Australia continues to perform well despite fears coming out of Europe

Australia looks to have achieved 2 per cent growth in calendar 2011.

As we would expect, this was mainly driven by mining-related investment. It also included a household sector that is gradually growing in confidence. This is despite the high Australian dollar, the floods at the beginning of the year, tightening of Government spending, and ongoing economic turmoil in Europe and the United States.

Despite fears related to Europe, the outlook for 2012 is even better.

BIS Shrapnel are forecasting a 3.8 per cent growth. This reflects ongoing mining-related investment, increased household spending, and eventually a recovery in other investment – particularly residential. Growth will be further supported by lower retail interest rates – they expect the Cash Rate to be reduced a further 25 basis points in February. On the other hand, the Government's commitment to return to surplus in 2012/13 will provide an ongoing drag on growth

Mining-related investment is pretty much locked in, and will continue to keep a floor under GDP growth for the next few years. A key risk to the outlook is that events in Europe lead to further delay or cancellation of non-mining related investment. So far, the Australian economy is weathering the fall-out from Europe pretty well. The top has been taken off commodity prices, but they remain extremely high. Chinese growth is slowing, but only a bit…and it needed to. Bank funding costs are rising, but only slightly.

The ability of authorities here and in China to provide additional stimulus if needed, the sheer volume of mining-related investment already in train, and the high household saving rate mean that Australia should still perform pretty well next year, even if the situation in Europe takes another nasty turn.

How do I make the most of my investments in this market?

With sharemarket volatility a daily part of news headlines, it's only natural that we are all concerned about how the fluctuations might be affecting the value of our investments. It can also be tempting to move your money into less risky investments.

We think it best to consider the 5 points that we have previously spoken about and the approach we think will work best in this environment. The five simple rules:

1. Stay calm

Do not rush any investment decision.

2. Diversify your investments

It's notoriously difficult to predict what's going to be the best performing asset class in any given year. Diversifying investments across asset classes allows you to benefit from each year's best performing asset classes. It can also help you smooth out the volatility of your returns.

3. Spend time in the market

One of the most powerful features of long-term investing is the ability to benefit from compound returns. By staying invested, as opposed to regularly entering and exiting the market, your investments have more time to grow and earn returns.

Income from investments continues in the main no matter what the capital value does. In the Australian share market, this income is often higher than cash and where imputation credits are available, the after tax income is very good.

4. Monitor and review your investment strategy

Like most things in life, it's a good idea to regularly review your financial plan to make sure it's still right for your current financial situation.

5. Seek professional financial advice

We can help ensure your strategy meets your needs, and even help you update it as your circumstances change. With a clearly defined strategy and goals, you can have the confidence you need to withstand market fluctuations.