

# InvestWell with Financial Lifestyle Managers

## OFFICE NEWS

Recently Investwell Financial Planning and Financial Lifestyle Managers Pty Ltd joined forces under the umbrella name of Investwell with Financial Lifestyle Managers Pty Ltd.

### How does this affect you, our clients?

There will still be the same level of friendly service. You will still be talking to the financial planners and staff you are familiar with. Our addresses and telephone numbers are the same.

You will, however, be greeted by a new voice when you phone. Chanel De King has recently joined us as Receptionist for both businesses.

### So why did we join forces?

As both business run along similar philosophical lines we felt that we could pool our knowledge and learn from each other's methods to develop a best practice that will benefit both businesses and improve the level of service offered to our clients.

We are also able to combine resources and reduce overheads so that improvements in the level of service will not result in an increase in cost to our clients.

This is the quarterly magazine of:

## Investwell with Financial Lifestyle Managers Pty Ltd

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***You don't need to be wealthy to invest.  
You need to Invest Well to be wealthy.***

## Budget summary

### For the 2008/09 and 2009/10 financial years

If you require further information or clarification on any of the points listed below, or would like to find out their impact on your financial situation, please do not hesitate to contact us.

### Taxation

- The Medicare levy low-income thresholds will increase to \$17,794 for individuals and \$30,025 for families, effective from 1 July 2008.
- The Government will introduce means-testing of the private health insurance rebate and will increase Medicare levy surcharge for certain high-income earners who do not hold private health insurance.
- Changes will be introduced to ensure that undistributed income of a special disability trust is taxed at the beneficiary's marginal tax rate and to allow the principal residence capital gain tax exemption to apply to the beneficiary's main residence held within the trust.
- The Government will provide a limited capital gains tax (CGT) rollover for assets transferred between fixed trusts that have the same beneficiaries with the same entitlements and no material discretionary elements, effective from 1 November 2008.
- An optional CGT rollover will be provided for capital losses arising from CGT events happening under a complying superannuation fund's merger with an APRA-regulated superannuation fund with at least five members.
- Access to the small business CGT concessions for assets acquired on the death of an individual will be extended to assets that have passed to a testamentary trust where the deceased would have been able to access the concessions at the time of their death. This extension will apply to CGT events happening in the 2006-07 income year and later.
- The bonus deduction for small business has been raised from 30 per cent to 50 per cent where the business acquires an eligible asset between 13 December 2008 and 31 December 2009 and installs it ready for use by 31 December 2010.
- Effective immediately, all the discounts on employee shares and options will be assessed in the year in which they are acquired.
- Foreign employment income (unless specifically exempt) will generally become taxable and taxpayers will be entitled to a foreign income tax offset for foreign tax paid on the foreign employment income to avoid double taxation.

### Budget summary cont'd

- From 1 July 2009, the quarterly PAYG instalments for the 2009/10 income year will be calculated by using the expected increase in the Consumer Price Index (CPI) for 2009/10 (2%) rather than the previous year's GDP growth (9%).
- For eligible first home buyers entering into contracts to purchase a home between 1 July 2009 and 30 September 2009 (inclusive), the First Home Owners Boost, when combined with the First Home Owners Scheme grant, will continue to provide \$21,000 for the purchase of a new home and \$14,000 for the purchase of an existing home.
- For eligible first home buyers entering into contracts to purchase a home between 1 October 2009 and 31 December 2009 (inclusive), the First Home Owners Boost, when combined with the First Home Owners Scheme grant, will continue to provide \$14,000 for the purchase of a new home and \$10,500 for the purchase of an existing home.
- not be indexed and will be maintained at their current level until July 2012.
- Family Tax Benefit Part A payment rates will be indexed by the Consumer Price Index (CPI) consistent with other family payments such as Family Tax Benefit Part B and the Baby Bonus.
- From 1 January 2010 the Parental Income Test threshold for the Youth Allowance will be increased to align with the income test threshold for the maximum Family Tax Benefit Part A rate.
- From 1 January 2010 certain workforce participation criteria for establishing eligibility for the Youth Allowance will be removed.
- The exemption allowing income-tested fees not to be charged for the first 28 days of a resident entering an aged care facility will be removed.
- The daily care fee for aged care residents will decrease from 85 per cent to 84 per cent of the total base pension amount. The maximum basic daily fee will rise from \$233.87 per week to \$256.27 per week as a result of the \$32.49 a week increase in the Age Pension.

### Social Security

- The maximum rate of Age Pension will increase by \$32.49 per week for single pensioners and \$10.14 per week (combined) for couples, effective 20 September 2009.
- The Pension Bonus Scheme will be closed to new applicants from 20 September 2009.
- Effective 1 July 2009, the income test for Commonwealth Seniors Health Card will include salary sacrifice amounts to superannuation. However, the proposal to include the tax-free superannuation pension income to determine eligibility for the Commonwealth Seniors Health Card, announced in the 2008/09 Federal budget, will not be legislated.
- The maximum reserve for liquid assets has increased to \$5,000 for singles without dependants and \$10,000 for couples and singles with dependants for the period from 1 April 2009 until 31 March 2011.
- The taper rate for the Income Test will increase from 40 cents to 50 cents for every dollar above the income-free threshold.
- The first payment of the Carer Supplement will be made by 30 June 2009 and subsequent payments from 1 July 2010. The supplement will be \$600 per annum to all Carer Allowance recipients for each person being cared for and \$600 per annum to recipients of Carers Payment.
- The higher income thresholds for family assistance will

### Superannuation

- The concessional contributions cap will be reduced from \$50,000 p.a. (indexed) to \$25,000 p.a. (indexed). The transitional concessional contributions cap (applicable to individuals aged 50 and over for the 2009/10, 2010/11 and 2011/12 financial years will be reduced to \$50,000 p.m. The non-concessional contributions cap will remain at \$150,000 p.a. for the 2009/10 financial year. For future years, the cap will be calculated as six times the level of the (indexed) concessional contributions cap.
- Effective from 1 July 2009, the co-contribution will be temporarily reduced to a maximum co-contribution of \$1,000. The matching rate will reduce to 100%.
- The Government will allow the portability of retirement savings between Australia and New Zealand.
- Fifty per cent pension drawdown relief will be extended to the 2009/10 financial year.

*This information is given in good faith and is derived from sources believed to be accurate as at this date. It should not be considered to be a comprehensive statement on any matter, and should not be relied on as such. Neither Zurich Australia Limited nor any of its related entities, employees or directors give any warranty of accuracy or reliability nor accept any responsibility arising in any way including by reason of negligence for errors or omissions. \**

*Source: Zurich Australia Limited*

# The worst is over!

**So saith RBA Governor Glenn Stevens and many other market commentators. I say, "Gee Toto, I don't think we're in Kansas anymore."**

**by Matthew Drennan, Director of Investments, Zurich Financial Services.**

An article in the papers recently praises Ben Bernanke for "saving" the US economy. There is no denying it could have been much worse.

So we are out of the woods, right? I think this depends very much on where you sit and what your concerns are. But I have to agree with one seasoned US investor who, when asked this question by a young naive interviewer, replied without hesitation, "Oh my goodness, nooo..."

Sure unemployment in Australia dropped last month from 5.7 per cent to 5.4 per cent. The equity market has rallied by over 20 per cent. Auction clearance rates are up and so are retail sales courtesy of Government handouts.

But much as it pains me to be drawn in by my biases from an undergraduate degree in economics, I fear we haven't seen the knock-on effects yet.

Don't get me wrong, Australia is still very well placed. Being linked with China is a major positive, as is the lack of Government debt and our strong banking system. Do I think we will re-test lows in our equity market of 3,100-ish? No.

But if anyone is reading the latest unemployment numbers literally, with all due respect you are in gaga land. Our unemployment rate is headed towards 8 per cent with a bullet. Even the Government is pencilling in 8.5 per cent for mid-2010.

Solid small businesses are only just beginning to discover that many of their trade creditors are not paying up or the business loans they are rolling over are going to cost them an additional 2 per cent despite the cut in cash rates. Either of these events could ultimately mean they may be forced into liquidation.

From an investor's perspective, I still believe equity and credit markets offer exceptional value on a three-year horizon. Nevertheless, it would not surprise me at all to see a 10 per cent plus correction in equities as some of the bad economic and earnings news is announced.

**Residential property is a whole other story.**

**Dr Strangelove makes a comeback**

Currently, we have a situation where low-end property prices and sales are booming, while the upper end of the market is languishing and prices are down over 10 per cent in many suburbs.

It is particularly concerning to see the Housing Industry Association's (HIA) latest suggestion to stimulate economic activity. With the current first home owners grant scheduled to be scaled back at the end of the financial year, the HIA has come up with an innovative extension plan...

As reported in the *Australian Financial Review* on 24 April, the HIA is pushing for a new scheme, which offers more aggressive grants to newly constructed housing over existing stock. The relative difference would be in the order of \$21,000 or even \$30,000 for newly constructed dwellings against \$7000 for existing dwellings.

Let me think for an instant: would that distort the market and potentially lead to oversupply down the track such as they are currently experiencing in the US and UK? I am not sure I even need an economics degree to answer that question. \*

## **ASIC: LOOK TO FINANCIAL PLANNERS FOR RETIREMENT ADVICE**

The Australian Securities and Investments Commission (ASIC) is urging retirees and Australians preparing for retirement to approach licensed financial planners for help with their finances, rather than relying on risky investment schemes to save their funds.

"Given the current state of financial markets, we encourage anyone thinking about retirement to seek professional advice. How you plan your finances for retirement is a complex decision and getting it wrong could cost you more than you think," said Delia Rickard, ASIC senior executive leader, consumers and retail investors.

"When markets go down and eat into your savings, investors can sometimes try to catch up by putting money into investment schemes that promise higher returns but are also extremely risky. A professional adviser will help you choose investments that suit your needs," she said.

Working together with a licensed financial planner to create a budget plan to make your money last, investigate government benefits, and investigate the tax-effectiveness of different products was more important than just choosing a retirement income product, Rickard said.

**"RECESSIONS UNCOVER WHAT AUDITORS DO NOT." - ANONYMOUS**

# Unlisted property

## A SUPER HEADACHE

Unlisted property – the \$70 billion worth of office towers and shopping centres held by wholesale funds – was acclaimed as one of the best-performing asset classes for Australia's superannuation funds last year.

That's a bit of a furphy. Because the capital performance is based on valuations, the true impact of the downturn didn't show. The Mercer Unlisted Property Funds Index slipped through 2008 with a barely positive return.

The coming year will be very different. The returns will be down. Just how far down is an issue of intense debate. Chant West Research is predicting that values of unlisted property could fall by 25% over the next 12 months.

The wholesale funds, and their superannuation fund investors, will feel the impact of the weaker values; they will have to deal with the freeze on property finance; and some will face the tricky issue of how to hand money back to investors. A number of industry participants are now warning the superannuation industry of the dangers of unlisted property.

While unlisted property can play an important role in a properly structured portfolio, it must be correctly priced. Nevertheless, history demonstrates the risks. The early 1990s is a prime example where overvalued and illiquid real estate led to the crippling of some of Australia's leading banks and institutions.

Another debate is unfolding: what will happen when superannuation investors want their money back and large parts of their portfolios are held in illiquid unlisted property funds? Chant West's view is that superannuation funds will eventually have to sell unlisted property, and that's when you will see real problems.

Retail funds invest mainly in listed securities in the wholesale area so as to be able to sustain liquidity, and for daily pricing.

In contrast, industry (ie not-for-profit) funds have large amounts (more than half of all assets in some cases) of unlisted assets such as property, infrastructure, private equity, and hedge funds.

Unlisted assets lack liquidity and tend to be valued infrequently. They are not subject to the same volatility as listed assets, so the returns appear more stable. However, conventional valuation methods tend to understate the real discounts that are taking place as values fall, and funds with unlisted assets may produce true valuations only after a significant time-lag.

To illustrate this in actual returns, while listed property – which is how most retail funds hold their property assets – returned -57% in the 12 months to the end of February 2009, the Rainmaker Unlisted Property Index – which is how not-for-profit (industry) funds usually hold their property assets – recorded a return of just -5%.

### And it's not the fees

It is often stated that industry funds outperform because their fees are lower. Chant West have found that, if anything, industry funds' investment fees are higher than those of master trusts, because they have a higher exposure to alternative investments (19 per cent -v- 10 per cent), which generally involves higher fees. Chant West's conclusion was that master trust investment fees were approximately 0.1 per cent lower than those of industry funds (0.83 -v- 0.93 per cent).

In conclusion, looking forward over the next year or so, we should see the performance of retail funds, using listed property as part of their portfolio, out-perform the less liquid unlisted property sectors. \*

*Frank Blundell*

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