

# Planning Matters

Autumn 2010

**Welcome**...to the Autumn Edition 2010 of Planning Matters and a new decade. Whilst it is important to look back at the last year having the most dramatic exit phase of the recession complete, it is equally important to focus on the year ahead.

## Economic Outlook

The current reporting season should provide some insight into the future via outlook statements accompanying many profit releases. With any luck those statements should, on average, produce at least a mildly optimistic view of the road ahead and provide a sign that the worst of the economic fallout is well behind us. Companies producing positive surprises may be rewarded with a share price re-rating, and alternatively unexpectedly poor results will be treated harshly and closely scrutinised.

Defensive stocks and sectors that were left behind during the risk rally in 2009, are likely to attract additional investment funds as the market pauses to let underlying fundamentals catch up with recent price movements. This is expected to increase interest in mergers and acquisitions ahead of the next economic growth phase.

## How is a recovery poised?

Positive Indicators	Caution Indicators
Credit markets stabilising	Currency volatility
Emerging markets in Asia leading recovery - helping Australia	Government credit confidence and prospect of rising bond yields
Labour markets are turning	Stimulus withdrawal globally over next 12-24 months
US housing bottoming out	Fiscal drag as governments control deficits
Core inflation remains subdued	Rebalancing of Chinese growth to head off inflationary pressures.
Solid Industrial production	

## US economy

Despite a solid reporting season so far in the US - 75% of companies reporting third quarter results have exceeded expectations, and relatively encouraging economic data, market direction and sentiment, both in the US and globally

are being driven in the short term by political overtones.

The apparent disconnect between reality and sentiment may be seen as an investment opportunity.

## Earnings outlook

As we pass the half way mark of the 2010 financial year, the consensus of expectations is flat earnings per share for the Australian market. This is a markedly better experience of most other developed economy stock markets, reflecting the relatively stronger position of the Australian economy through the global recession.

## Equity ideas for 2010

Themes for 2010 include increasing mergers and acquisitions activity, ongoing regulatory and political developments and currency volatility.

Consideration should be given to the following:

- Quality - fundamentals will count for more in 2010 such as earnings,
- Price Earnings ratio - Higher P/E, higher risk as higher expectations are attached,
- Currency volatility - impact on overseas earnings and exposure to exchange rates, and
- Corporate activity - the cost of debt and company attention focusing on Asia over mature markets for investment.

Three important projected global outcomes:

- Stronger than expected economic growth
- Inflation no concern for now: Increasing growth is lifting commodity prices and headline inflation is set to rise globally in coming months; however global utilisation rates of capital and labour remain depressed and have pushed core inflation in the developed world below 1%. Further disinflation is expected to push core inflation to record lows across the US, Japan and Europe in 2010.
- Policy normalisation to proceed slowly.

\*\* The above extract has been sourced from the Ord Minnett Research Strategy Bulletin March quarter 2010 and February Monthly 2010. Please refer to their disclaimer at the end of this document.

## Manager in the Spotlight

### Schroders Wholesale Australian Equity Fund

With an established history of investing in Australian equities for over 40 years, the Schroder Wholesale Australian Equity Fund provides exposure to a range of quality Australian stocks characterised by strong capital returns and a sustainable business franchise offering pricing power and control over business direction. Stocks are identified using bottom-up, fundamental analysis undertaken by Schroders' experienced team of in house analysts. The Schroder Wholesale Australian Equity Fund draws on both local and global research capabilities.

#### Investment Objectives

To outperform the S&P/ASX 200 Accumulation Index over the medium to long term. The Fund offers investors access to a professionally managed portfolio of predominantly Australian securities.

The core of Schroders' investment philosophy is that companies reinvesting profits in their businesses at higher rates of return than their cost of capital will be rewarded with better than average long term share price performance.

Schroders' philosophy is based around the belief corporate value creation, or the ability to generate capital returns higher than the cost of capital, leads to sustainable share price out performance in the long term. The process is a combination of qualitative industry and company competitive position analysis and quantitative financial forecasts and valuations.

#### Performance (%) as at 31/1/2010

Total return	1 mth	3 mths	1 yr	3 yrs	5 yrs	Inception#
Fund (post-fee)	-5.8	-0.8	42.9	-0.7	9.0	10.4
Index*	-6.2	-0.9	35.2	-3.4	6.7	9.3

Relative Performance (post-fee)	0.4	0.1	7.7	2.7	2.3	1.1
---------------------------------	-----	-----	-----	-----	-----	-----

\* S&P / ASX 200 Accumulation Index

#Fund inception July 2002 (strategy inception March 1964)

#### Distributions

June and December

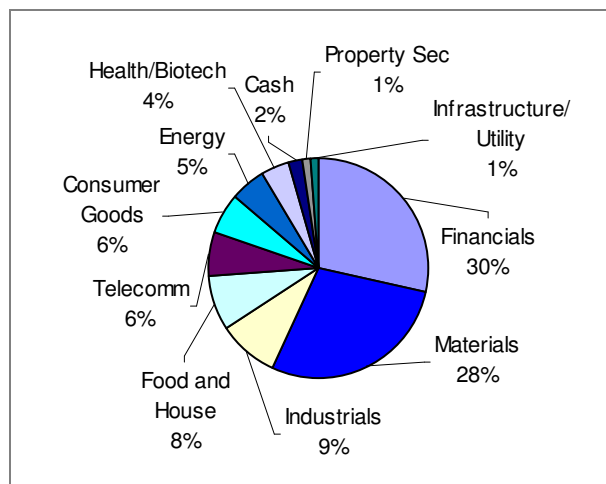
#### Management costs to 30 June 2009

0.92%

#### Style Quality

Growth

#### Asset Allocation as at 31/12/2009



#### Top Ten Holdings as at 31/01/2010

Stock	Fund	Benchmark*
BHP Billiton Limited	9.7%	12.4%
ANZ Banking Group	6.4%	5.2%
National Australia Bank	5.9%	5.2%
Commonwealth Bank	5.7%	7.7%
Woolworths Limited	3.9%	3.0%
Westpac Banking Corporation	3.7%	6.7%
News Corporation	3.6%	0.5%
Suncorp-Metway Limited	3.6%	1.1%
Telstra Corporation Limited	3.1%	3.5%
Brambles Limited	2.9%	0.9%
<b>Total</b>	<b>48.5%</b>	<b>46.1%</b>

#### Index performance

The table represents returns across the major world indices for the past 12 months to 26 February 2010.

Index	Day (%)	Week (%)	MTD (%)	YTD (%)
S&P/ASX 200	-1.17	-1.32	0.54	-5.68
ASX 200 Property	-1.06	1.14	-1.02	-3.89
S&P 500 Comp	-0.21	-0.34	2.71	-1.09
NASDAQ	-0.08	-0.33	4.05	-1.54
Nikkei 225	-0.95	-2.23	-0.91	-4.21
Euro Stoxx 50	-1.85	-3.38	-3.33	-9.46
MSCI Wld \$US	0.53	0.01	1.31	-2.76
EPRA /NAREIT GI	0.32	1.05	2.93	-2.41
Oil (WTI) \$US bl	-2.29	-1.44	6.9	-1.81
Commodities US\$	-1.98	-1.93	3.73	-4.46
AUD/USD	-0.21	-0.31	-0.57	-1.31

~ Above Index Performance figures sourced from Advance daily report.

## Changes to Legislation

### Draft SMSF determination on trauma insurance through superannuation and sole purpose test

The ATO has released SMSFD 2009/D1 which considers whether a trustee of a self managed superannuation fund can purchase trauma insurance policy and still satisfy the sole purpose test in section 62 of the *Superannuation Industry (Supervision) Act 1993*.

The ATO's view is that a trustee can still satisfy the sole purpose test provided any benefits payable under the policy:

- Are required to be paid to a trustee of the SMSF and not to some other beneficiary
- Are benefits that become part of the SMSF assets at least until such time as the relevant member satisfies a condition of release, and
- The acquisition of the policy is not made to secure other benefits for another person.

### Interpretative Decision on disability superannuation benefits - commencement of pension

The ATO has confirmed via ATO ID 2009/125 there is no transfer for the purposes of subsection 307-5(8) ITAA 1997 and therefore no roll-over of superannuation benefit when a member of a complying superannuation fund decides to commence an account-based pension.

\*\* Extracts have been sourced from the Macquarie MASTech Technical Updates December 2009 & February 2010.

## Lending and Finance

McLean Delmo has its own in house Lending and Finance division. The division has access to a large number of financiers and is not aligned to any particular company. We fill a void in the finance industry and attract clients who want a better deal than they are currently receiving from their financial institution in terms of price, structure and service.

Choosing how to manage and structure your finances is a big decision. The range of loans and financial services offered can make decision making complex. But once you have found the right adviser to help guide you through the myriad of lending and finance options, suddenly the road to financial success becomes much clearer.

We step our clients through the journey to a successful financial future. Using our extensive financial expertise, we help eliminate obstacles and navigate processes along the way. By really listening to our clients we can be flexible in

mapping out a path to match their individual or business needs.

We build long term relationship with our clients and pride ourselves on being truly invested in their financial future.

We have an accredited team with strong networks and experience in dealing with over 30 different financiers. Our negotiating skills and purchasing power often enables our clients to obtain a better financial outcome than if they approached the financier directly.

Ultimately, your success is our success.

☎ McLean Delmo Finance and Lending specialise in Residential, Investment and Commercial Loans, Motor Vehicle and Equipment Finance. If you would like to find out more, please contact Daniel Zadnik or Jarrod Hodges on 9018 4665.

## Superannuation

### Cooper Super System Review developments

The paper contains few finalised recommendations. The panel's discussions on phase one will form part of its final report due for completion by 30 June 2010. However, a key proposal of the report is for a 'choice architecture' model of superannuation fund regulation which would orient attention towards members and away from 'products' and industry sectors and use the conscious choices of individuals to calibrate the levels of governance, regulation and member protection applicable.

Phase two of the review is underway. The panel is due to release its preliminary phase two recommendation in March or April 2010.

### Christmas Discussion Group

The Christmas Discussion group finished off last year with a livelier affair, perhaps assisted by the wine offered to celebrate the year end. It was a more sober affair in the March discussion group. It is expected the minutes from the meetings should be available in four to six weeks.

☎ If you would like any information, please contact Suzanne Luck at McLean Delmo Self Managed Superannuation Fund Department on 9018 4720.

## Risk Insurance

### Total and Permanent Disablement (TPD) Insurance in superannuation. Is it in the right place?

Many people have both their Life Insurance and TPD Insurance inside their superannuation. This makes sense for the premium payments. The premiums are paid by tax deductible super contributions or from the account balance, saving personal cash flow (at the expense of superannuation to be invested).

But what about a TPD payout at claim time? If something horrible happens and it turns out that you become totally and permanently disabled, you may not be able to access the insurance payout until you are at least age 55.

There can be a solution

☎ If you would like to find out more, please contact Steve Beetham at McLean Delmo Financial Services on 9018 4711.

## Active or Index/Passive Investments

Active Investments are those which are index unaware - or take strategic positions in certain sectors or companies which they believe will outperform. Active fund managers believe returns from the overall market can be beaten (after fees) by selecting the better performing asset classes.

Index or passive investments are mandated to invest in the market so as to reflect the corresponding index, i.e. An Australian equity fund would hold the top ten ASX companies in matching proportion to the index weighting. Index or Passive investment managers believe you cannot consistently outperform the market. Index funds are generally a low cost investment.

During different times in market styles, each investment approach can fall in and out of favour. A move from passive or index style investing to active equities funds management is being seen. This is due to the wide valuation spread at the sector level and stock levels. Whilst the market was all following the same path, index provided access to the market lower costs.

Market movements and volatility within sectors is leading to a change in the desired exposure to a more select investment approach - achieved by active management. Analyses see active managers maybe in a good position to gain out performance in markets, however diversification and exposure to the market is still critical to a portfolio.

If you would like any further information, or would like to discuss your portfolio with our Financial Planners, please contact our office.

*Any advice in this publication does not take into account your personal circumstances. You should consider how it applies to your overall circumstances or speak to a financial adviser. You should also obtain and consider the Product Disclosure Statement for the product, which is available from your financial adviser, before deciding whether to buy or continue to hold any financial product including those referred to in this publication.*

*Although McLean Delmo Financial Services has taken care in providing this publication, it does not guarantee the accuracy or completeness of any material provided by third parties. Past performance should not be taken to indicate future performance. The information/data in all articles is current as at February 2010.*

**\*\* Ord Minnett Disclaimer:** *Ord Minnett Limited believes that the information contained in this document has been obtained from sources that are accurate, but has not checked or verified this information. Except to the extent that liability cannot be excluded, Ord Minnett Limited and its associated entities accept no liability for any loss or damage caused by any error in, or omission from, this document. This document is intended to provide general securities advice only, and has been prepared without taking account of your objectives, financial situation or needs, and therefore before acting on advice contained in this document, you should consider its appropriateness having regard to your objectives, financial situation and needs. If any advice in this document relates to the acquisition or possible acquisition of a particular financial product, you should obtain a copy of and consider the Product Disclosure Statement for that product before making any decision. Investments can go up and down. Past performance is not necessarily indicative of future performance.*

*Schroder Information - This Report is intended solely for the information of the person to whom it is provided by Schroders. It should not be relied on by any person for the purposes of making investment decisions. The repayment of capital and performance of the Fund is not guaranteed by Schroders or any company in the Schroders Group. Past performance is not a reliable indicator of future performance. Unless otherwise stated the source for all graphs and tables contained in this report is Schroders. Opinions constitute our judgment at the time of issue and are subject to change. This report does not contain and is not to be taken as containing any financial product advice or financial product recommendation.*