BANKSIA PARTNERS
ADVISORS IN WEALTH MANAGEMENT

Investment Solutions

Winter 2010

Year end investment boosters

What's inside:

Welcome to

Banksia Partners Winter Edition

When you have a family that relies on you to provide for them, you wouldn't like to think they would suffer hardship if something were to happen to you. The fact is that many Australians with dependent children don't have enough life insurance to look after their families if they were to die unexpectedly. You may be an optimist - that can be a good thing in most circumstances. But statistically there's a chance you could be one of the tens of thousands of people affected by heart disease, cancer or any number of conditions that kill or disable Australians each year.

What you should consider

Life Insurance
Life Insurance generally pays a lump sum to help your dependant's clear debts and cover living expenses so they don't face financial hardship if you die from an illness or accident. You could have basic life cover through your super fund, so check whether you're covered by this type of policy already. You many need to top up your cover.

Total and permanent disability
You can generally take out total and permanent disability (TPD) insurance by either linking it to your life cover or as a stand-alone policy. TPD cover provides a lump-sum payment if you become totally and permanently disabled. "Totally disabled" can mean different things for different people, depending on your occupation or regular daily activities. Talk to your Banksia Partners adviser to determine which type of TPD cover is right for you.

Trauma
Trauma cover also known as critical illness or "living insurance", is designed to provide financial relief to help you pay medical bills or other commitments (such as your mortgage) if you suffer a specific medical condition. This could cover you for a range of traumas, for example, a heart attack, stroke or cancer.

Income Protection
Income Protection insurance replaces up to 75% of your regular monthly income if you fall ill or are injured and you can't work and is designed to help pay your mortgage and meet other living expenses when your work sick leave runs out.

To calculate the level of cover that's right for you and your family, you'll need to consider the everyday costs associated with maintaining your lifestyle including paying your mortgage and other debts and providing for your partner and/or family. With the help of your Banksia Partners adviser you can select the length of time you would like the benefit to be paid. You can also choose the waiting period for your cover which is appropriate for you.

The good news is that premiums for income protection are tax-deductible.

Remember – insurance is cheaper to buy when you need it (young family, large mortgage) and expensive to buy when you don't need it (more established finances)!

Please contact Banksia Partners if you would like to review your current insurance arrangements.

Year end investment boosters

There are tax-effective strategies that could help you reduce your tax bill and give your investments a much needed boost. Are you making the most of them?

Salary sacrifice

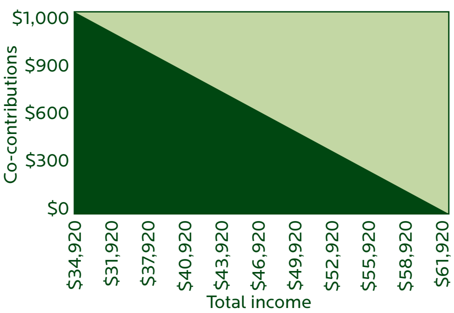
If you're paying tax at a rate higher than 15%, contributing to your super fund using a salary sacrifice arrangement can give your super a boost.

Caroline earns $85,000 per year. If she salary sacrifices $150 per fortnight, she'll be contributing a net amount of $127.50 to her super after paying 15% concessional tax. If she were to take that $150 in her fortnightly pay, she would only receive $90.75 after paying tax at her marginal rate of 38%.

If you're likely to receive a bonus from your employer you could save on tax if you salary sacrifice it. But you must arrange the sacrifice with your employer before you receive the bonus. You can't salary sacrifice a bonus once it's been paid to you.

Government co-contribution

The government will match your after-tax super contribution dollar for dollar up to a maximum $1,000 if you earn less than $31,920 per year. This Government contribution reduces if you're earning more and cuts out when your earnings reach $61,920 or more per year.



Helen's total assessable income at the end of this financial year is $36,920. During the year she's made after-tax super contributions totalling $1,000. The maximum co-contribution reduces by five cents for every dollar of income over $31,920. As Helen's income exceeds this amount by $5,000, she'll receive a reduced co-contribution of $834.

To qualify for the co-contribution, you must be an Australian resident and be under age 71 at the end of the financial year. At least 10% of your total income must be from running a business, or from employment, or a combination of both.

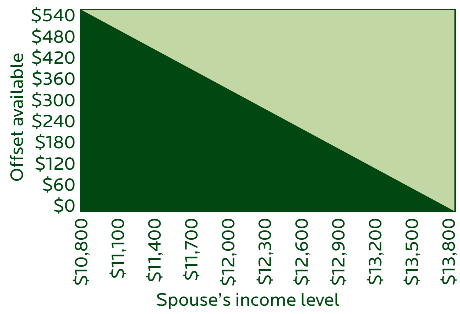
Beware the concessional contributions cap

If you're under 50, the maximum you can contribute to super per year that will be taxed at the concessional rate of 15% is $25,000 ($50,000 per year if you're aged 50 or older). The cap includes the 9% super guarantee contributions your employer makes. If you exceed your cap, your excess contributions will be taxed at 46.5% (the concessional 15% plus an additional 31.5%).

Spouse super contribution

You may qualify for a tax offset of up to $540 if your spouse has less than $13,800 in assessable income plus reportable fringe benefits and you contribute to their super.

You can receive an 18% tax rebate on the first $3,000 of spouse contributions you make.



Joanne is a highly paid executive. Her husband, David, stays home and looks after their children. David receives less than $10,000 income from investments, so Joanne contributes $8,000 to boost his super fund. She will receive the maximum tax offset of $540 — a direct saving on her personal income tax liability.

Deductible expenses

If you make interest payments on an investment loan or pay income protection insurance premiums, you could benefit from prepaying up to 12 months of your tax-deductible expenses before 30 June.

Max currently earns $100,000 per year. In March, he took out a margin loan of $30,000 to invest in shares. In July, he's going travelling overseas and he estimates his income will drop to $20,000 for the next financial year. If Max pre-pays the interest (8.2% for the financial year 2010/2011) on his loan before the end of June, he can claim the $2460 payment as a tax deduction. As Max's marginal rate this year is 39.5%, his tax saving will be $971.70.

Mind the gap

Take the right steps now to bridge any gap in your retirement savings.

Your retirement may seem a lifetime away or it could be just around the corner. You could be dreaming of a trip around Australia or even around the world. Your plans for the future will need to include a sound financial plan to if you're to afford the lifestyle you want and to make your dreams reality.

The savings gap widens

Research commissioned by the Investment and Financial Services Association (IFSA) revealed that the retirement savings gap had increased from $452 billion in 2004 to $695 billion in 2008 — a shortfall of $73,000 per person[2].

If you're employed, it's compulsory for your employer to contribute at least 9% of your salary to super (up to the maximum salary threshold amount of $40,170 per quarter). The research findings have prompted IFSA to repeat its call to the government to lift the super guarantee by an extra 3%, to 12%.

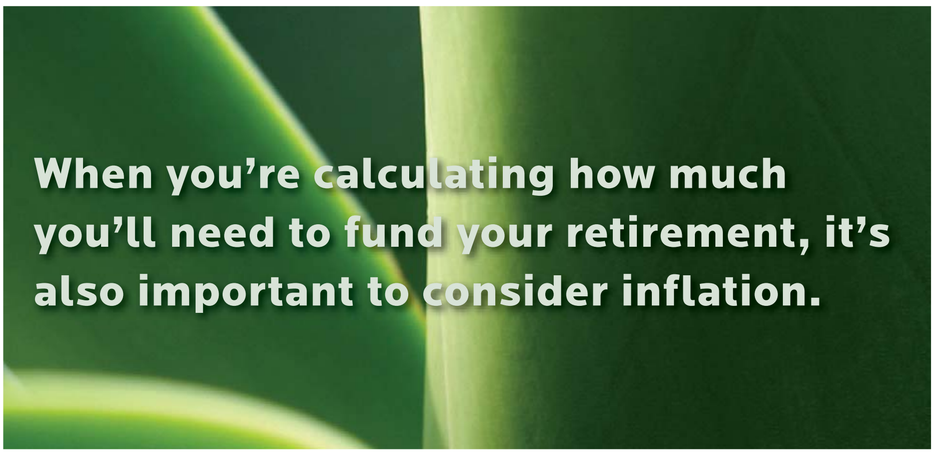
So you should consider whether or not your current strategies to build your super and other investments will generate enough income for you to live comfortably when you retire. According to the December Quarter 2009 Westpac-IFSA Retirement Standard, that amounts to the equivalent of $51,727 per year in today's terms for a retired couple.

Calculating what you need

Of course the amount of money you'll need will depend on your individual circumstances.

You'll need to take into account your age, your income and your current super balance. You'll also need to decide at what age you'd like to retire and how much income you'll need to support your ideal lifestyle. And you'll need to consider how long your retirement is likely to last.

When you're calculating how much you'll need to fund your retirement, it's also important to consider inflation. You may be able to buy a loaf of bread for less than $5.00 today, but what will it cost in 20 years? You'll be paying inflated prices for everything you buy in the future, so your estimates need to account for that too.



Will you have enough?

It's never too early to start planning for your future and everybody has to start somewhere.

The earlier you start, the more time your investments have to grow. You'll have the option of choosing investments with higher risks and higher potential returns, and you'll benefit from compound interest.

On the flip side, the later you start, the more you'll need to save each year to 'catch up'. And you'll need to invest very wisely to get that extra growth you need.

The following checklist should help you keep on track to a comfortable retirement:

1. Make sure all your super is in one place. If you have multiple super funds, you're paying multiple fees and these could act to erode your savings.
2. If you're earning less than $61,920, make the most of the government's co-contribution scheme[3].
3. Salary sacrifice to super if you can afford to[4].This tax-effective strategy can give your super savings a real boost.
4. Consider investing in growth assets such as shares. They have the potential to grow significantly more than a term deposit, for example, and the imputation system makes shares a very tax-effective option. If there's a market downturn you have the benefit of time to recover from any short-term losses.
5. Try to pay off your debts as soon as you can[5]. The closer you are to retirement, the more outstanding debts will take away from your retirement income.
6. Save what you can while you have the opportunity. You may not get all the way to where you want to be but you'll still be better off.

Check your retirement savings are on track

It's a good idea to talk to your financial adviser if you think your current investments won't be sufficient to fund your retirement.

Your financial adviser can help you calculate how much you'll need to get you safely through your retirement years, and how you can get there, by using strategies that make the most of your super and boost your retirement savings.

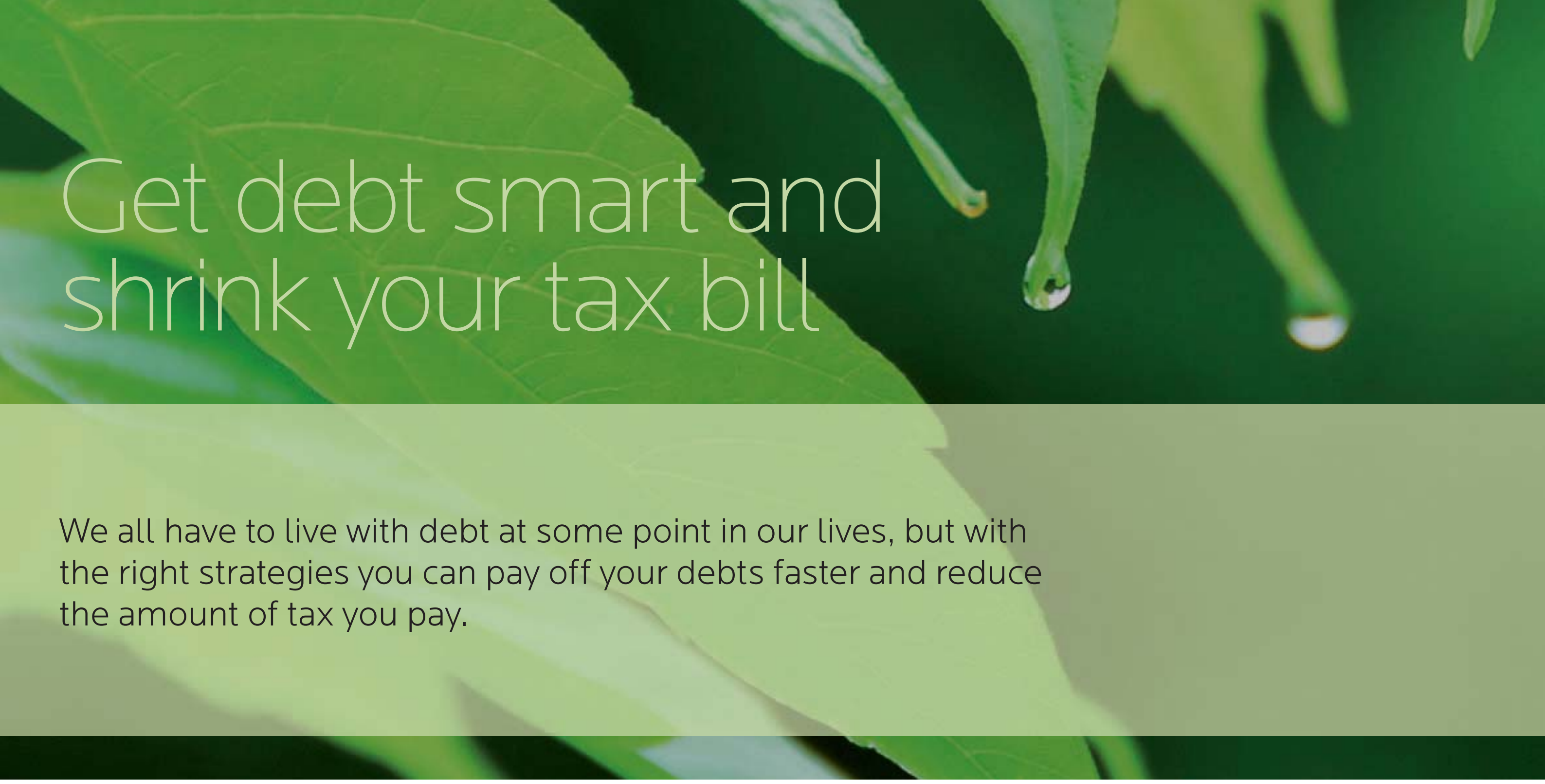
A financial plan that's tailored to suit your needs in both the short and longer term can help you grow your wealth so you can look forward to a future of dreams fulfilled.

[2] 'IFSA releases super adequacy report': Financial Services Online, Superannuation News, 2 February 2010

[3] See our co-contribution case study on page 3

[4] See our salary sacrifice case study on page 3

[5] See our article on debt on page 6



Get debt smart and shrink your tax bill

We all have to live with debt at some point in our lives, but with the right strategies you can pay off your debts faster and reduce the amount of tax you pay.

Mortgage offset

If you have a home loan and a mortgage offset account, you earn interest at the same rate as your home loan (which will generally be higher than interest on a normal bank savings account) and pay no tax on it.

Let's say your home loan is $200,000 at 6.24% interest. In a 31-day month you'd be charged $1,059.96 in interest. You also have $15,000 in a normal bank savings account earning 4.5% interest per annum.

Assuming tax at a marginal rate of 30%, you would have a net income of $40.14 from your savings. But by putting your $15,000 in a mortgage offset account instead, you earn 'nominal' interest on your savings at the same rate as your home loan as the table below shows.

Because you don't pay tax on the offset interest, you could get almost double the amount. The offset interest isn't credited to your savings account; instead it's taken off your loan interest, so in this example you would only pay interest of $980.46 for the month instead of $1,059.96.

Using this strategy you could save thousands in interest payments and reduce your loan term. And your savings are still at call if you need them.

Gearing in joint names

It's common to invest a combination of borrowed funds and your own money. If you have a partner, splitting ownership of your investments could help reduce the tax you pay.

Cath and Steve

Cath pays tax at a marginal rate of 16.5%[6], Steve at 41.5%[6]. They have $40,000 in savings and want to borrow more money to invest.

They decide to invest the $40,000 in a managed fund in Cath's name. Cath allows Steve to use her investment as third party security for a margin loan, so he can borrow $60,000 to invest in other assets[7].

Cath's investment earnings will be taxed at her marginal rate, which is much lower than Steve's. Steve holds the geared investments in his name and claims the interest payments as a tax deduction. Because Steve's marginal rate is much higher than Cath's, he gets more benefit from the tax deduction.

[6] Includes a Medicare levy of 1.5%.
[7] Assumes Steve and Cath's investments have a security ratio of 60%

Borrowing to build wealth

If you wait until you've paid off your home loan before you start investing, you may not give your investments enough time to grow to meet your long-term goals. By using 'gearing' (borrowing to invest), you can potentially pay off your home loan years earlier and really concentrate on growing your wealth.

Gearing allows you to invest more than you could afford using just your own money. This means you potentially get higher returns if your investment increases in value. The cost of investing (including interest) may also be tax-deductible, which means your overall tax bill is reduced. But gearing can be risky because instead of increasing, your investment could fall in value.

Time to review your debt?

It's a good idea to review your debt as your circumstances change throughout your life. Getting married or divorced; buying a house; changing jobs; inheriting money; getting ready to retire; all these life events can change your debt position. Talk to your financial adviser about strategies to create a wealthier future for you and your family.

Mortgage offset example

Interest on $15,000	Gross monthly interest	Tax payable at your marginal rate of 30%	Net income from savings
Savings account @ 4.5% per annum	$57.33	$17.19	$40.14
Offset account @ 6.24% per annum	$79.50	Nil	$79.50

Market commentary

Provided by Advance Investment Solutions — March quarter 2010

The global economic recovery continued in the last quarter led largely by strong growth in the Asian emerging economies. However, sovereign debt concerns and policy adjustments sparked an increase in asset market volatility. The short-term economic outlook is positive, but investment market returns will reflect heightened uncertainty.

Economic overview — March 2010 quarter

Global growth continues to be driven by a pick-up in world trade and industrial production, reflecting the positive effect of global stimulus measures.

The Asian emerging world continued to power along, led by a 10.7% year-on-year expansion in China. Growth expanded in most of the major advanced economies, but continues to lag in the emerging world.

Strong growth in the emerging Asian economies has reduced the level of unused capital, pushing some asset prices up sharply and raising inflation concerns (China's inflation is running at its fastest pace in almost 15 months). In contrast, underlying inflationary pressures are still largely absent in most major advanced economies due to very high levels of economic resources and high unemployment. In Australia, underlying inflation has continued to trend down.

In response to inflation concerns, China has increased its banks' reserve requirement ratio and tightened rules on personal and business loans. India raised official interest rates by 0.25% in March and Australia's official interest rates rose by a further 0.25% in the quarter up to 4.0%. Whilst there were no changes to official interest rates in other advanced economies, the level of extraordinary policy measures have been reduced.

Outlook by asset class

Australian shares

We expect Australian equities to deliver a total return of around 18% (including grossed up dividend) over the next 12 months. Equity portfolios should be biased towards cyclical and growth stocks during this stage of the market cycle, as a better equity earnings outlook will be the primary driver of the market.

International shares

Our analysis of the broad economic backdrop (including capital flows, market sentiment, equity earnings yield relative to bonds and markets' risk appetite) point to further global equity market gains in the short term. We expect around 12% gains for unhedged global equities with country, sector and stock rotation important at this stage of the economic cycle.

Diversified property

We expect this sector will generate around 12% returns over the next 12 months. The risk of anaemic growth in the Real Estate Investment Trust (REIT) sector could continue, but we expect better returns in the global listed property market due to the diversification across regional, country, sector and stock-specific opportunities.

International bonds

The estimated total return on fully hedged currency international bonds is around 8% over the next 12 months. This is relatively better than domestic bond and cash returns. However, we expect short-term under-performance due to bond yields rising.

Australian bonds

Our outlook for domestic bonds is negative in the short term. We expect bond yields to rise, taking the 10-year bond yield towards 6.5%, and then declining towards 6.0% during anticipated equity market weakness. The Australian credit market, although attractive, lacks sufficient liquidity to offer efficient diversification. The value-add through active portfolio management is limited when compared with international fixed income markets. We expect the Australian sovereign yield curve to flatten over time as official interest rates continue to rise. We expect Australian bonds to return around 4.0% over the next 12 months.

Alternative assets

We anticipate returns of around 17% from this sector through nimble and active strategy implementations. A good blend of both directional and relative value strategies need to be used throughout the year. Long/short equities, long/short credit, convertible arbitrage and other relative-value strategies should all fare well during periods of moderate financial market volatility.

Commodities

We anticipate returns for this asset class of around 16% with supply/demand imbalances and geopolitical uncertainty combining to keep key commodity prices elevated for some time.

Currencies

We expect the Australian dollar to trade higher in the short term, perhaps towards the 0.97 to 0.98 range and then decline against a strong US dollar that takes the currency towards the 0.88 level. We also expect the Australian dollar will be stronger against the Japanese Yen, British Pound and the Euro.

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