

# Planning Matters

Spring 2010

**Welcome**...to the Spring Edition 2010 of Planning Matters... Are the winter blues fading?

Questions about the direction of the economy and the health of corporate earnings continue to be raised. The recent market correction reflects this uncertainty. However, uncertainty always creates opportunity for the savvy investor.

## Economic Outlook

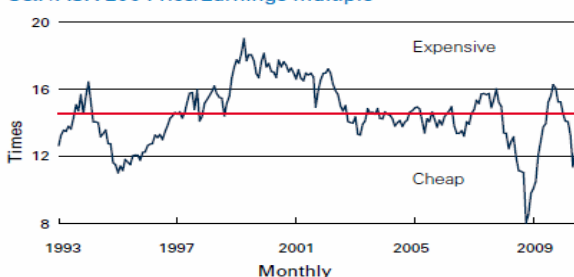
After a difficult few months the market rebounded well in July, as a number of concerns related to sovereign debt failed to materialise. While economic data has been mixed, this is nothing unusual one year into a recovery, as business and consumers adapt to the changing environment. A healthy reporting season in the US and Europe help move markets along. The Australian market has now entered its own reporting season.

While individual economic measures can provide mixed signals, the balance of information supports our view that the global economic recovery is ongoing. Importantly for Australian investors, the local economy remains at the forefront of the recovery. This is a view shared by the Reserve Bank of Australia in its recent assessment of the long term consequences of the global financial crisis. This position is also being reflected in company profitability, which in turn provides important support for market valuations.

## Market update

Based on historical trends all the sectors within the market (with the exception of energy) are trading back in value territory after flirting with expensive valuations earlier this year. This further enhances our view that a solid base is being established from which to launch another positive re-rating into 2011.

S&P/ASX 200 Price/Earnings multiple



Examples of sectors in value territory are Materials and Banks. We know that the fundamentals are attractive but the technical signals are also suggesting that it's time to consider adding to, or indeed including, the leading miners and banks in your investment portfolio.

Within the global economy, we see three significant forces at play:

1. The transition of the private sector from a defensive posture appears to be firmly in place
2. The downshift in global manufacturing
3. Impact of recent volatility on investor attitudes.

For the recovery to continue, final sales and labour markets need to continue their shift to being the main sources of growth as the inventory cycle and fiscal stimulus wanes. Markets will look for ongoing validation this is taking place.

Profit growth is approaching healthy levels and employment prospects are improving around the world. However high levels of debt and financial markets that continue to force debt reduction give us cause for some caution.

## Reporting Season

The reporting period will deliver a mix of winners and losers, with indications that few if any surprises (both positive and negative) are in store for investors.

The market will focus on 'top line' or revenue growth as a sign that the global recovery is underway.

It's not so much the profit results that the market will be judging, but rather any snippets of any positive news from the outlook statements and associated commentary. However, given the measured pace of economic recovery we would expect most management teams to err on the side of caution in this respect. In general, downgrades have been associated with serial underperformers and upgrades from companies where market consensus had a positive bias.

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

## Manager in the Spotlight

### IFP Global Franchise Fund

The IFP Global Franchise Fund provides a unique investment strategy to diversify a portfolio by investing in a mixture of international shares, typically in Europe and North America.

The investment strategy of the IFP Global franchise Fund may suit investors looking for long term growth, seeking to invest for five years or longer.

Independent Franchise Partners is an employee owned, investment management firm established in June 2009. The firm specialises in a single investment strategy which aims to identify companies capable of compounding shareholder wealth at superior rates of return over the long term.

### Investment Approach

The Fund only invests in high quality businesses with high free cash flow generation and dominant intangibles such as brands licences and distribution agreements. The portfolio generally holds 20-40 companies with low turnover. The Fund focuses on reducing absolute risk by managing overall volatility.

### Investment Objectives

To seek to achieve attractive long term returns by investing in international shares. IFP global franchise strategy focuses on quality and value in absolute terms, which means the manager does not use a benchmark index for portfolio construction. The Fund is an actively managed portfolio with a strong bias towards value and capital preservation.

### Performance (%) as at 31/7/2010

Total return	3 mths	1 yr	3 yrs	5 yrs	Inception#
Fund (net fees)	0.28	6.12	-2.55	1.91	3.88
Index*	-2.80	0.53	-10.28	-2.75	-0.8
<b>Relative Performance (post-fee)</b>	<b>3.08</b>	<b>5.59</b>	<b>7.73</b>	<b>4.66</b>	<b>4.68</b>

\* MSCI World Ex Australia Accumulation Index

#Fund inception 17 November 1994

### Distributions

June

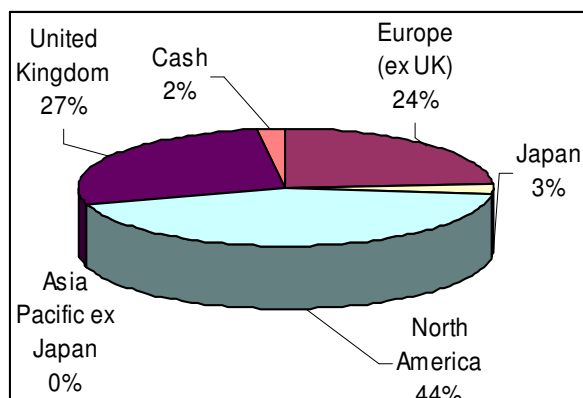
### Management costs as at 15 June 2009

1.38%

### Style Quality

Value

### Asset Allocation as at 31/07/2010



### Top Ten Holdings as at 31/07/2010

Stock	%
British American Tobacco PLC	8.0
Philip Morris International Inc	7.5
Experian Plc	4.0
Imperial Tobacco Group PLC	4.0
Novartis AG	3.7
Swedish Match AB	3.7
Danone	3.6
Wolters Kluwer NV	3.5
Unilever PLC	3.4
Scotts Miracle-Gro Co	3.2

## Index performance

The table represents returns across the major world indices for the past 12 months to 31 August 2010.

Index	Day (%)	Week (%)	MTD (%)	YTD (%)
S&P/ASX 200	1.89	0.54	-0.91	-8.58
ASX 200 Property	1.71	1.84	3.43	-1.82
S&P 500 Comp	-1.47	-1.73	-4.78	-5.93
NASDAQ	-1.56	-1.84	-5.98	-6.57
Nikkei 225	1.76	0.36	-4.07	-13.25
Euro Stoxx 50	-0.52	-1.66	-4.58	-11.75
MSCI Wld \$US	1.12	-0.39	-2.98	-5.32
EPRA /NAREIT GI	-0.18	0.98	-0.04	5.88
Oil (WTI) \$US bl	-0.63	2.75	-5.38	-5.87
Commodities US\$	-0.06	1.57	-3.44	-9.43
AUD/USD	-0.52	0.98	-0.84	-0.86

~ Above Index Performance figures sourced from Advance daily report.

## Changes to Legislation

### Extension of drawdown relief for account-based pensions

On 30 June, the Government announced an extension of the drawdown relief currently provided for account-based pensions to the 2010-11 year.

As in the past two years the drawdown relief will be in the form of a 50% reduction in the minimum payment amounts for account-based, allocated and market linked pensions.

Age of beneficiary on 1 July	Effective minimum % p.a.
Under 65	2
65-74	2.5
75-79	3
80-84	3.5
85-89	4.5
90-94	5.5
95 or more	7

## Technical update

### Cooper Review

The Cooper Review's final report was released publicly on 5 July 2010.

The Government has not responded to the 177 recommendations in the report. No formal Government policy will be announced until after a Government is formed.

### Capital Protected Products

ASIC has released a consumer guide which outlines some important things investors need to consider before investing in capital guaranteed or capital protected products.

ASIC has focused on capital protected products as investors may be attracted to these investments due to a perception of capital safety without fully comprehending the inherent risks.

\*\* Extracts have been sourced from the Macquarie MASTech Technical Updates July 2010 and August 2010.

## Superannuation

### Self Managed Superannuation Fund borrowing rules re-written

The amendments to the SMSF borrowing rules have now been made law. These amendments mean improved

clarity and some limitations in flexibility for superannuation funds, including SMSFs, intending to use borrowings to purchase investment assets. In addition, the Government has touted changes to the tax law affecting instalment warrants and the licensing law in relation to limited recourse borrowing arrangements entered into by superannuation funds.

\*\* Extracts have been sourced from the Macquarie MASTech 'Super, tax & licensing law changes affecting SMSF borrowing'.

### Self Managed Superannuation Fund Discussion Group:

**Tuesday 14th September 2010, 6.15 pm**

Venue: 4th floor of our premises at 302 Burwood Road, Hawthorn 3122

Approximate duration is 90 minutes

Please note there will be limited car parking on a Tuesday, so prior booking is vital should you want a car park.

Please forward any suggested items for the agenda. We would be delighted if you would take the opportunity to gather some free advice or just voice your opinions!

The super department will be happy to answer any questions that you might raise and welcome any new guests.

As always a qualified financial planner will be in attendance to answer your investment questions.

☎ Please indicate whether you would be interested in attending the discussion group by registering via email: [bevan.roberts@mcleandelmo.com.au](mailto:bevan.roberts@mcleandelmo.com.au) or telephone (03) 9018 4722.

## Risk Insurance

### Total and Permanent Disablement (TPD) Insurance in superannuation. There are risks

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).

Due to recent policy developments and pending legislative changes, we have found nearly everyone either does not have the more preferred "Own Occupation" TPD policy cover or if so, has it incorrectly structured within Superannuation so that the insurance

payout is not able to be made to the individual - when it is needed most.

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.

### **McLean Delmo's Finance and Lending team recognised as Victoria's Best Commercial Loan writers -Platinum Award Winners**

We would like to congratulate Daniel Zadnik and Jarrod Hodges on their success at the 2010 Australian Finance Group (AFG) Awards.

McLean Delmo's Finance and Lending division (Hawthorn Finance Pty Ltd) received the Platinum Award for Best Commercial Loan Writers in Victoria at the annual AFG awards function held on 11 August. The award is based on the highest volume of commercial loans settled and the greatest number of transactions completed over the previous financial year.

"As an accredited member of Australian Finance Group (AFG) - the largest mortgage broking group in Australia – this award has particular significance. Being acknowledged as the number one Commercial Broker in AFG's stable means we have beaten some of the much larger and more established firms in the industry," Daniel said.

"It is always great to be recognised by our industry peers, however ultimately the success of our clients' business is our success."

"We are delighted that we have been able to build on the success of 2009 where we won the Silver Award."

"We have been privileged to work with our fantastic clients who have entrusted us with their commercial finance needs. We are grateful for their ongoing support and we are committed to maintaining enduring relationships with each of them."

Following on from this success, Hawthorn Finance has also been nominated as a finalist for Broker of the Year – Commercial Real Estate for the Australian Mortgage Awards which will be presented in Sydney on 24 September 2010.

Follow this link to the Mortgage Professional Australia Magazine (see pp 45/46) to read more about this nomination: <http://www.brokernews.com.au/contents/e-magazine.aspx?id=48814>

Our Lending and Finance Division provides services including:

- Business and Commercial Lending
- Home Loans and Investment Loans
- Motor Vehicle and Equipment Finance
- Consultancy Services

Please do not hesitate to contact Daniel or Jarrod for expert advice on your current or future financing needs. Call Daniel Zadnik (General Manager) or Jarrod Hodges (Finance Manager) on (03) 9018 4665 or email [daniel.zadnik@mcleandelmo.com.au](mailto:daniel.zadnik@mcleandelmo.com.au) or [jarrod.hodges@mcleandelmo.com.au](mailto:jarrod.hodges@mcleandelmo.com.au)

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