

Investment Solutions

Autumn 2009



Survival in a recession

What's inside:

- | | |
|---------------------------|---------------------|
| 2 Snippets | 6 Sold short |
| 3 Survival in a recession | 7 Market commentary |

Snippets

Insurance needs highlighted

As uncertainty continues in investment markets, many Australians are focusing on insurance to give them peace of mind that their families have some financial security. But the majority of Australians are still under-insured and the need for adequate insurance cover has been highlighted following the devastating fires that swept across country Victoria in February.

When we have a home, an income and our families are comfortable, it's easy to think that nothing can happen to take away this security. These events show how quickly and unexpectedly lives can be shattered. Sadly, many families caught in the Victorian fires have lost everything – their homes, their possessions, their livelihood and worst of all, people have died trying to save their homes and belongings. Some may not have any kind of insurance and they may unfortunately struggle to rebuild what they have lost.

Australians are getting behind the bush fire appeal and donating much-needed funds to help rebuild these communities. You can donate through all the major banks, the Australian Red Cross and the Salvation Army. If you think you may be under-insured, talk to your financial adviser to arrange adequate insurance cover.



Deeming rate drop a boost for pensioners

The deeming rules are used by Centrelink to assess income you receive from financial products for pension eligibility. You are deemed to have received a certain return on your investments, regardless of the actual return you have received, so deeming rates are set to realistically reflect returns.

In response to recent interest rate cuts, the government has reduced the upper deeming rate from 26 January – the second reduction in as many months. The upper deeming rate will drop from 5% to 4% for the balance of financial investments over \$41,000 for single pensioners (\$68,200 for a couple). The lower deeming rate will remain at 3% for balances up to these amounts.

If you have a part-pension and your income from investments was assessed at the higher deeming rate, you may receive an increased pension payment because the change means your assessable income will be reduced. If you previously missed out on a pension or allowance because your income from investments was too high, it may pay you to request a reassessment.

Payments affected by the deeming rate include means tested pensions, such as the Age Pension, Disability Support Pension, Carer Payment and Veteran Service Pensions.

Reverse mortgages turned on their head

Reverse mortgages have fallen victim to the funding shortfalls financial institutions are currently experiencing. Funding your retirement by this means may now prove more difficult with some reverse mortgage lenders deciding not to offer any new loans.

Although some lenders are suspending their reverse mortgage products from the market, they are likely to reinstate those products when financial times improve.

If you already have a reverse mortgage it should be unaffected if your lender has decided to withdraw the product from the market.



Survival in a recession

The 'r' word has finally reared its ugly head in Australia. We are officially heading for a recession. In this issue we look at some basic ways to survive the rough times: controlling what you spend, managing your debt and (if you're working) dos and don'ts to help you keep your job. We also take a brief look at redundancy payments and taxation.

Controlling what you spend

The majority of Australians have seen their investment assets decline sharply in 2008 and it may take some time to recover lost capital.

If you are retired and your income consists of share dividends and interest, you may be struggling to maintain your current lifestyle. But now is not the ideal time to sell assets to supplement your income as you would realise your losses and possibly get far less than the true value of your investment. Market analysts continue to predict that the markets will recover over time, which means that when this happens the value of your investments will also recover.

If your income has been significantly reduced you may qualify for Centrelink payments. Your financial adviser will be able to tell you if it's worth having your income and assets assessed.

If you don't qualify for help from Centrelink, what's the alternative? Instead of selling assets, a better strategy may be to take a close look at how you spend your monthly income. There may be ways you can reduce what you spend without significantly impacting your lifestyle.

A good way to start controlling what you spend is to make a list of your monthly expenses. Look at the things you spend money on that really make you happy and put a price tag on those objects or experiences. This will show you just how little you need to spend to actually make a difference.

It may highlight that the bulk of your spending happens 'unconsciously', your decisions directed by emotion rather than logic; you just buy the things you've always bought because you could afford them. Are those expensive toiletries really worth the money? Do you really need that new cutlery? Make it your goal to spend money only on things that actually make you happy.

Another area where you may be able to reduce spending is your regular bills. Do you spend a lot of time on the phone to friends? Maybe think about taking a stroll to visit them face-to-face instead. If you have a mobile phone, consider whether you actually need a landline as well. Do you have a car, but only use it to go to the shops once a week? You may be able to save hundreds of dollars a year if you sell the car and use taxis instead.

Your financial adviser can give you a budget planner to keep a record of what you're spending and help you see where you can cut back without compromising your lifestyle.

Credit cards

Australian credit card debt is enormous – we're in love with the plastic. Although credit cards are very convenient for everyday purchases because it means you don't have to carry much cash around, it's easy to lose control of your spending – especially when you see a 'bargain'. But if you're not paying off the balance of your cards monthly, what you buy is costing you more than it should because of the interest you're paying.

It's a good idea to get your spending under control and stop accumulating new debts. This could mean physically cutting up your credit cards if the temptation to carry on spending is too great.

If you don't feel that your spending is out of control, you may be able to get a better deal by transferring what you owe to an alternative credit card.

Some credit card companies advertise attractive offers to transfer your existing credit card balance to them. An introductory interest rate is only one aspect of a credit card. The benefits of your current credit card may outweigh the short-term benefits of an attractive introductory rate. Make sure the offer will really suit your needs and get the full picture before you make a move by asking these questions:

What's the standard interest rate?

There may be an introductory rate for a set period, but the standard interest rate may be higher than your current credit card.

Does the introductory interest rate apply to all purchases or cash advances during the introductory period or just to the balance transferred? Any new purchases or cash advances could be charged at the standard interest rate, even if you bought them during the introductory period.



Survival in a recession

Apart from the interest rate, what other features does the credit card offer?

If you take advantage of a special balance transfer offer, you may not be able to take advantage of the interest-free period on new purchases until you pay off the balance transfer in full.

You may have to pay high annual fees as well as higher than usual interest rates for reward schemes for the new card.

Is the existing credit card account paid off immediately or will there be some delay?

If there's a delay between the transfer being approved and the amount being credited to your old account, you may have to pay two sets of interest while the transfer takes place.

What's the credit card limit? The credit card issuer may approve a credit limit lower than your balance transfer amount. You could end up with a new credit card but your balance not fully transferred.

Is there a cheaper way to borrow money?

Credit cards generally charge the highest rates of interest. If you need to borrow larger sums of money for six months or longer, a personal loan may be the better option.

If you have a few debts, consider taking out a debt consolidation loan to pay off all of your creditors, leaving only one monthly payment to deal with. Generally, this monthly payment will be lower than your former payments, but you should try to make additional payments to pay off what you owe as soon as possible.

Keeping your job

Most companies are in business to make a profit for their shareholders. When things are going well in the economy and in a particular industry, certain aspects of that industry may seem important. But when the economy slows down (and as in this case, heads into recession) some tasks within a job or even the job itself suddenly become redundant. Businesses quickly start to optimise processes and cut costs in an attempt to maintain revenue and profit margins.

If you or your family members work for a living, an impending recession means that your job may be at risk.

Be valuable

When business is tough, it's more important to be valuable than to be considered as an 'important' person. This is evident when you read about company executives and middle management getting the chop. The people who can make a genuine contribution to keeping the business afloat are the ones who get to stick around.

The tasks you perform may be crucial to keeping the business going, in which case you probably have little to worry about. But if you think your job could be in the firing line, it pays to look for ways to work smarter and voice any ideas you may have to help reduce costs or increase revenue – because that's exactly what your boss will be aiming to do.

Make sure you demonstrate your value

When the economy is in good shape, being seen in the right places can be good for your career. When the economy slows and job losses become more likely, you need to demonstrate your value and get noticed.

If your work goes unnoticed or you're not connected with projects that are considered an important aspect of the business, or – worse still – you have no one who will stand up for you when job cuts are discussed, it won't matter how valuable you are if no one knows it.

Make sure all the good work you do is recognised. Talk yourself up – make sure the right people know your name, know exactly what you're capable of and how you add value to the business. And stay visible – now is definitely not the time to take an extended vacation or to roll in late on a regular basis.

Pitch in

If in the past you've had a good idea that wasn't implemented, it's not a good idea to remind your boss of it now. And if you really want to keep your job, now is not the time to refuse to do (or complain about doing) what you're asked to do.

There is still plenty of work to be done, even if the company you work for is starting to shrink. If you're willing to pitch in, stretch yourself and get involved you're more likely to be retained. If you can't offer any help beyond your current role and have a narrow skill set, you are more likely to be retrenched.

Update your skills

In an economy such as this, skills become all-important. If your skills are obsolete, so are you. Enrol for courses relevant to your job, join trade organisations and prove you're in tune with the business. Consider part-time study to show your employer you're serious about your career and performance.

Stay in control

When push comes to shove, there are some things you can still control: what you are willing to tackle, how hard you are willing to work, who in the company you know and who knows you. Stay active in your networks.

If worst comes to worst

Another 'r' word that most people prefer to avoid is 'retrenchment'. But if worst comes to worst, it's worth looking into what benefits you'll receive from your employer, how they are taxed and things you should consider if you receive an employment termination payment.

Payments and taxation

Your redundancy payment may include accrued annual and long-service leave, sick leave, payment in lieu of notice and ex-gratia payment. You may be able to roll over some of your payment to super if you have an agreement in place dated on or before 9 May 2006. The amount you roll over will be taxed at a maximum of 15%, but you can't access this money until you meet a requirement (such as age 55) to access your super.

Where your job is genuinely redundant and you don't roll over the payment into your super, the first \$7,350 plus \$3,676 for each year of service is tax-free. The balance will be taxed but the rate of tax will depend on your age, the type of payment and the amount as shown in the table below.

Age at 30 June	Standard rates	Transitional rates*
Under 55	31.5% max on first \$145,000	31.5% max on first \$1M
	46.5% on balance	46.5% on balance
55 or older	16.5% max on first \$145,000	16.5% max on first \$145,000
	46.5% on balance	31.5% max between \$145,000 and \$1M
		46.5% on balance

* only available for payments made in accordance with an agreement in place on or before 9 May 2006
Tax rates current as at 30 January 2009

Other considerations if you're retrenched

When you know what benefits you will be receiving you should ask yourself some questions:

1. Do you hope (or reasonably expect) to find work in the near future?
2. How long is it before you expect to retire?
3. How much debt do you have?
4. What financial resources do you have?
5. How much do you need to meet your normal living expenses?
6. What are your plans for the future?

If your redundancy payment is made as a lump sum, you should be able to roughly work out the tax payable from the details above, however we suggest you seek professional advice from a registered tax agent. You may be eligible for a Centrelink payment, but Centrelink will assess any annual or long service leave and the gross amount of redundancy payment (including any tax-free portion) as income to calculate your eligibility.

Your financial adviser can help you reduce debt and make appropriate decisions for any redundancy payments you receive.

Sold short

In this article we take a look at the topsy-turvy way investors were able to make money by 'short selling' and why ASIC decided to restrict this method of trading shares.

Generally you invest in shares that you think will increase in value so that when you come to sell them, you make a profit. This is known as buying 'long' as profits are delivered to you down the track. Short sellers, on the other hand, do just the opposite. They make their gains when the share price drops, so they're looking for shares they think will go down in value.

How short selling works

For example, let's say a share on the Australian Stock Exchange is currently valued at \$5. A short seller thinks the price of the share will go down so he enters into a contract to sell that share at \$5. The short seller will then borrow the share in order to settle the 'sold' contract. Once the price of the share has fallen enough to give the seller a profit (taking into account the cost of borrowing and the price of the buy back) the short seller will buy the share at the lower price and return it to the lender.

So, if the short seller buys the share at \$3 and sells for \$5, he makes a \$2 profit. But if the short seller gets it wrong and the share price goes up to \$7 instead of dropping, he will have to buy the share at \$7 in order to fulfil the sale contract and so ends up losing \$2. (This example doesn't take into account the cost of borrowing the share).

Naked and covered short selling

Unlike other share traders, short sellers don't actually own the shares they sell. Short sales can be either 'naked' (sometimes referred to as 'uncovered') or 'covered'.

For a covered short sale, although the short seller doesn't own the shares, they have, at the time of sale, borrowed the shares from a 'stock lender' and they use the borrowed shares to settle the sale. The short seller will then buy similar shares to repay the stock lender. In a naked short sale, the short seller doesn't own the shares, nor do they have in place a prior arrangement to deliver the shares that will settle the sale.

Covered short selling is considered less risky than naked short selling from a settlement perspective, because the short seller has a binding lending agreement for the specific shares which ensures they can deliver the shares on settlement.



Why ASIC has restricted short selling

The Australian Securities and Investments Commission (ASIC), along with other global regulators, became concerned that the global market conditions, coupled with extensive short selling of shares (particularly financial shares) may be causing unwarranted price fluctuations. If unchecked, these fluctuations threaten the operation of fair and orderly share markets.

ASIC has banned naked short selling altogether and temporarily banned covered short selling of securities, except in some circumstances where short selling is considered necessary for the markets to function effectively. The ban on covered short selling of non-financial securities was lifted on 19 November 2008. ASIC has extended the ban on covered short selling of financial securities to 6 March 2009, taking this cautious approach because of renewed volatility affecting share prices of banks both in Britain and the US.

ASIC continues to review this position and consult with overseas regulators and Australian industry associations.

Market commentary

Growth assets continued to perform poorly during the quarter as the ongoing financial market crisis deepened, forcing investors to sell some of their riskier assets and reduce investment borrowings.

Economic overview – December 2008 quarter

The Australian economy grew at an annualised rate of 1.9%, down from the revised 2.9% growth enjoyed over the second quarter of the year. The US economy expanded at an annualised rate of –0.5% after expanding 2.8% year-on-year for the second quarter. Consumer spending, accounting for more than two-thirds of the US economy, fell at a –3.8% annualised rate.

The UK economy contracted –0.6% (+0.4%), its weakest quarterly growth since the economic slowdown of 1990, and grew just 0.3% on an annualised basis. The Euro-zone economy contracted –0.2% as the ongoing global credit crunch dragged the region into recession.

Japan's economy shrank at a quarterly rate of –0.5% and, after the most pronounced contraction in economic activity since 2001, its economy is now officially in recession. China's economic expansion has decelerated from a 12.6% annualised growth in the second quarter of 2007 to a more sober 9.0% year-on-year growth in the third quarter of 2008. As global demand slows, the Chinese authorities have been very active in their macro-management of the domestic economy.

Outlook by asset class

Australian shares

We are positive on Australian equities. On a sectoral basis we would look to overweight oil, metals and mining, banks, industrial services and information technology while staying close to benchmark on

insurance, consumer discretionary, consumer staples, utilities and telecommunications. We tactically underweight infrastructure, healthcare, building materials, transport, media gaming and leisure, other financials and property.

International shares

We are positive on US equities and expect European stocks to outperform the US. The weaker sterling pound is likely to support UK stocks relative to European stocks. Japanese stocks should move in tandem with the US market initially and then gather upward momentum. Emerging market countries with financial flexibility and policy credibility (such as China and Mexico), should perform well, while Central Europe, Korea, India and Indonesia are likely to lag behind.

Diversified listed property trusts

While an equity market rally will no doubt be supportive of listed property securities, declining direct property values and the increased cost associated with rolling-over existing credit facilities will eventually have a heavy negative impact on this asset class. Global property securities should offer better value relative to domestic listed property due to the efficient diversification and country allocation benefiting from the uneven global economic growth and earnings outlook.

International bonds

We are negative on sovereign global bonds and expect the US bellwether 10-year note to reach around 4.0% to 4.25% levels during the sell-off, which we suspect may occur during the second

half of 2009. Most global bond markets are likely to suffer when safe-haven capital flows parked in government bonds are reversed, particularly when financial institutions add risks to their asset base or banks start extending credit to their customers again.

Australian bonds

Australian bonds are vulnerable to a sharp sell-off sometime during the second half of 2009, when we expect the Australian 10-year bond to reach the 5.0% to 5.50% level. We expect the bond curve to 'bear steepen' (long-term interest rates rising) while the spread to 10-year US Treasuries to narrow from the present 2.0% level to around 1.5%.

Alternative Assets

Broadly, the assets within this category include absolute return, multi-strategies, market neutral equity strategies, equity long /short, global infrastructure, convertible arbitrage, credit long/short and fixed income arbitrage. These strategies are excellent risk-diversifiers with the capacity to deliver 'alpha' not usually correlated to other major asset classes.

Commodities

We continue to be positive on the commodity complex in the medium to long term. Once global economic growth gains some traction, we believe commodity prices should rise.

Currencies

The Australian dollar is likely to appreciate against the US dollar, the euro and the Japanese yen, but depreciate modestly against the sterling pound.



Disclaimer

This publication has been compiled by Securitor Financial Group Ltd ABN 48 009 189 495 Australian Financial Services Licence Number 240687 (Securitor) and is current as at time of preparation (23 January 2009).

Past performance is not a reliable indicator of future performance.

Whilst every effort has been taken to ensure that the assumptions on which the outlooks given in this publication are based are reasonable, the outlooks may be based on incorrect assumptions or may not take into account known or unknown risks and uncertainties.

Material contained in this publication is an overview or summary only and it should not be considered a comprehensive statement on any matter nor relied upon as such. The information and any advice in this publication do not take into account your personal objectives, financial situation or needs and so you should consider its appropriateness having regard to these factors before acting on it. While the information contained in this publication is based on information obtained from sources believed to be reliable, it has not been independently verified. To the maximum extent permitted by law: (a) no guarantee, representation or warranty is given that any information or advice in this publication is complete, accurate, up-to-date or fit for any purpose; and (b) Securitor is not in any way liable to you (including for negligence) in respect of any reliance upon such information or advice. It is important that your personal circumstances are taken into account before making any financial decision and we recommend you seek detailed and specific advice from a suitably qualified adviser before acting on any information or advice in this publication. As the rules associated with the super, tax and pension regimes are complex and subject to change and as the opportunities and effects differ based on your personal circumstances, you should seek personalised advice from a financial adviser before making any financial decision in relation to super, tax, pensions or other matters discussed in this publication.

Disclosure

Securitor is a wholly owned subsidiary of Asgard Wealth Solutions Ltd, which is a wholly owned subsidiary of St.George Bank Limited, which is a subsidiary of Westpac Banking Corporation.

Privacy

Privacy laws protect your privacy. Please contact your financial adviser for more information.

From time to time your financial adviser, in his or her capacity as an Authorised Representative of Securitor, may provide you with marketing or investment information which may be of interest to you. If you do not wish to receive such information in future, please contact your financial adviser. If you change your financial adviser, please notify your new financial adviser if you do not wish to receive Securitor material.

More information?

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