

Planning Matters

Spring 2009

Welcome...to the Spring Edition of Planning Matters for 2009. This edition arrives with Leading indicators looking up and the Australian reporting season underway.

Economic Outlook

Global Economics

Global manufacturing output is expected to rise at an 8% annualised pace over the coming six months, rivalling gains in over two decades.

Global consumer spending stabilised in the first half of 2009 in response to policy stimulus and improved financial market conditions. Businesses were slow to recognise this shift and continued to retrench aggressively. With output levels now standing well below final demand, inventories are falling sharply and firms need to raise production to slow de-stocking. This is under way across Asia, where output and exports boomed in the June quarter.

In contrast, output contracted further in the United States and Europe, although at a moderate pace. The pickup in global economic activity will however be short-lived in the absence of a return demand growth toward year end. Should final sales remain lacklustre through the final quarter of 2009, the manufacturing boom could come to an abrupt halt later this year. A similar false start occurred in the global manufacturing cycle following the 2001 recession. At the same time, it is important not to lose sight of the positive ripple effects from a rebound in industrial production.

Australian Economics

Key economic data in Australia in recent weeks has consistently printed above expectations. Retail sales remain firm (albeit propped up by government cash handouts), business and consumer confidence have bounced, and employment is well above admittedly dismal expectations.

On this basis, it now looks as though Australia has experienced only a shallow recession. The string of relatively upbeat economic outcomes has curbed market expectations of further policy easing by the Reserve Bank. Our call is for the RBA to hike the cash rate mid-2010; this would be a break from historical convention, given it would mean the next tightening cycle would begin before the unemployment rate peaks. Our forecast calls for unemployment to peak at 9% in the September

quarter of 2010, but by mid-year, RBA officials should be confident that the peak in unemployment is near.

Investment Strategy

Consensus Earnings per Share (EPS) Forecasts – 2009 Financial Year

Given this is a measure based on profitability per share, the \$90 -odd billion dollars worth of capital raisings taken place over the last 12 months has produced some of this fall. However, a large part of the reduction in EPS is a reflection of a fall in profits.

The final measure of course can only be made after the reporting season when profits are tallied up. The factors that will be most important will be company guidance and outlook. So far, the pessimism of 2009 financial year expectations has washed through to an extent in 2010 numbers, but optimism is evident in 2011, which looks resoundingly positive.

Consensus EPS Forecasts – 2010 & 2011 Financial Years

As economic conditions and finance markets continue to improve, more optimism will be evident. It is also important to consider the boost to profitability companies are able to generate exiting a recession. When revenues pick up in line with economic conditions, with reduced cost base still in place, margins can expand quickly, leading to a leverage effect in profitability.

Investors will therefore be rewarded by investing in the current market. While the exact profile of company profitability is difficult to measure at the moment, profits will recover and at a pace that could well surprise.

As for the valuation of sectors coming into the reporting season, the rotation into more cyclical sectors has left little near term value in resources and banks. Greater value is apparent in the more defensive sectors which have been left behind somewhat in the rebound. This includes health care, consumer staples and utilities.

** The above extract has been sourced from the Ord Minnett Research Strategy Bulletin September quarter 2009. Please refer to their disclaimer at the end of this document.

Manager in the Spotlight

Ausbil Emerging Leaders Fund

The Australian Emerging Leaders Fund is an actively managed Australian equity fund managed against a composite benchmark**. The Fund invests in a portfolio of small/mid capitalisation Australian shares, assessed by the investment team to provide the greatest opportunities of appreciation over the coming 12 months. The aim of the Fund is to outperform the benchmark over the medium to long term.

Investment Strategy

The Strategy invests in a Portfolio of listed Australian equities that are primarily chosen from the S&P/ASX 300 Index, but generally exclude securities from the S&P/ASX 50 Leaders Index.

Investment style

We classify ourselves as 'style neutral'; wherein at certain stages of the cycle the portfolio may have a value or growth tilt as markets provide opportunities for particular types of stocks to enjoy earnings growth. Ausbil employs a four stage process to provide the framework for portfolio construction consistent with its investment philosophy.

The process is summarised below:

STAGE 1 Macroeconomic Analysis - Assess current market conditions

STAGE 2 Sectorial Analysis - Identify attractive sectors and portfolio themes

STAGE 3 Stock Selection - Fundamental stock analysis backed by quantitative ranking

STAGE 4 Portfolio Construction - Robust appropriate and risk aware portfolio

Conclusions are constantly retested - leading to stage 1 again

Gross Performance to 31 July 2009

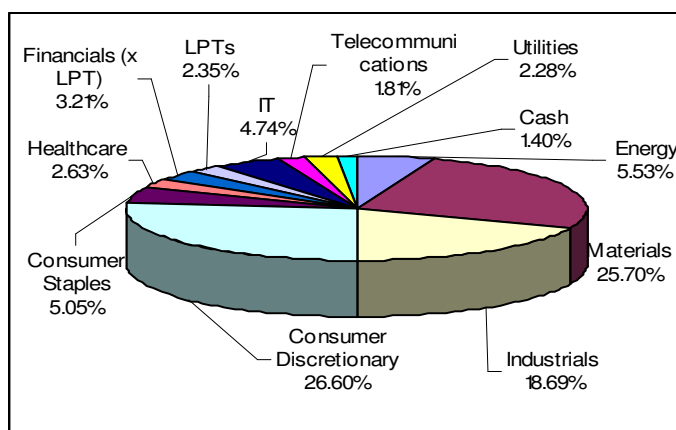
%	1 mth	3 mths	1 year	3 years	5 years	7 years.
Fund	10.91	22.30	-5.79	0.66	12.75	17.07
Index*	9.54	18.23	-16.86	-3.81	7.41	11.03

** 70% S&P/ASX Midcap 50 Acc Index and 30% S&P/ASX Small Ord Acc Index

Top Ten Stock Tilts as at 31/08/2009

Stock	P'folio %	Index** %	Tilt%
David Jones	5.06	1.61	3.45
Mirabela Nickel	4.64	0.29	4.35
Alumina	4.49	2.77	1.72
Asciano	4.44	2.97	1.46
JB Hi-Fi	4.22	1.13	3.08
CSR	4.12	1.60	2.52
United Group	3.98	1.29	2.69
Oz Minerals	3.66	2.29	1.37
Bank of Queensland	3.62	1.23	2.39
Kagara Zinc	3.27	0.16	3.11

Asset Allocation as at 30/06/2009



Distributions - semi annually

Management Costs - 1.13% p.a.

Index performance

The table represents returns across the major world indices for the calendar year 2009 as at 9th September 2009.

Index	Week (%)	MTD (%)	YTD (%)
S&P/ASX 200	1.89	0.96	21.49
ASX 200 Property	0.95	-0.77	-3.44
S&P 500 Comp	3.54	1.25	14.41
NASDAQ	4.65	2.56	31.65
Nikkei 225	0.31	-1.72	16.4
Euro Stoxx 50	4.32	1.64	15.24
MSCI Wld \$US	3.01	1.13	20.57
EPRA Global REIT	7.19	3.00	24.42
Oil (WTI) \$US bl	4.79	1.93	59.89
Commodities US\$	2.41	0.03	4.52
AUD/USD	2.74	2.91	24.46

Performance figures sourced from Advance daily report.

Finance & Lending

\$50M in 90 Days

With the Global Financial Crisis starting to ease, we have seen a marked uplift in confidence by companies and investors wishing to take advantage of historically low interest rates and position themselves for future growth and wealth creation.

We have assisted our clients in placing over \$50M of commercial, residential and development loans with the major lending institutions over the past 3 months. This has been driven by the rapid recovery of the property market, first home owners grant and the generous investment allowances to business for the purchase of new motor vehicles and plant and equipment.

In addition, we have assisted many clients with negotiating a more favourable outcome with their banking facilities.

Many of our clients are still not aware that we are able to assist you in all aspects of finance - please see our website for details at www.mcleandelmo.com.au

Membership with Australian Finance Group provides us access to over 30 lenders including the major banks. We can deliver optimum financial solution for all your finance requirements, tailored to your needs, at competitive rates.

☎ If you would like to find out more, please contact Daniel Zadnik or Jarrod Hodges on 9018 4665.

Superannuation

Draft Self Managed Superannuation Fund (SMSF) Ruling - Trustees using enduring powers of attorney

The ATO has issued Draft SMSFR 2009/D1 which confirms that an enduring power of attorney (EPOA) that provides scope for a person to act as a trustee or director of a corporate trustee of a SMSF is, itself, not sufficient to empower that person to act as trustee/director. In order to meet the SIS definition of SMSF, the person who holds the EPOA must generally be appointed as trustee/director in place of the relevant member and the member must be removed as trustee/director.

The draft ruling also confirms the ATO's views that State/Territory law constraints in relation to authority to act under an EPOA do not apply and that it is not necessary for the relevant member to be legally disabled for an EPOA holder to replace them as trustee/director.

The draft ruling includes a number of examples that illustrate the types of circumstances in which EPOAs can be used while maintaining a fund's status as a SMSF.

☎ If you would like to find out more, please contact Suzanne Luck at McLean Delmo SMSF Department on 9018 4720.*

Technical Update

Legislative Update

Winter sitting of Parliament ended in June 2009 and as a result little legislation has been introduced or passed. Spring sittings commenced on 11 August 2009.

One item that was introduced and referred to the Senate Economics Legislation committee was the **Corporations Legislation Amendment (financial Services Modernisation) Bill 2009**. This introduces new regulatory measures for margin loans, licensed trustee companies and debentures. Further details should be made available shortly.

Regulators View

Superannuation Guarantee Regulations to exclude paid parental leave from 'salary and wages'

Amending Regulations have been registered to ensure employers do not have to make superannuation guarantee (SG) payments on paid parental leave and ancillary leave payments - by excluding them from the definition of 'salary and wages' for SG purposes. This has been updated further to insert a list of all other express legislative exclusions from the concept of salary or wages for SG purposes. It also clarifies the status of workers' compensation payments in cases where employment is not terminated but the employee does not attend work due to his/her injuries.

Extracts have been sourced from the Macquarie MASTech Technical Updates July, August & September 2009.

Other Issues

Reminder - Salary sacrifice and Income

July 2009 signifies the commencement of the new income test definition for various government assistance payments, tax offsets, and superannuation concessions. Sacrificed superannuation contributions will now be included in the income test.

What does this mean - The inclusion of reportable superannuation contributions within the '10% test' will impact the ability to claim a tax deduction for personal superannuation contributions. Additionally, the ability to reduce income to access government benefits via salary sacrifice is no longer available.

Any superannuation contribution strategies that are in place from previous years should be reviewed to ensure they are still applicable to current income definitions and contribution cap rules.

Financial planning – is all advice the same?

The meltdown in investment markets over the last 20 months has not just eroded wealth on a widespread basis; it has also called into question certain advice provided by financial planners leading up to and during the crisis and the basis of that advice. This has been exacerbated by the collapse of a number of investment managers, financial planning groups and prominent agri business companies. These failures have also raised the issue of commission payments and what impact these are having on the advice financial planners are providing to their clients.

The regulator's concern revolves around the risk financial planners may be unduly influenced by commission payments they stand to receive, putting their advice at odds with the clients' best interests.

A recent article in The Saturday Age Business section highlighted a Banking culture of financial planners under pressure to generate product sales to meet budgets. The article talks about the "best" planners in the banks being those that can generate high product sales and therefore earn large commission payments. Often this is achieved by targeting products that pay high commissions.

In addition to the big four banks a number of the major life offices have arrangements where client's funds are directed into an investment or platform owned by the said bank or life office. This calls into question whether the clients are receiving the most appropriate advice or are merely funnelled into an investment platform to boost the funds of the underlying provider.

Each of the four major banks own funds management operations, ANZ owns ING, CBA owns CFS, NAB owns MLC and WBC owns BT. Insurance companies also have their own funds management operations. Our experience is that clients of these institutions more often than not end up invested in the underlying funds management group. The question is then was this the best choice for the client or the Planner/Dealer making the recommendation?

Complex payment arrangements have existed where the Planner or Dealer Group have benefited from patronising the associated funds management group. This has served to undermine confidence in the advice system especially at a time where it is acknowledged people should seek advice in relation to their financial position.

In fact as the government has moved the onus onto the individual for funding their retirement it is more important than ever people receive appropriate advice. It is also an appropriate time given the multitude of financial products

and options in the market that someone with experience and skill should be involved in providing guidance and advice.

Not all advice is the same and it is important to understand the distinction in the marketplace between the different types of advice on offer. In order to do this there are a number of questions you should ask of your adviser. Namely what type of dealer group is your adviser under? Is it owned by a large institution such as a bank or insurance company? Are any of the recommended underlying funds or services also owned by that same company? Is your adviser rewarded for using or recommending certain products or services? Does your adviser just provide product advice or do they provide strategic advice across different areas?

Once you have an answer to these questions you should have a clearer idea as to any limitations there may be in relation to the advice you are receiving.

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