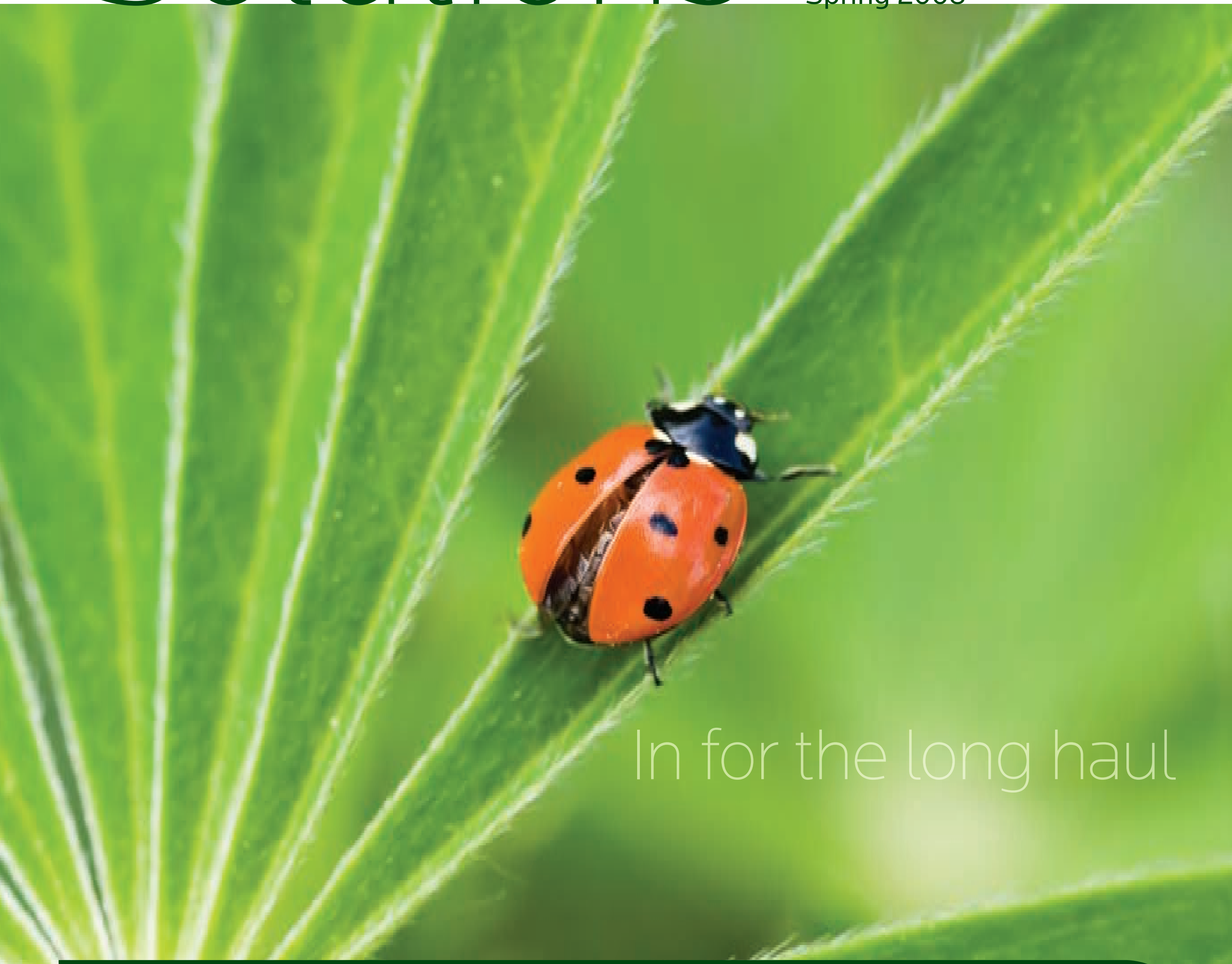
securitor

Investment Solutions

Spring 2008



What's inside:

Snippets

Ace your tax return

Tax time has come around again. If you're preparing your own tax return using TaxPack, here are a few tips to help you get it right the first time:

- Use a blue or black pen to complete your return and don't forget to sign it.
- Attach payment summaries and any other necessary paperwork.
- Complete the Medicare levy surcharge question – it's compulsory. If you don't, you may be charged an extra 1% on top of the standard Medicare levy.
- Include your spouse's name on the return. If your spouse doesn't have a separate net income or taxable income, you need to write '0' on your return.
- Don't forget to include interest from bank accounts you closed during the year. For joint accounts, you only need to include your share of the interest.
- If you sold shares, real estate, units in investment funds and even jewellery during the year, you may have to pay Capital Gains Tax.
- If your work-related expenses total more than $300, keep all receipts to prove your claim.

Find more information at www.ato.gov.au.

Fraud: up-close and personal

When the Australian Bureau of Statistics surveyed Australians about their experiences with personal fraud in 2007, they uncovered some interesting results.

- Nearly six million people received and/or read an unsolicited invitation or notification designed to obtain personal information, money or financial benefit by deceptive means.
- 329,000 people responded to, or engaged in, the unsolicited offer.
- The three main categories of scams were lotteries, pyramid schemes, and phishing and related scams.

Source: Australian Bureau of Statistics media release, 27 June 2008

Personal fraud was highlighted recently in the news when hundreds of Australians lost thousands of dollars when they purchased non-existent tickets for the Beijing Olympics via the internet.

If you want to avoid becoming a statistic of this type of fraud, help is at hand. The Australian Securities and Investments Commission website for consumers www.fido.gov.au and *The little black book of scams* (available from the Australian Competition and Consumer Commission website www.accc.gov.au) highlight a variety of popular scams, provide tips on how to spot fraudsters and explain what to do if you've been scammed.

The government website www.scamwatch.gov.au also highlights the latest scams to be reported.

The thing to remember is if you're offered something that sounds just too good to be true, then it probably is – so check it out before you part with your money.

Sharing your shares

If you own small parcels of shares, the paperwork can be hard to keep track of and they may be expensive to trade.

ShareGift Australia is a not-for-profit organisation that provides a cost-effective and charitable solution to help you tidy up your portfolio, giving you the means to convert these shares to charitable donations without paying brokerage.

For more information on how ShareGift Australia works, how to donate, recommending a charity and tax implications, visit www.sharegift.org.au.

In for the long haul

You'll by now have seen in black-and-white the effect continuing market volatility has had on your super balance. But the message we're hearing from the experts hasn't changed: 'don't panic'.

With the constant media attention, it seems like the share markets have been shaky forever.

But if you've been putting money into super for the past 15 or 20 years, you'd have witnessed far better times. As the graph opposite shows, the market grew at an unprecedented rate between 2002 and 2007. Unfortunately, such growth can't be sustained indefinitely.

Is it time to seek the safe haven of cash?

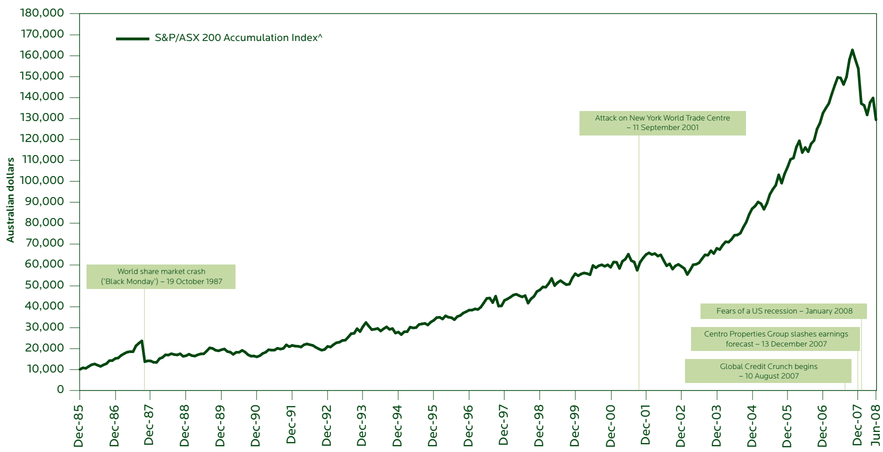
The best returns for 2008 so far may have come from investing in cash; but the last time cash produced the highest return of all the asset classes was for the year ended 31 December 1994* – over 13 years ago! Although cash and fixed interest tend to give a positive return, the return you get will generally be quite low when compared to other asset classes over the long term.

An eye on the benefits

There are a couple of things about super you should remember.

1. Investing through super is tax-effective: if you salary sacrifice money into your super, you'll pay only 15% tax on your contribution rather than tax at your marginal rate (up to 46.5%).
2. Your super will be released to you tax-free once you turn 60.
3. History shows us that if you invest in growth assets such as shares and property, the risk of your portfolio falling in value declines over time. Shares and property have historically delivered greater returns over the long term.

Australian sharemarket performance



Source: St.George Investment Solutions, Bloomberg

^ The S&P/ASX 200 Accumulation Index was introduced in March 2000, prior to this the ASX All Ordinaries Accumulation Index was used. This chart is based on an initial investment of $10,000 as at 1 December 1985.

Super structure (managed funds)

Whilst super funds can (and do) invest in all sorts of different assets, most super funds invest in managed funds. Members' money is pooled to buy units in managed funds which invest across a wide range of assets such as international shares, Australian shares, property, fixed interest and cash.

Units aren't held in your name; they are held in the name of your super fund's trustee. You are allocated a number of units in each managed fund you select through your account, which represent your interest in the fund. Each unit has a dollar value or 'unit price'. Often calculated daily, the unit price is generally the total market value of all of a fund's assets, less liabilities, divided by the total number of units held by all investors on that day.

If there's a drop in the sharemarket, unit prices will generally follow suit. But if you continue to invest when unit prices are lower, you get more units for your money – which is good news when markets recover. Sell out and you might miss out!

If you are unsure about your current investment strategy, talk to your financial adviser.

* Source: Iress, DataStream and St.George Investment Solutions

Aged care – what's on your agenda?

In an ageing population like ours, it's important to plan ahead and think about your future living and lifestyle arrangements.

The facts

Just over 13% of Australians are currently over 65 – a figure set to increase significantly as the 'baby boomers' age. About 17% of Australians who are over 65 currently receive formal care. In fact, it's estimated that about 37% of women and 24% of men who reach 65 will, at some stage, enter aged care.*

The good news is we have one of the most advanced aged care systems in the world offering a wide range of facilities. So there are a number of options for people requiring a significant level of professional care, though availability does generally depend on a medical assessment.

What facilities are available?

Ageing in place facilities

These facilities offer both low-level care (in a hostel) and high-level care (in a nursing home) with two great advantages. You can progress from low- to high-level care without the disruption of a completely new environment. And if you or your partner need a different level of care, you aren't completely separated.

Extra service facilities

A hostel or nursing home may be approved as an 'extra service facility' because it provides a higher standard of accommodation (private bathrooms, nicer bedrooms, better food, etc.).

Extended aged care at home

Some aged care providers can care for you in your own home, but this option is not universally available.

The cost of care

What you pay for care will depend on your income and assets (you may need to complete an assets assessment), whether or not you're a pensioner (so you need to be clear about your status), and the level of care you receive.

Hostels

For hostel care you may have to pay an accommodation bond, which, depending on your 'assessable' assets (under Centrelink's asset test), could be as high as $600,000. If your assessable assets are less than $34,500, however, you won't pay this bond. In addition, you will pay a basic daily fee of up to $32.05. Depending on your level of total assessable income, you may also be asked to pay an income-tested fee to a maximum of $56.57 per day.

If you do pay a lump sum bond, part of it will be refunded when you leave the hostel.

Nursing homes

You won't pay a bond if you enter a nursing home, but you will pay a combination of accommodation charge (up to $26.88 per day) plus a basic daily fee (up to $32.05), plus a daily income tested fee (up to $56.57).

Extended aged care at home

The maximum charge for extended aged care at home is 17.5% of the full single age pension (or $6.49 per day). The charge can be no more than 50% of any income you have in addition to the pension.

This article is only an introduction to aged care. Fees and costs (including pension rates) quoted are current at the time of going to print but daily fees for aged care facilities are subject to change on 20 September (and 20 March) each year. Certain other charges are indexed on 1 July each year.

For more detailed information about your options and potential costs, you should talk to your financial adviser or visit the government's website www.agedcareaustralia.gov.au.

* Figures are sourced from the Australian Bureau of Statistics – 2007

Putting income and assets to the test

All Centrelink income support payments are calculated using both components of the 'means test': the assets test and the income test.

Income test

If you're a single pensioner, the amount of income you can receive (including deemed income) before your pension is reduced is $138 per fortnight. The amount of pension you receive reduces by 40 cents for every dollar of income above $138 you receive per fortnight.

If you're a pensioner couple, this amount is $240 per fortnight combined. Your combined pension will reduce by 40 cents for every dollar of income above $240 you receive jointly per fortnight.

Case study

David thinks he may qualify for a Centrelink pension (currently $552.60 per fortnight). He is single and his only assets are $35,000 in managed funds and $145,000 in a bank account. Under the assets test, David would receive the full pension as his total assets are less than the minimum threshold.

Under the income test, David will be deemed to have earned 4% on $41,000 of this money and 6% on the balance ($139,000). His total deemed income would be $9,980 or $383.85 per fortnight.

David's excess income over the $138 per fortnight threshold is $245.85. At 40 cents in the dollar, this reduces the pension David receives by $98.34 to $454.26 per fortnight.

Deeming

Deeming is part of the income test. It assumes you earn a certain return on your investments, regardless of the actual rate of return or capital growth you earn.

If your investments earn more than the deemed rate, the excess won't be included in the income test. But the reverse also applies – if your investments earn less than the deemed rate, they will still be assessed at the deemed rate.

Assets test

The market value of all the assets you own, excluding some assets such as your home and your super (if you're under age-pension age) is included in the assets test.

If you're claiming an allowance (for example, Newstart) you won't receive income support if your assets exceed the minimum threshold as shown in the table below.

However, if you're a pensioner, the amount of pension you receive will be reduced by $1.50 per fortnight for every $1,000 your assets exceed the minimum threshold, up to the maximum threshold.

Current deeming rates

	Threshold*	Deeming rate
Single person	Up to $41,000	4%
Pensioner couple	Up to $68,200	4%
Non-pensioner couple	Up to $34,100	4%

* All amounts above this threshold will be deemed to have earned 6%

Assets test minimum and maximum thresholds

	Minimum threshold		Maximum threshold	
	Homeowner: assessable assets ($)	Non-homeowner: assessable assets ($)	Homeowner: assessable assets ($)	Non-homeowner: assessable assets ($)
Single person	171,750	296,250	540,250	664,750
Couple	243,500	368,000	856,500	981,000

Why two tests?

The two tests help to make it fairer for all Centrelink benefit applicants. A person with no assets but an income over $138 per fortnight would be disadvantaged by the income test, while a person with no income would receive the full benefit, regardless of the value of their assets.

If only the assets test applied, the person with no income but assessable assets would be disadvantaged.

Both tests are applied to calculate the amount of benefit you receive and Centrelink will apply the test which results in the lower benefit amount.

If you think you may qualify for an age pension or other Centrelink benefit, talk to Centrelink and your financial adviser.

Who's good with money?

Some interesting statistics from a recent government survey* show women are good when it comes to money matters but lack confidence when it comes to investing.

The survey also records responses from men, but here we focus on the female angle, with some tips to help you hone your money-handling skills. (All figures quoted are extracted from the survey.*)

Budgeting

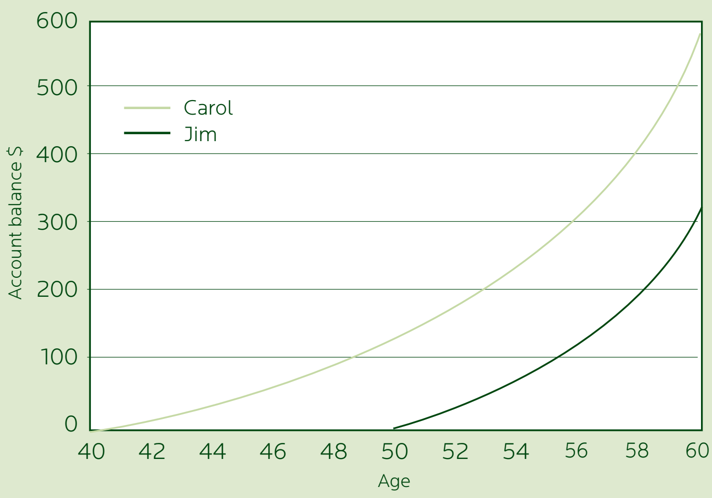
Women appear to be good at budgeting with 91% saying they have the ability to budget and 80% think about ways to reduce their spending. Having said this, 44% don't budget regularly.

Budgeting is best done by keeping a record of your income and all outgoings over a period of at least three months. This makes it easier to see exactly where your money goes and where you can cut back.

Saving

Women are highly confident in their ability to save money although 22% reported they don't save. Some 62% said they save regularly and more women (52%) said they save first and spend second than vice-versa (42%).

The sooner you start saving, the more you'll benefit from compounding. Take Carol and Jim for example. Carol starts saving $1,000 a month when she's 40. Jim waits until he's 50, and then he starts saving $2,000 a month. By the age of 60 they've both saved $240,000 in total, but because of compound interest Carol ends up with a much healthier balance.



Assumes savings generate 8% per annum after tax.

Download the full report* at www.understandingmoney.gov.au. Your financial adviser can help you with budgeting, saving, investing and managing debt.

Investing

Fewer women are confident in their ability to invest (63%), but the majority (68%) are interested in learning more. Interestingly, women are less likely to take factors such as risk and return into consideration when making an investment decision (30%).

Risk and return always go together. Studies show that in general, people aren't averse to risk when investing, but they are averse to loss of capital. So you need to weigh up how you would feel about short-term losses. Although shares and property have the potential to lose money in the short term, over the long term they have the potential to generate higher returns.

Credit and debt

We all know the stereotype – women love to spend money! But the survey shows over 80% of women are highly confident in their ability to deal with credit cards and manage debt. Less than 20% said they would usually make only the minimum payment on a loan or credit card debt.

Here are two strategies you could use to reduce your level of debt.

- Credit and store cards tend to charge a higher interest rate and it makes sense to pay off the debt with the highest rate first.
- Get a loan to pay off all your debts so that you only need to make one repayment. If the loan has a lower rate than your previous debts, you should be able to pay more than the minimum.

* Australian Government Financial Literacy Foundation report 'Financial Literacy Women understanding money' 2008.

Market commentary

Growth assets such as shares and property performed poorly during the quarter as the ongoing financial market crises worsened, forcing investors to sell some of their riskier assets and reduce some of their borrowing levels.

Economic overview – June 2008 quarter

Overall, financial markets continued to be volatile with most assets performing relatively poorly.

Commodity prices and headline inflation rose, while residential and equity market values dropped. Both households and the financial industry made adjustments to repair the damage to their respective balance sheets. Households cut back discretionary spending and corporate investment was lower.

All these factors contributed to a weakening economic outlook.

The Australian dollar was stronger and both global and Australian bonds produced modest returns, despite reported higher headline inflation data across most economies.

As for the global economy, Australia, the Euro Zone, Japan and the UK all experienced different levels of growth for the three months to March.

Although the Euro Zone economy expanded by a surprisingly strong 0.7% in the first quarter, we anticipate it will slow quite substantially into the remainder of 2008.

The UK economy grew at its slowest rate for three years in the first quarter and we expect the outlook to deteriorate further due to a troubled banking and finance sector and a weak housing market. China's economic growth rate remained in double-digits in the first quarter, but we anticipate strong inflationary pressures will remain a major source of worry.

The US economy may have flirted with recession earlier this year, but

we anticipate growth will gradually pick up towards the end of the year. Policymakers appear keen to counter inflation by modestly raising official interest rates in the near term.

The European banking crisis, higher inflation, legislated regulation of global financial markets and financial institutions and sharp economic slowdown in emerging economies all pose risks to global financial asset markets.

Outlook by asset class

Australian and international shares

Technical models point to further market weakness for Australian shares in the short term and the possibility of the US S&P 500 reaching June 2006 lows at around the 1,220 level. While we don't discount these possibilities, we are conscious that the market is vulnerable to a quick recovery that will most likely be led by banking and financial stocks. This should underpin a broader equity market recovery into September/October.

Listed Property Trusts

We believe that the global listed property market offers relatively good value, but the subdued economic outlook and the increased cost of capital could have a negative impact. While an equity market recovery will no doubt support listed property securities, declining direct property values and increased costs to roll-over existing credit facilities will eventually have a negative impact on this asset class.

International bonds

A weakening global economic outlook should be supportive of bonds in the short term. Extremely low money market rates in most developed countries and a higher interest rate structure in Australia favours international bonds (hedged) in the short to medium term.

Australian bonds

We expect bond yields to fall modestly over the next few months with the domestic economic slowdown and we favour selective buying of domestic credit. We anticipate the Australian ten-year bond will have yield levels around 6.50%.

Currencies

We are positive on the US dollar in the short to medium term. We anticipate the Australian dollar will be weaker against a strong US dollar, the Japanese yen and the UK pound sterling while remaining stronger against the euro.

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More information? For further information on any issue here, or any financial matter, please contact your financial adviser.