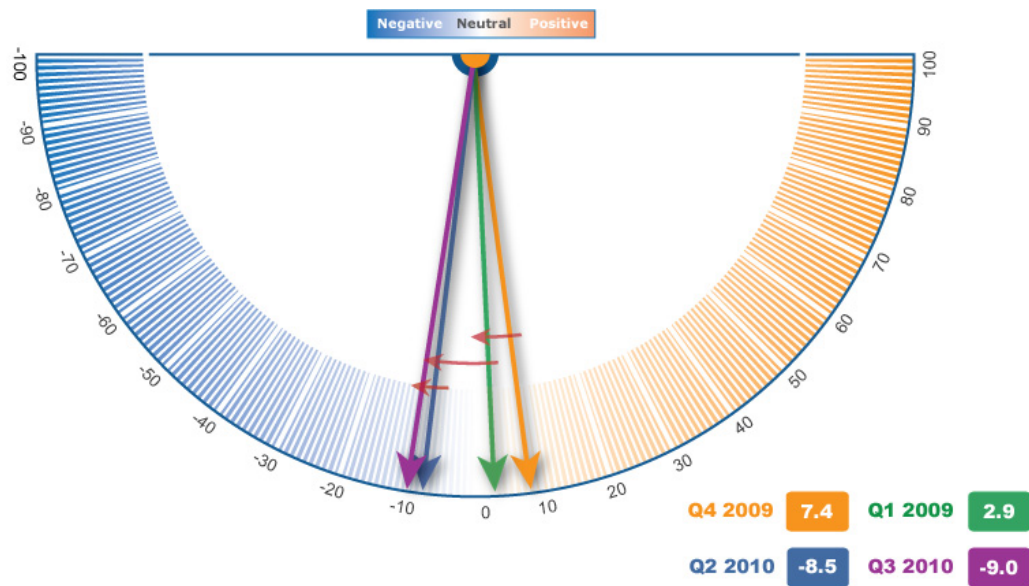
- The third FSC CoreData Investor Sentiment Index for 2010 paints a picture of continued investor uncertainty. Investor confidence remains in negative territory, down a marginal -0.5 to -9.0.
- While the index is now 13.3 points higher than where it was at the beginning of last year, it is more than 16 points lower than at the end of 2009 when investors were optimistic about what the dawn of a new year might bring.
- The almost negligible decline in sentiment suggests that while sentiment has not weakened to any significant extent, investors remain unsure about what the future holds. The continued uncertainty is not surprising given the recent period of political upheaval prior to the formation of Australia's first minority Government since 1940.
- The Investor Sentiment Index is now 23.4 points lower than in December 2007, pre-GFC, and is 37.4 points adrift of its peak over the past three years.
- Satisfaction with existing investments remained consistent with last quarter at 37.7% (compared to 37.9% in Q2)
- Interestingly, the data shows a slight improvement in household financial situations and yet investors remain reluctant to invest new money and likewise unwilling to top up their existing investments. This is likely due to the lack of clarity around the pace at which the RBA will raise interest rates over the coming year, since rising rates impact the amount of excess cash available to invest.
- The recovery in the Australian economy continues to be fuelled by the mining sector and unemployment remains low. It is widely expected that the RBA will increase the cash rate by a further 25bp when it meets in October – the first rise since May this year.
- The number of investors that anticipate faster growth of the Australian economy has been reducing over the last four quarters and now stands at 26.8%, slightly less than in Q2 (29.7%). Half (49.9%) now expect it to slow down next quarter, compared to 51.5% in Q2.
- Almost a third (31.2%) of investors expect business conditions in Australia to improve over the next three months, on par with Q2 (31.7%) but still considerably less than Q1 (50.3%).
- The average household is slightly better off this quarter, reflecting the RBA's decision to abstain from rate rises over the past three months. Households appear to have adjusted following the consecutive 25bp rises between March and May.
- Just under two in five (38.4%) think their future financial position will improve in the next 12 months up from 35.7% on Q2. Less than one quarter (23.4%) expect it to worsen, down from almost a third (30.5%) last quarter.
- The Investor Intention Index remained flat for the quarter, up marginally to -26.6 from -26.8 in Q2.
- The polarisation that was evident in the market in past quarters has since disappeared. Only 21.7% of investors are likely to invest new money in existing investments in the next three months, while 65.1% are unlikely to invest.
- Little hope was held for a minority Labor government prior to its appointment. Two fifths of investors (42.2%) foresaw better economic conditions under a minority Liberal government – almost double the number who foresaw better conditions under Labor (26%).

Key insights

Investor sentiment flat in the third quarter of 2010:

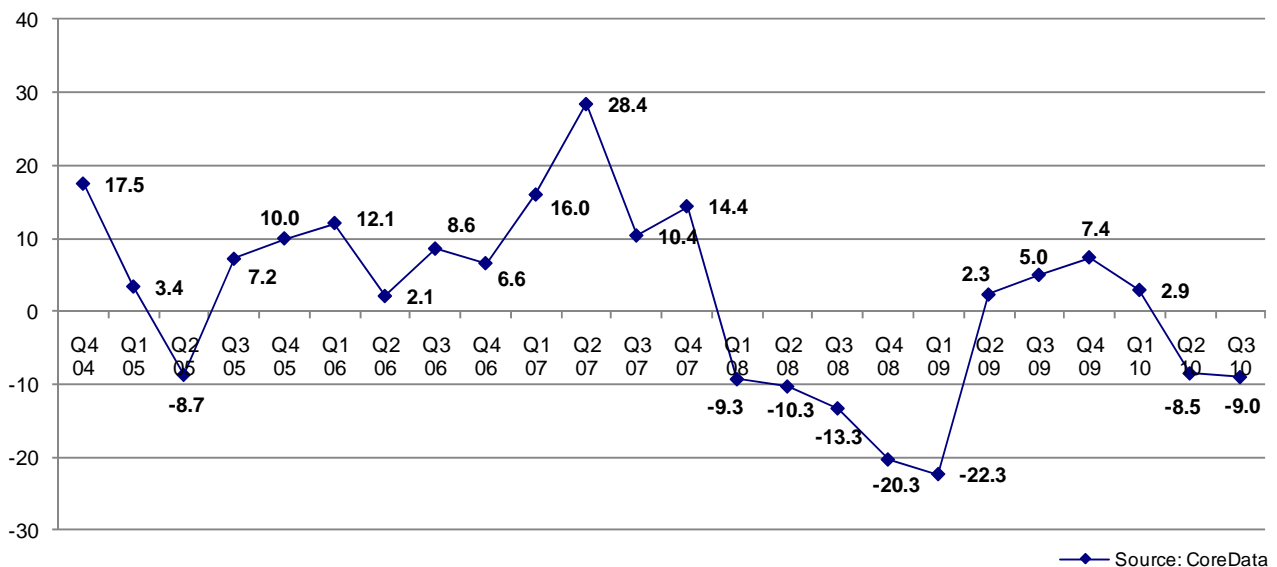
- Investor sentiment has remained static, retracting only very slightly in Q3 2010 by -0.5 to -9.0.
- The index is now 13.3 points higher than where it was at the beginning of last year, and is over 16.4 points lower than where it was at the end of 2009.

FSC-CoreData Investor Sentiment Index (ISI)

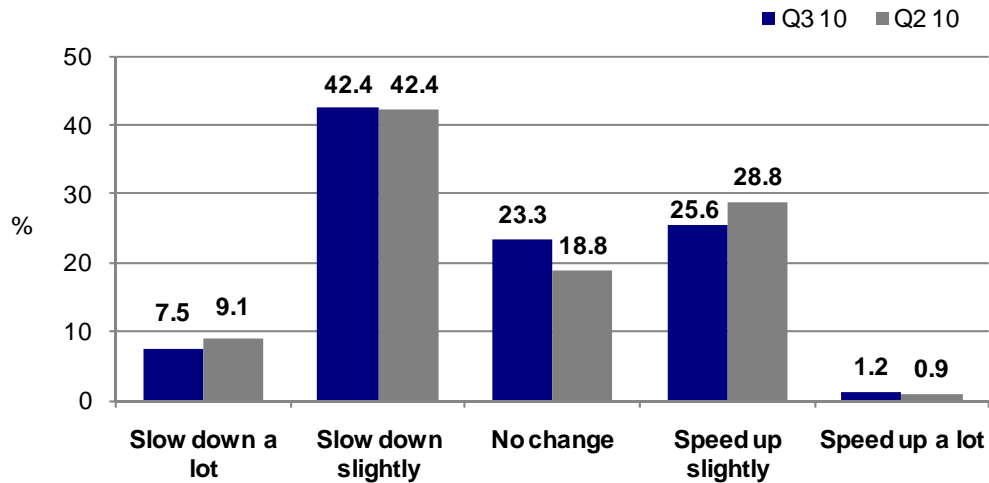


Tracking Investor Sentiment Q4 2004 – Q3 2010

- Sentiment remains static but negative this quarter, at a level similar to Q1 – Q2 2008. The index is now 23.4 points lower than in December 2007 and is 37.4 points adrift of its peak over the past three years.



Comparing the next quarter to this past quarter, do you think the Australian economy will grow at a slower or faster rate?

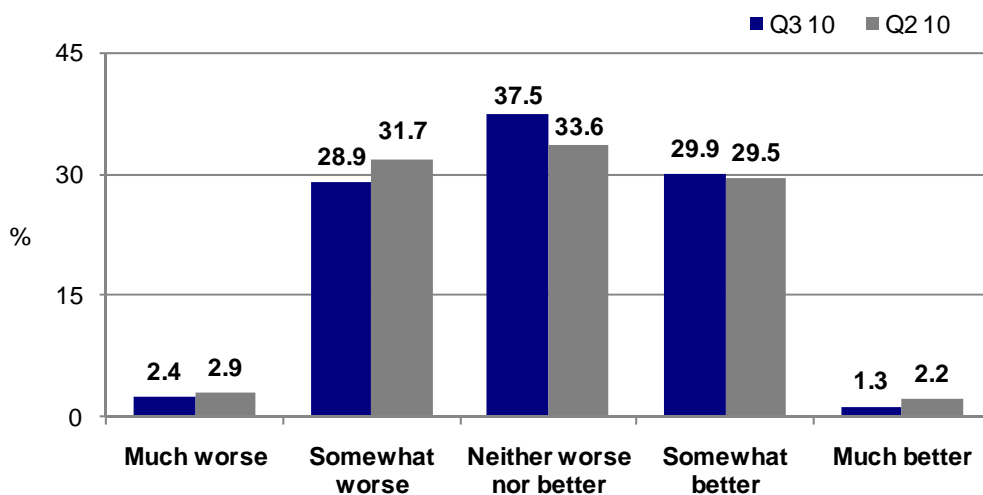


n = 743 (Q3 10)

General economic and business outlook:

- The general business outlook remains flat with 37.5% of respondents thinking business conditions will neither improve nor deteriorate (33.6% in Q2).
- Back in Q1 a similar number of respondents (31.6%) believed conditions would remain unchanged, however the outlook was much more positive.
- Whereas only 29.9% of respondents this quarter believe business conditions will be 'somewhat better', in Q1 2010 nearly half of respondents (48.4%) had a positive outlook for business.

Comparing the next quarter to this past quarter, do you think business conditions in Australia will be better or worse?

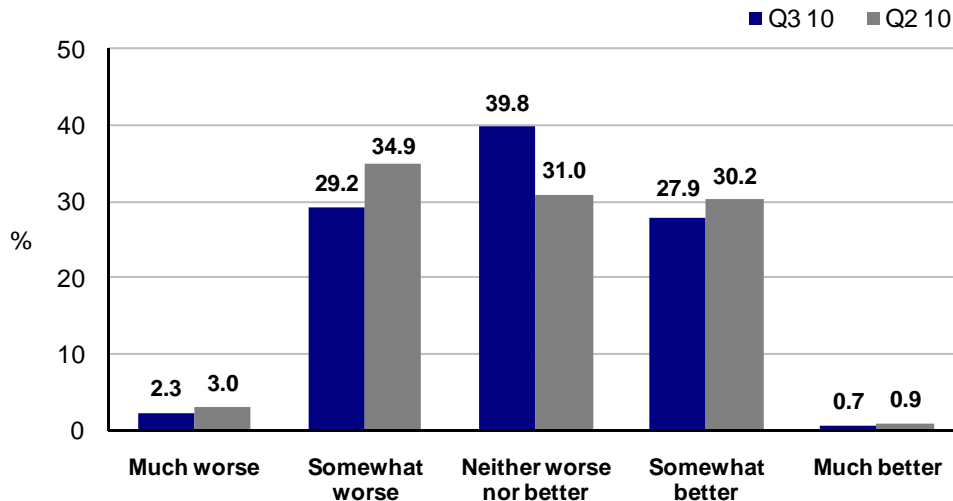


n = 747 (Q3 10)

Neutral sentiment for investments:

- The number of respondents who believe investment markets will improve (28.6%) in the coming quarter has declined slightly in Q3, down from 31.1%, while the proportion who think it will decline (31.5%) has also fallen (from 37.9% in Q2).
- The trend is clearly towards an expectation of flat markets, with those predicting markets will be neither worse nor better increasing to almost two in five (39.8%) from three in ten (31.0%) last quarter.

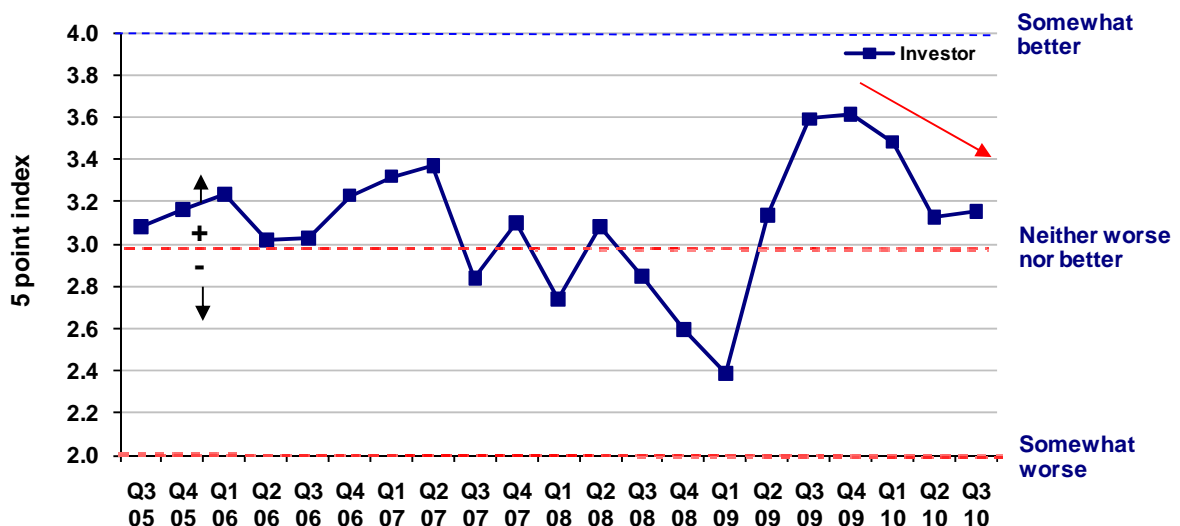
Do you think investments will generally be better or worse in the next 3 months?



n = 689, respondents who have savings/investments

- While investors' outlook for Australian shares was retracting in the three quarters leading up to Q2 2010, this quarter has seen a slight upward adjustment in expectations – although the outlook remains neutral.

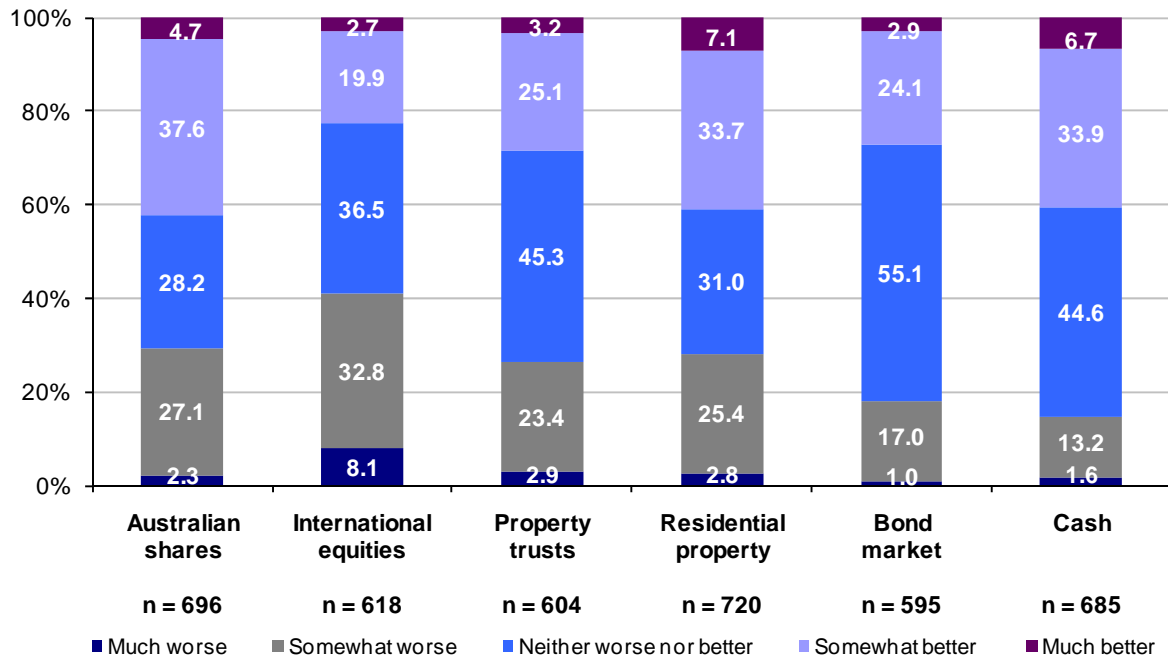
Comparing the next quarter to this quarter, how do you think Australian Shares will perform?



- Two in five respondents (42.3%) expect Australian shares to perform better over the next quarter compared to last quarter.
- Cash expectations have fallen again this quarter, continuing the trend from Q2 with two in five respondents (40.6%) saying that cash will perform better in the next three months. This is down from just under half of respondents (48.4%) last quarter and 58.2% at the beginning of 2010.

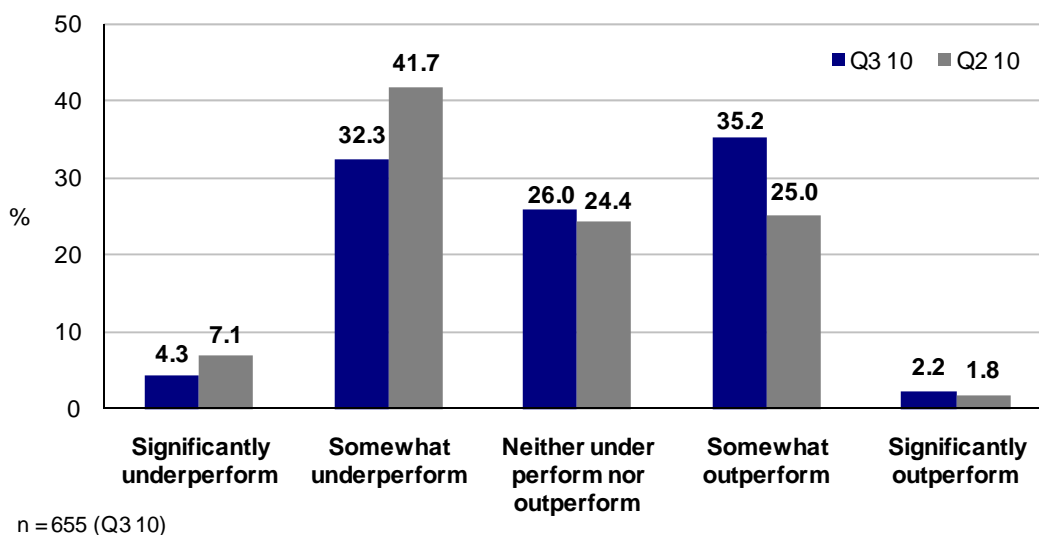
- Australian equities (42.3%), residential property (40.8%) and cash (40.6%) are expected to be the top performers among the asset classes this quarter.
- Investors are again more pessimistic about international shares. This quarter, two in five respondents (40.9%) expect international equities to underperform next quarter, while only 22.6% expect global shares to outperform.

Comparing the next quarter to this quarter, how do you think the following asset classes will perform?



- Sentiment towards Australian shares strengthened versus the residential property market this quarter with investors now seemingly undecided as to which asset class is more likely to outperform. Some 37.4% of investors believe shares will outperform and 36.6% believe residential property will outperform, compared to 26.8% and 48.8% respectively in Q2.

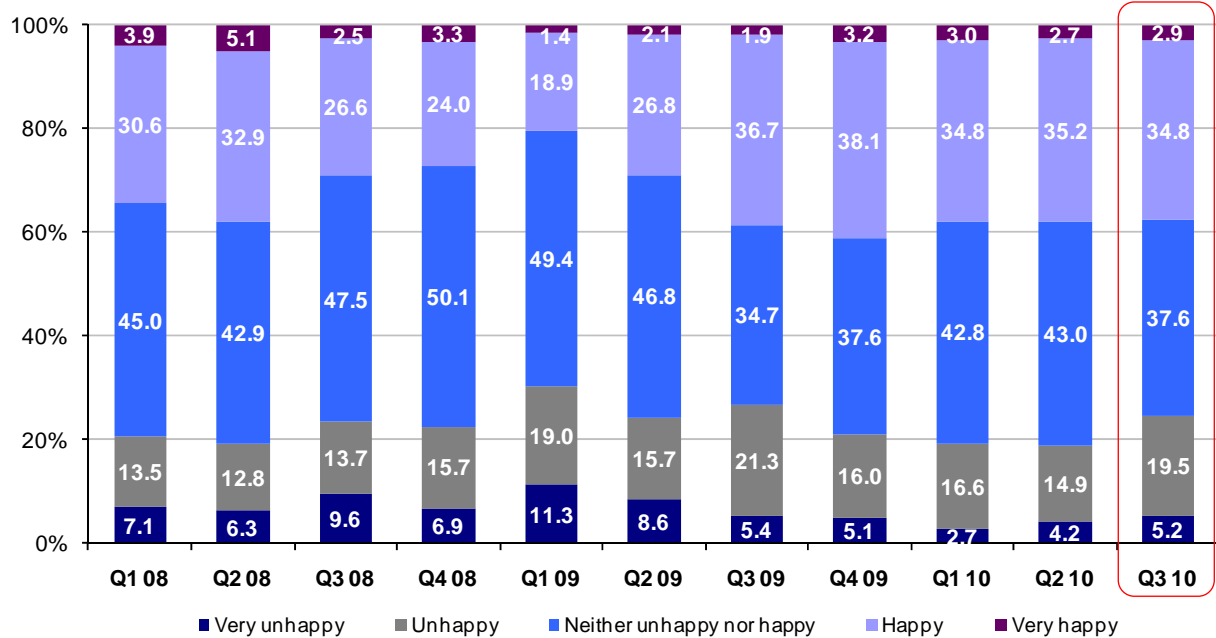
Comparing the next quarter to this quarter, do you think the Australian share market will outperform residential property?



Happiness with investments falls:

- Investors in the main continue to be happy with their investments in Q3 2010, although dissatisfaction has risen slightly quarter-on-quarter. Some 37.7% are happy (37.9% in Q2), while only 24.7% are unhappy (19.1% in Q2).

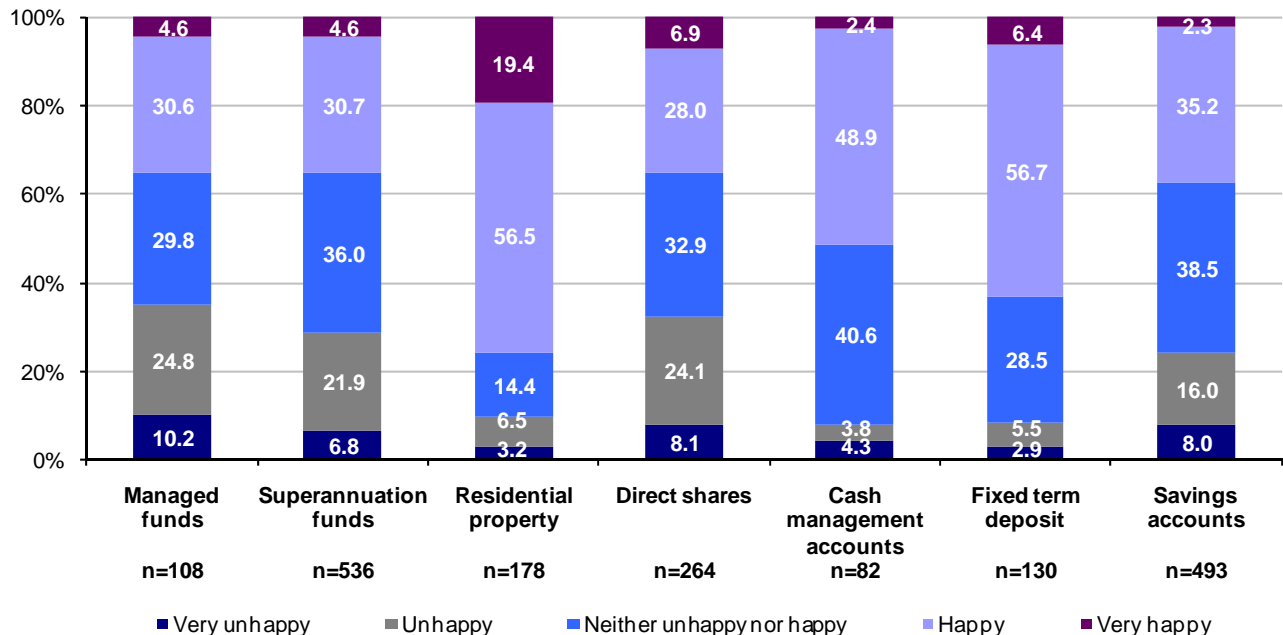
To what extent are you happy with your current investments?



n = 689 (Q3 10)

- Interestingly however, only 2.9% are very happy, while the number who are very unhappy rose to 5.2% from 4.2% last quarter and 2.7% in Q1.

To what extent are you happy with the different investments you have?
investments?

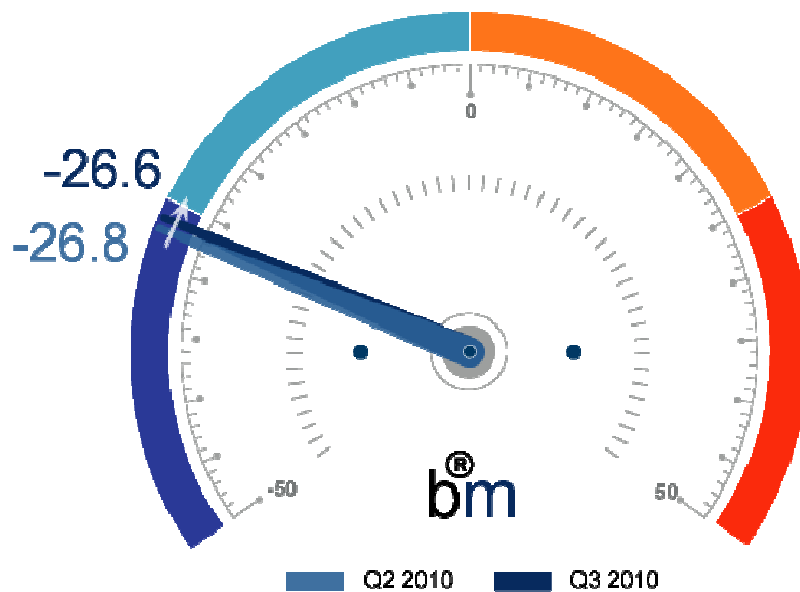


- Three quarters of investors are happy with the performance of their residential property (75.9%), up from two thirds (66.5%) last quarter. Fixed term deposits (63.1%) also continue to please investors in Q3 (up from 50.7% in Q2).
- Investors remain most unhappy with the performance of their managed funds (35.0%), direct shares (32.2%) and superannuation funds (28.8%).

Understanding trends in investor intentions:

- The Investor Intention Index is a subset of the Investor Sentiment Index and measures investors' future investment decisions.
- The Investor Intention Index continued to decline for the second consecutive quarter, moving into further negative territory.
- The index has barely moved at all over the past quarter, indicating that investors remain unwilling to invest. This reluctance could be due to the anticipated rising interest rate environment, which will likely impact the amount of excess cash available for both general spending and investment.

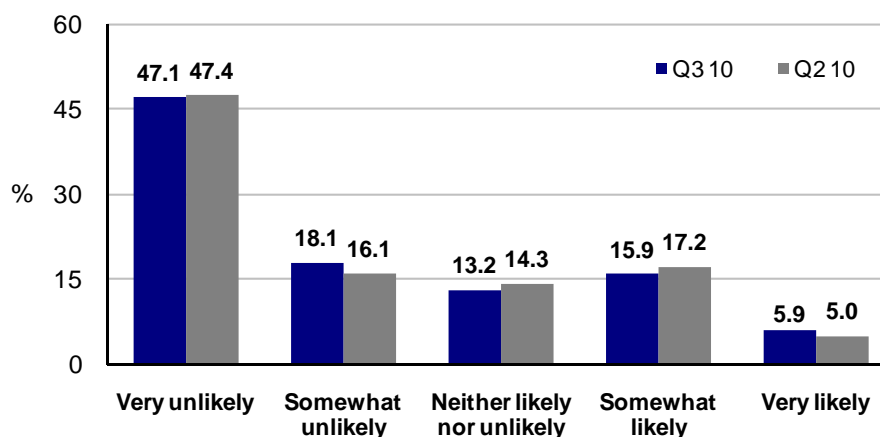
Investor Intention Index Q2 2010



- As was the case last quarter, only 21.8% of investors are likely to invest new money in existing investments in the next three months, while 65.2% are unlikely to invest.

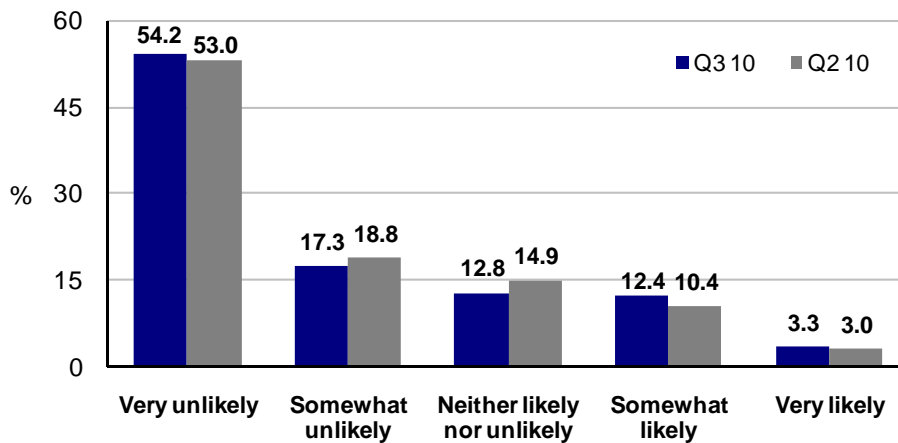
In the next three months, do you intend to do any of the following?

Invest new money in existing investments



n = 689, respondents who have savings/investments

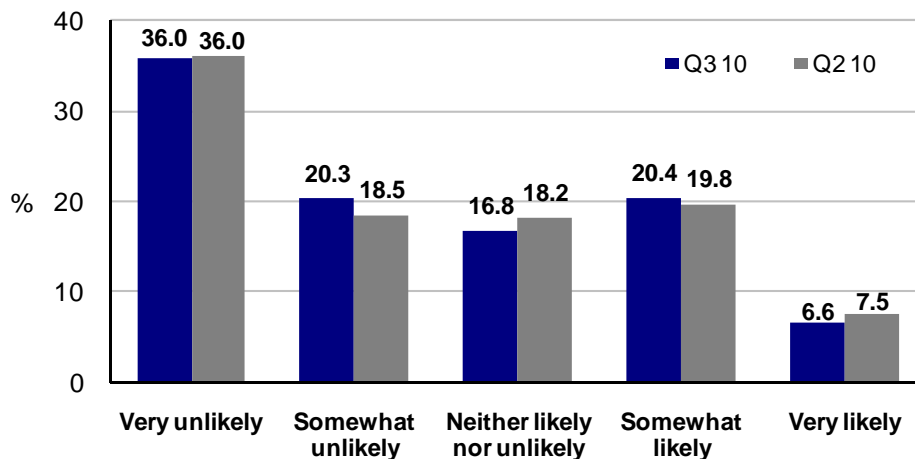
Purchase a new investment product / Invest money directly in new equities



n = 689, respondents who have savings/investments

- The proportion of investors that are unlikely to purchase a new investment product or invest money directly in new equities remained static in Q3 at 71.5% (71.8% in Q2 2010).
- The number of investors that are likely to do so also remained largely unchanged at 15.7% compared to 13.4%% in Q2 2010.
- The chart below shows the majority of investors are unlikely to withdraw money from existing investments (56.3%), while just over one quarter are likely to (27.0%).
- Quarter-on-quarter the proportion of people who are likely to withdraw money is unchanged.

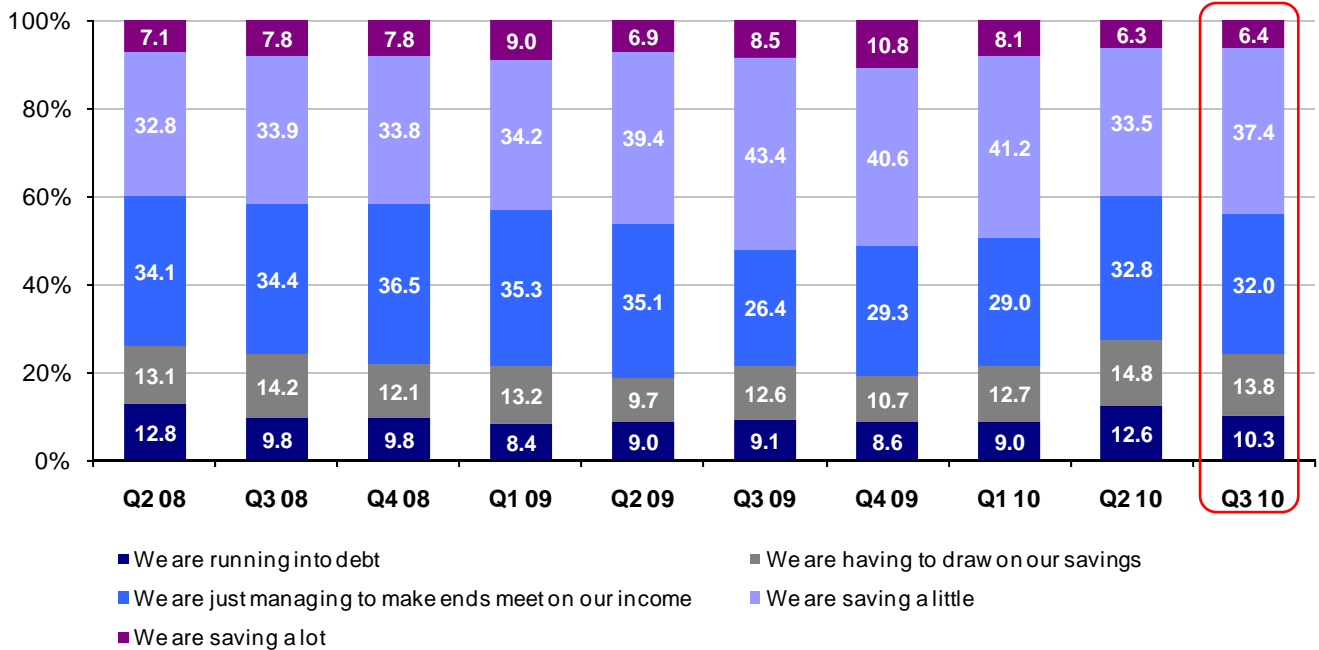
Withdraw money from existing investments



n = 689, respondents who have savings/investments

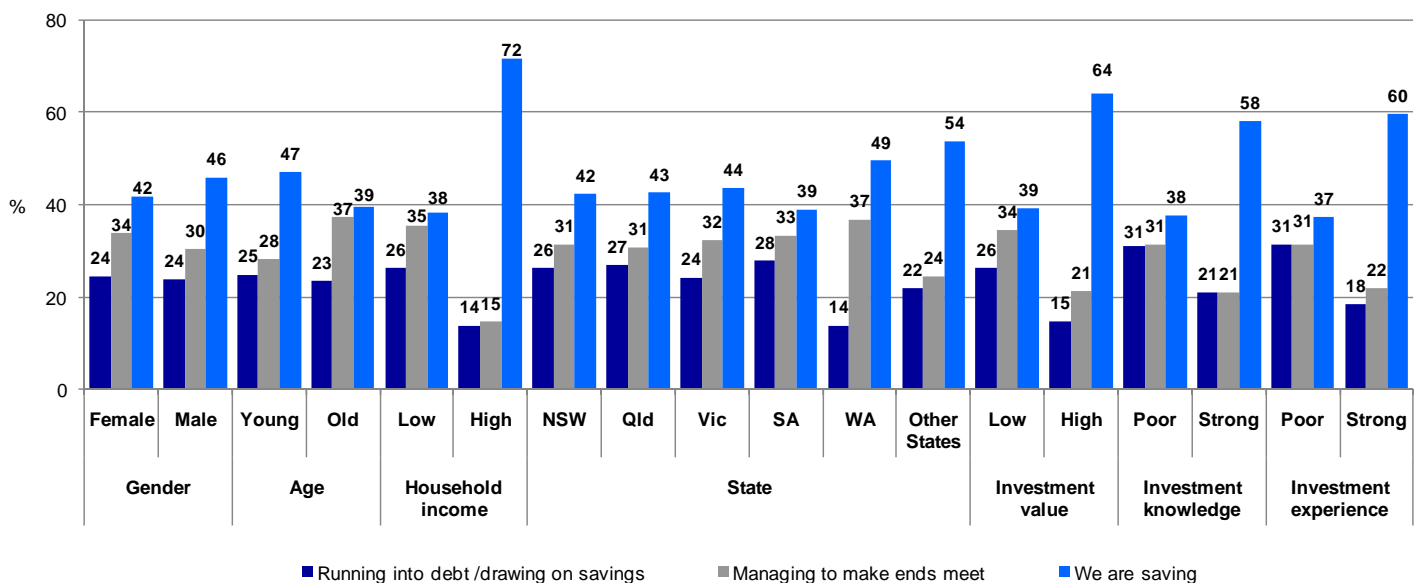
Household situation:

The statement that best describes the present financial situation of their household



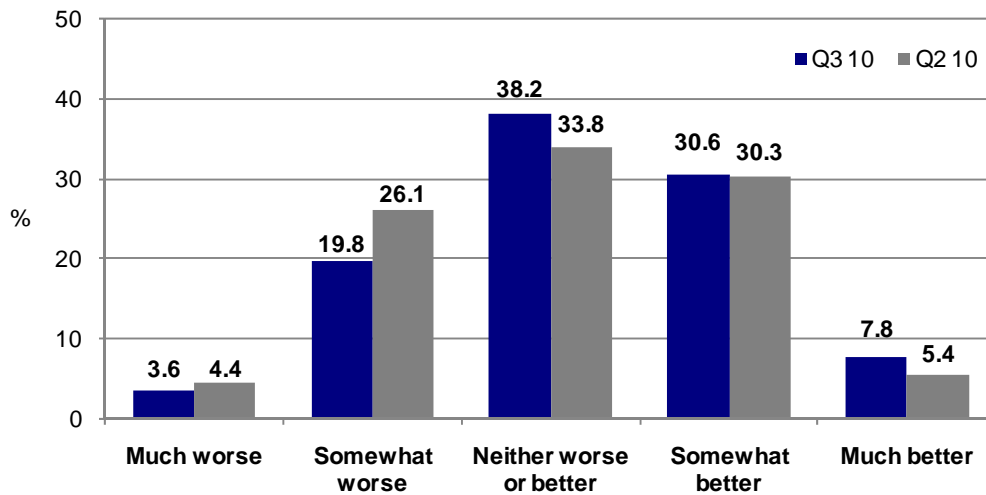
- The financial situation of households has improved slightly this quarter with the proportion of people who are saving increasing to 43.8% (versus 39.8% in Q2) and those having to draw on savings down to 13.8% (from 14.8% in Q2).
- There was also decrease to 10.3% of those who are running into debt from 12.6% last quarter.
- Those who are just managing to make ends meet (32.0%) and those who are saving a lot (6.4%) remain unchanged for the most part (32.8% and 6.3% in Q2 respectively).

What best describes the present financial situation of your household?



- Predictably, those with strong investment experience and knowledge are saving more, as are those with a high household income. Some 72.0% of those with a high household income are saving while only 38.0% of those with low household incomes are managing to save. Contrary to last quarter, the difference between low and high income earners has decreased slightly.
- Men are more likely than women to be saving (46% versus 42%), as are younger people more likely than older people to be saving (47% versus 39%).

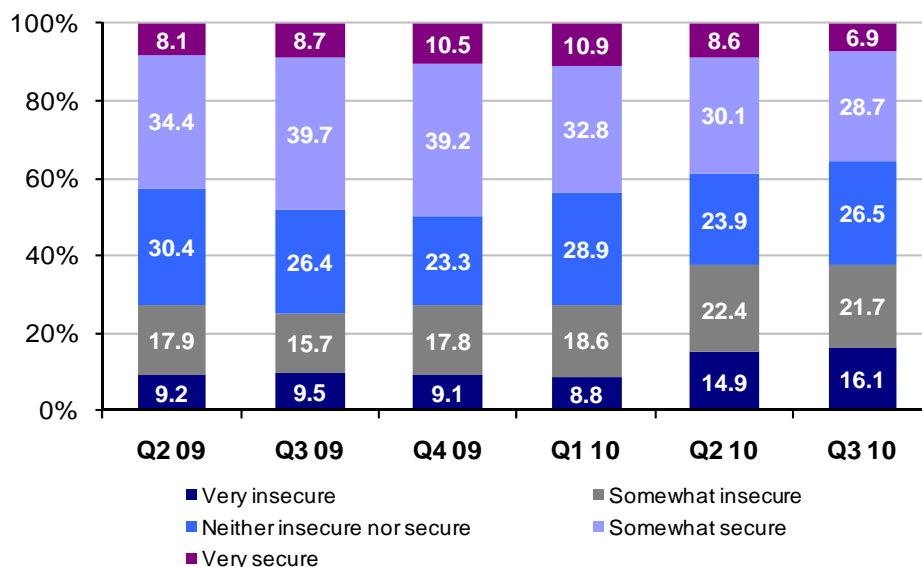
How do you think the financial position of your household will change over the next 12 months? Will it get?



n = 761(Q3 10)

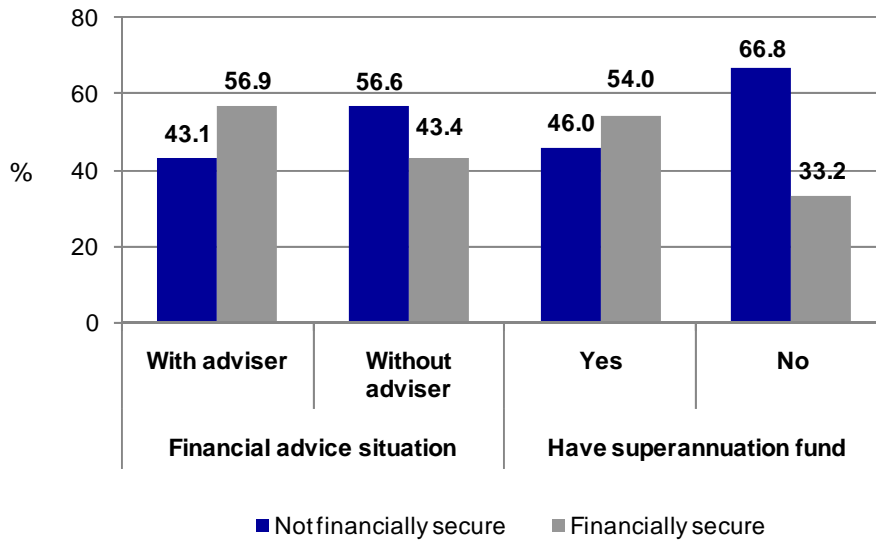
- Just over a third of households (38.4%) are optimistic about their future financial position, up marginally from last quarter (35.7%). A minority (7.8%) expect their financial position to be 'much better' in the next 12 months while 30.6% expect it to be 'somewhat better'.
- Almost one quarter (23.4%) expect their financial position to worsen, an improvement on Q2 where this was closer to one third (30.5%).

How financially secure do you feel?



n = 768 (Q310)

How financially secure do you feel in comparison to whether you are seeing a financial adviser and have a superannuation fund?



- Investors who use an adviser are more likely to feel financially secure, as are those with a super fund.
- Just over half of people with an adviser (56.9%) feel financially secure compared to only 43.4% of those without an adviser.
- It comes as no surprise that two thirds of respondents without a super fund (66.8%) do not feel financially secure. Interestingly however, of those who do have a superannuation fund just over half feel financially secure (54.0%) however more than two in five (46.0%) do not.

Current Investments:

- Two in five males (40.8%) own direct shares, 18.5% have managed funds/unit trusts and 69.7% have super, compared to just under a third of women with direct shares (27.5%), 9.3% with managed funds/unit trusts and 69.3% with super.

Which of the following types of investment do you currently have?

	Gender		Age		State					
	Female	Male	Young	Old	NSW	Qld	Vic	SA	WA	Other states
Managed funds / Unit trusts	9.3%	18.5%	11.4%	17.6%	14.4%	17.8%	13.0%	20.3%	4.3%	16.7%
Superannuation funds	69.3%	69.7%	70.3%	68.5%	72.2%	59.7%	71.3%	71.6%	70.2%	73.8%
Residential property (excluding family home)	23.3%	22.8%	20.4%	26.8%	21.4%	23.1%	19.4%	23.3%	31.2%	31.0%
Direct shares	27.5%	40.8%	30.0%	40.3%	37.7%	31.8%	28.7%	31.5%	38.7%	50.0%
Cash management accounts	7.8%	13.2%	7.6%	14.8%	11.6%	11.6%	9.7%	6.8%	8.6%	19.0%
Fixed term deposits / Debentures	18.7%	15.2%	10.3%	25.8%	14.4%	15.5%	16.6%	14.9%	25.8%	19.0%
Savings accounts	68.2%	60.3%	66.5%	60.6%	64.2%	59.7%	67.1%	61.6%	66.7%	61.9%

- South Australians are most likely to invest in Managed funds/Unit trusts (20.3%) while Western Australians are much less likely (4.3%).

- Membership of superannuation funds is consistently around 70% in each state with the exception of Queensland which is slightly less (59.7%).

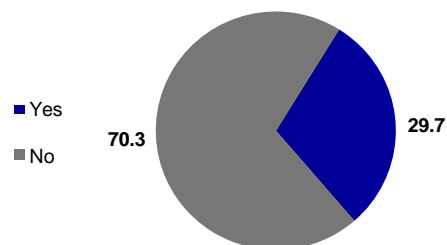
Which of the following types of investment do you currently have?

	Household income		Investment value		Investment knowledge		Investment experience		Financial advice	
	Low	High	Low	High	Poor	Strong	Poor	Strong	With adviser	Without adviser
Managed funds / Unit trusts	10.0%	34.6%	9.8%	33.3%	7.0%	27.2%	3.1%	30.6%	28.9%	6.8%
Superannuation funds	66.3%	86.5%	64.5%	92.8%	55.8%	78.5%	59.6%	78.9%	81.0%	64.4%
Residential property (excluding family home)	17.5%	51.2%	11.9%	74.1%	10.6%	33.5%	9.3%	39.5%	32.5%	18.7%
Direct shares	27.4%	69.8%	25.8%	73.2%	11.6%	61.1%	12.7%	66.0%	44.4%	29.6%
Cash management accounts	8.2%	22.8%	7.0%	27.3%	3.0%	21.5%	3.1%	24.7%	15.7%	8.2%
Fixed term deposits / Debentures	16.1%	20.6%	12.3%	37.4%	7.6%	22.6%	7.3%	28.8%	21.7%	14.6%
Savings accounts	62.7%	70.9%	62.6%	70.5%	56.8%	63.9%	60.6%	63.7%	62.9%	64.5%

Voluntary contributions to Super:

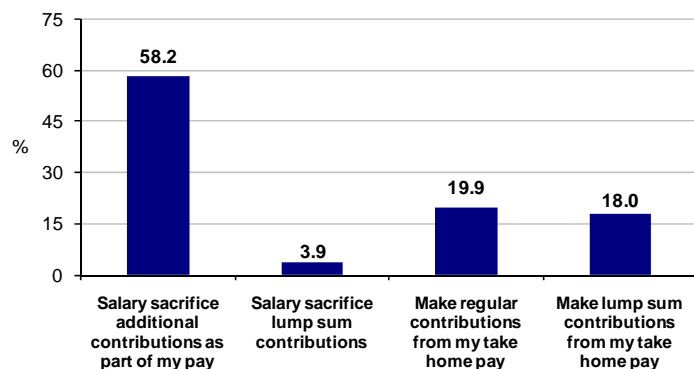
- Some three in 10 respondents make additional contributions beyond the 9% Superannuation Guarantee (29.7%), on par with Q1 & Q2 of this year.
- The majority (58.2%) do so via salary sacrificing a proportion of their income, while 19.9% make regular contributions from their take home pay – up from 17.8% in Q2 but still not as high as the 23.7% doing so in Q1.
- Some 18.0% make additional contributions by way of lump sum from their take home pay, down slightly from 20.5% in Q2 but still above the 16.6% in Q1.

Focusing specifically on superannuation do you make additional contributions beyond the 9% superannuation guarantee?



n= 536, respondents with superannuation funds

How do you make those additional contributions?

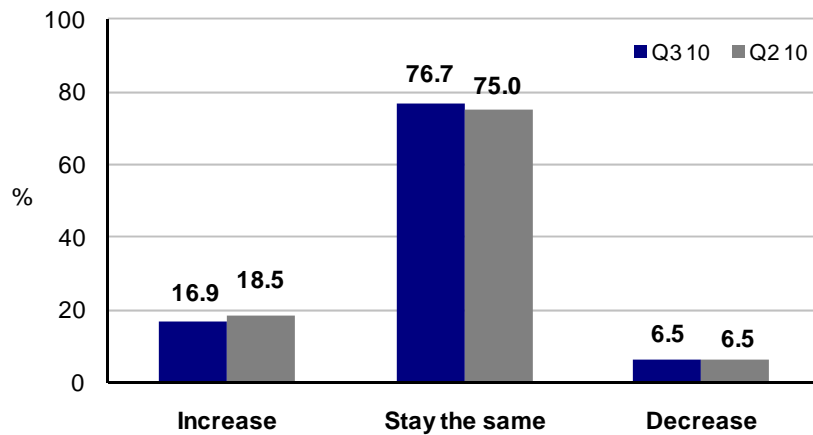


n =159, respondents who make additional contributions

- Of those that make additional contributions to their superannuation, three quarters (76.7%) expect to keep the level of their contributions the same over the next year while 16.9% expect to increase their additional contributions which is still more than Q1 (14.0%) but down from Q2 (18.5%).

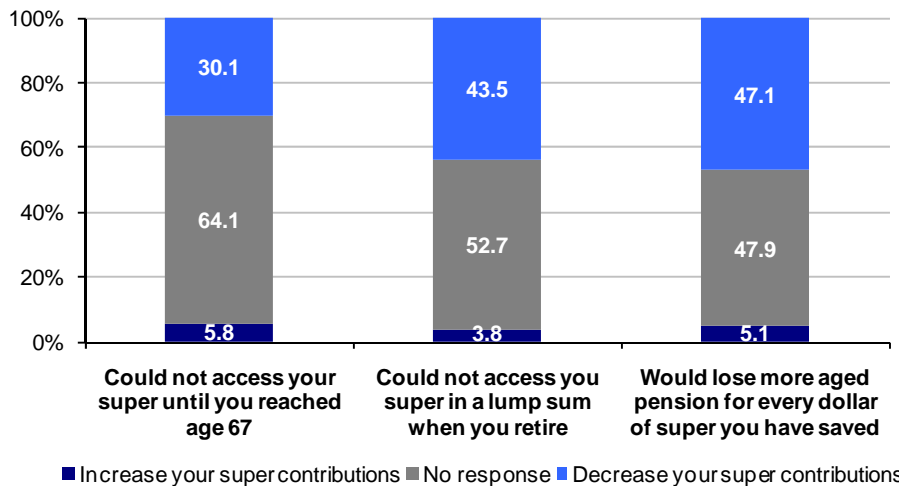
- A minority (6.5%) expect their additional contributions to decrease.

Over the next 12 months I expect my level of additional contributions to super to:



n = 536, respondents with superannuation funds

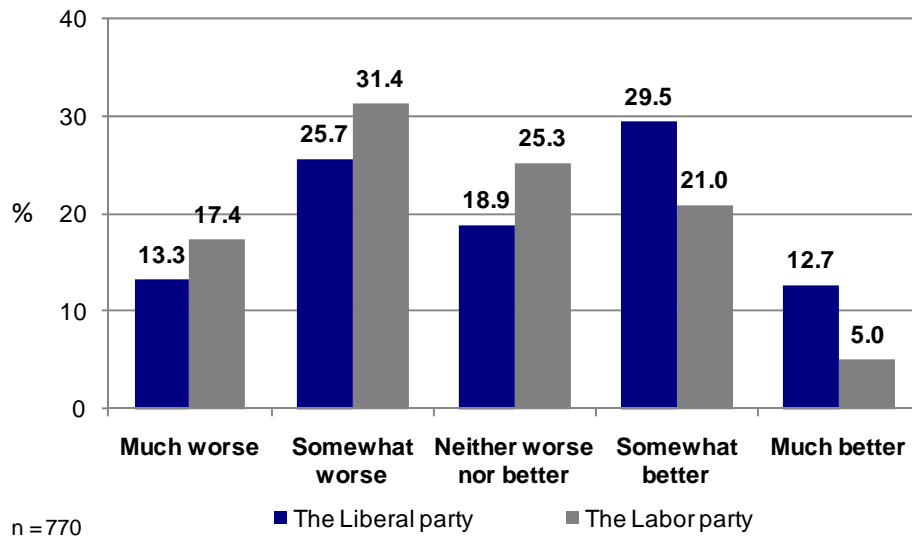
What would your response be if the government said that you...



n = 770

- The majority of people are ambivalent about changes to super, reflecting the high level of disengagement in the sector.
- Fewer than three in seven respondents (43.5%) would decrease their super contributions if they could not access their super in a lump sum at retirement. Almost half (47.1%) would decrease their super contributions if they lost more Age Pension for every dollar of super they had saved.
- Under Government reforms, the qualifying age for the Age Pension is due to gradually increase from 65 to 67 by 2023. Less than one third of respondents (30.1%) say they would decrease their super contributions if they were told they could not access their super until they reached age 67.

Do you think Australian economic conditions will be better or worse over the next 12 months if a minority government is formed with?



- This survey was in-field prior to the formation of the minority Labor government. Interestingly, two fifths of respondents (42.2%) foresaw better economic conditions under a minority Liberal government – almost double the number who foresaw better conditions under Labor (26%).
- On the flip side, nearly half of respondents (48.8%) said economic conditions would be worse under a minority Labor government, slightly higher than the 39% who were pessimistic about the prospects for a minority Liberal government.

Background to the survey:

The Financial Services Council and CoreData have produced their third quarterly Investor Sentiment Index research report for 2010. CoreData has been conducting this research on a quarterly basis since December 2004.

The Index is a key measure of investor sentiment for the financial services industry, with the ability to provide a comparative sentiment gauge over concurrent quarterly time periods.

The Investor Confidence Index is derived from collating several layers of sentiment from respondents.

The purpose of this research is to produce an up to date, accurate assessment of investor sentiment on a range of issues.

The Financial Services Council/CoreData Investor Sentiment Index (FSC-CoreData ISI):

The FSC CoreData ISI is a key measure of investor sentiment for the industry, with the ability to be compared to the previous quarters' results as well as future results. CoreData has had continuity in its methodology since Q4 2004, and the ISI has been able to track sentiment for the past five years.

The FSC CoreData ISI is calculated by weighting responses to the following questions (please note the weightings are in brackets).

1. Do you think the market for investments will be better or worse for investors in the next 3 months? (30)
2. How financially secure do you feel? (10)
3. To what extent are you happy with your current investments? (30)
4. How likely are you to take out a new investment product in the next 3 months? (15)
5. How likely are you to invest more in an existing investment product within the next 3 months? (15)

Methodology:

CoreData conducts a quarterly online survey among of a range of investors. There were 770 participants in the Q3 2010 survey which was conducted between 24th August and 6th September 2010.

The sample was taken from CoreData-brandmanagement's proprietary database of investors, and the results calibrated to the ABS population data.

The demographic split of investors is as follows:

Gender

	Percent
Female	48.6
Male	51.4
Total	100.0

Age Group

	Percent
29 years old and below	18.0
30 - 39 years old	19.7
40 - 49 years old	20.0
50 - 59 years old	17.5
60 years old and above	24.7
Total	100.0

Area of Residence

	Percent
The capital city of my state / territory	68.6
A regional centre	22.7
A rural area	8.7
Total	100.0

Household income

	Percent
\$50,000 or less	21.1
\$50,001 to \$75,000	20.9
\$75,000 up to \$100,000	17.2
\$100,000 up to \$125,000	12.7
\$125,001 to \$150,000	12.1
\$150,001 to \$200,000	10.9
\$200,001 to \$250,000	2.2
\$250,001 to \$350,000	2.1
\$350,001 or more	0.7
Total	100.0

State of Residence

	Percent
ACT	2.9
NSW	28.1
NT	0.7
Qld	16.9
SA	9.6
Tas	1.5
Vic	28.2
WA	12.2
Total	100.0

Work status

	Percent
I am in full time work	56.9
I have retired from full time work	14.8
I am in part time work	13.5
I am in full time home duties	2.9
I am a full time student	2.8
I am not in work at present	4.9
Other	4.1
Total	100.0

Investment Portfolio Size

	Percent
I have no investments	10.5
Less than \$50,000	31.2
\$50,001 to \$150,000	18.6
\$150,001 to \$250,000	9.2
\$250,001 to \$350,000	12.5
\$350,001 to \$450,000	5.3
\$450,001 to \$550,000	5.1
\$550,001 to \$650,000	4.4
\$650,001 to \$750,000	1.0
\$750,001 to \$1,000,000	1.7
More than \$1,000,000	0.5
Total	100.0

For further info please call Project Manager: Kristen Paech, CoreData on 02 9376 9609, or Sara Rich, Financial Services Council finance media adviser, on 02 8235 2520.