"Investing isn't simply about being sure you are right, but about making sure you are protected if you are wrong."

Jason Zweig

There's been an awful lot of talk about "green shoots" over the past few months. These are signs that the economy has weathered the worst of the global financial crisis and that, if we are not returning to the rampant growth of recent years, we are at least starting to see a return to more normal economic conditions. Is this a case of "what a man wishes, that also will he believe" or is there a sound basis for such optimism?

The market itself is clearly well off its recent lows but, as we have previously noted, the equity market is a lead indicator – it anticipates activity in the real economy rather than responding to it. Employment on the other hand is a lagging indicator and so we are likely to see unemployment levels continue to rise at least over the next couple of quarters.

The forthcoming reporting season will give us some clearer indications of the performance of the Australian corporate sector, both in terms of its experience of 2009 to date and its outlook for the year ahead. Analysts are predicting a decline in earnings of between 20% and 30% from last year and companies will inevitably cut their dividends, and in some cases suspend them. Whilst this is bad news for those relying on dividend streams for income, the fact that these cashflows will generally be redirected to debt reduction should lead to more robust corporate structures going forward.

We remain cautiously optimistic looking ahead to the 2010 financial year. Whilst there may – and almost certainly will – be some "after shocks" we believe that for the most part the financial system now rests on more solid ground than it did a couple of years ago.

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