

Planning Matters

Winter 2011

Welcome...to the Winter Edition 2011 of Planning Matters. As the cold weather sets in, another budget is released to provide some reading in front of a warming fire.

Economic Outlook

The bank reporting season has now passed. The numbers were much as expected, the dividends slightly higher than anticipated and outlook statements remained cautionary. Nonetheless, the major Australian banks are representative of companies providing a higher level of visibility around profits. These kinds of companies tend to be well supported during periods of elevated market volatility.

What has emerged as an investment theme since the start of 2011 is the impact that the high A\$ (or weak US\$ depending on your perspective) is having on certain sectors within the economy

Currency Wars: Choosing Sides

The current dollar level is about 20% overvalued against our long-term valuation of \$0.92. However, the nearer term direction is less certain and momentum is still with the (former) battler. The problem is the Australian dollar's deviation from our fair value estimate can last a long time.

Companies competing directly with imported products are being heavily impacted, while exporters' margins are also being squeezed. Those companies that translate US\$ earnings back into A\$, whilst not hit in an operational sense, will suffer in an accounting sense at reporting time.

US fiscal issues and resulting dollar weakness is playing its role in driving the Australian dollar. Indeed there are a lot of reasons to be bearish against the US dollar for the rest of the year – most pressing is the fact the US statutory debt limit will be reached unless politicians can agree to raise it.

On our side of the world, things look rosier, with emerging Asian countries leading the economic charge. Domestically, regional demand continues to drive our booming terms of trade. Wage growth has returned to pre-crisis levels; and credit conditions have loosened with business credit finally starting to pick up.

We envisage four macro scenarios which might push the Australian dollar lower:

1. The US progresses from a 'soft money' recovery to a 'hard money' one, seeing the US Federal Reserve withdrawing stimulus and narrow the difference in interest rates. This looks a little way off.

The remainder would be bad news for our market;

2. Correction in commodity prices
3. Local economic weakening
4. General flight from risk globally.

Interest Rates

We expect the Reserve Bank to stay on the sideline in the near term while it allows price rises associated with recent natural disasters to be reversed. The most likely trigger for an early hike would be another bounce in employment and an accompanying drop in the jobless rate even further below 5%. Any surprise would quickly work its way into the dollar.

Banking Reporting season

Three of the Big Four (ANZ, NAB and WBC) reported interim profit numbers. There were no major surprises beyond market expectations. The main feature was the banks having established a more stable earnings base. The fact dividends grew from the prior corresponding period and were within each company's stated payout ratio guidelines is testament to this fact. In summary:

Dividends per share

Close to consensus expectations, Growth in DPS close to system growth

Net interest income

Funding costs are edging higher as pre-GFC funding rolls off, mortgage growth is relatively slow, business lending is picking up slightly (asset growth 5–6%)

Provisioning

Nothing out of the box, Lower trending provisioning characteristic of this point, in the recovery cycle

Capital

Top four banks are well capitalised, Uncertainty over how APRA will interpret Basel 3 capital requirements but major banks shouldn't require additional capital.

Sector overview

Characterised by a tight trading range but trend is upwards. This is reflective of a sector trading around fair value Yield provides downside protection.

*** The above extract has been sourced from the Ord Minnett Research Strategy Bulletin June quarter 2011 and May Monthly 2011. Please refer to their disclaimer at the end of this document.*

Manager in the Spotlight

BlackRock Global Allocation Aust D

The Fund aims to maximise total investment returns while managing risk and is generally diversified across markets, industries and issuers. In selecting equity investments, mainly seeks to invest in securities which are believed to be undervalued. The Fund may buy fixed income securities of varying maturities.

Investor Profile

The fund is best suited to those investors with a medium to long term investment horizon of 3 to 5 years, wanting moderate to high returns who are comfortable with some short term volatility in returns and capital value of the investment.

Manager Analysis

BlackRock is a premier provider of asset management, risk management, and advisory services to institutional, intermediary, and individual clients worldwide. As of 31 December 2009, the firm manages US\$3.35 trillion across equity, fixed income, real estate, liquidity, alternatives, and asset allocation/balanced strategies in separate accounts, mutual funds and other pooled investment vehicles, and the industry-leading iShares exchange traded funds.

Investment Approach

The Fund is focused on absolute returns and aims to provide investors with the best available investments worldwide across asset class, region and market capitalisation.

The Global Allocation (GA) Team believes that competitive returns with low to moderate levels of risk can be achieved through a flexible, research intensive, value-oriented approach that seeks the best investment opportunities worldwide, broadly diversified across asset classes, countries and securities.

The Fund's current investment strategy is to invest in global equities, fixed income and cash. The Fund aims to maximise total investment returns while managing risk and is generally diversified across markets, industries and issuers.

Investment guidelines

In selecting equity investments, the Fund mainly seeks to invest in securities which are believed to be undervalued. The Fund may buy fixed income securities of varying maturities.

While the Fund can, and does look for investments in all the markets of the world, it will typically invest a majority of its assets in the securities of companies and governments located in North and South America, Europe and Asia.

In making investment decisions, the G.A. Team aims to identify the long-term trends and changes that could benefit particular markets and/or industries relative to other markets and industries.

Distributions

June and December

Management costs as at 30 June 2010

0.2%

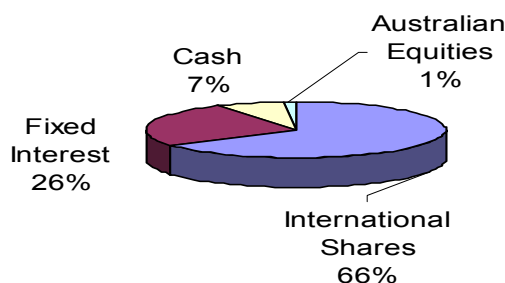
Performance (%) as at 30/4/2011

Total return	3 mths	1 yr	3 yrs	5 yrs#
Fund (net fees)	4.55	12.32	4.96	6.67
Index*	1.07	4.62	0.53	1.97
Relative Performance (post-fee)	3.48	7.70	4.43	4.70

* Morningstar Aus Msec Balanced

#Fund inception 27 June 2005

Asset Allocation as at 31/03/2011



Index performance

The table represents returns across the major world indices for the past 12 months to 2 June 2011.

Index	Day (%)	Week (%)	MTD (%)	YTD (%)
S&P/ASX 200	-2.27	-1.28	-2.29	-3.05
ASX 200 Property	-1.30	-0.34	-0.99	1.60
S&P 500 Comp	-0.12	-0.57	-2.40	4.40
NASDAQ	0.15	0.43	-2.19	4.54
Nikkei 225	-1.69	-0.07	-1.43	-6.59
Euro Stoxx 50	-1.59	-0.62	-2.77	-0.37
MSCI Wld \$US	-0.68	-0.02	-2.11	4.81
EPRA /NAREIT GI	-0.87	-0.14	-2.22	6.38
Oil (WTI) \$US bl	0.11	-0.32	-2.24	9.87
Commodities US\$	0.28	0.28	-1.24	7.12
AUD/USD	0.13	0.04	0.12	4.86

~ Above Index Performance figures sourced from Advance daily report.

Budget Summary

Federal Treasurer Wayne Swan has handed down a 'conservative' Budget, promising to return it to surplus in 2012-13. The Treasurer's Federal Budget contained very few surprises. Key features affecting a financial plan include: minor amendments to superannuation and capital gains taxation; and a number of social welfare measures.

Budget changes including changes to superannuation and taxation provide a good opportunity to review your financial plan to ensure your strategy and implementation is still appropriate.

Tax relief for unintentional breaches of contribution cap rules

From 1 July 2011 excess concessional contributions of up to \$10,000 will be refundable for first time breaches – the excess amounts will be taxable at personal marginal tax rates rather than 31.5% plus the super fund rate of 15%.

. No relief has been provided for those who breach their concessional cap in 2010/2011 or previous financial years.

Additionally the measure may resolve some excess non-concessional contributions tax problems. For example, some large excess non-concessional contribution tax assessments stem from situations where excess concessional contributions are also measured against the non-concessional contribution cap, potentially inadvertently triggering the two year bring forward rule and ultimately leading to excess non-concessional contributions. The proposed measure may reverse this process.

Higher concessional contribution cap for those over 50 from July 2012

The key point being clarified from an earlier consultation paper is the higher over 50s concessional (pre-tax) cap for eligible clients will be \$25,000 greater than the lower threshold – the lower threshold is currently \$25,000, indexed with AWOTE in \$5,000 amounts (the higher concessional cap component will not be indexed). This ensures the total concessional cap for those aged 50 or over will continue to rise as the standard concessional cap is indexed.

There is still significant uncertainty around the operation of the proposed higher concessional cap and consultation with industry is ongoing.

Reduced minimum payments for account-based pensions

The Government will phase out the GFC-related draw down relief for account-based, allocated and market linked (term allocated) pensions from 1 July 2011.

During the 2011/12 year the minimum draw down amount will be 25% less than the usually applicable amount and will then return to normal in 2012-13.

If you have commenced a transition to retirement pension and salary sacrifice any income, you may need to adjust your salary sacrifice levels to allow for the increased minimum pension drawdown requirements.

ATO Levy

The ATO levy of \$150 for a Self Managed Superannuation Fund will increase to \$180. The levy will apply from 1 July 2010.

Minors' trust distributions

Remove minors' eligibility for low income tax offset on unearned income, effectively reducing minors' tax free threshold from \$3,333 to \$416 from 1 July 2011.

** Extracts have been sourced from the Macquarie MASTech Technical Updates federal budget 2011 summary.

Superannuation

The Budget reforms relating to self managed superannuation funds (SMSF's) were previously announced as part of the 'Stronger Super Government Response to the Super System Review' announced on 16 December 2010.

The reforms include:

- The introduction of administrative penalties that the ATO can apply in cases of non compliance by SMSF trustees;
- The introduction of knowledge and competency requirements on SMSF service providers, including the registration of SMSF auditors;
- Tightened legislative restrictions on SMSF investment in collectables and personal use assets;
- Requiring SMSFs to value their assets at net market value and the ATO to publish valuation guidelines;
- The appointment of the ATO to collect and publish data on the sector;
- Changes to the registration and rollover processes, and illegal early release penalties to deter the use of SMSFs for illegal activity.

Most changes will have effect from 1 July 2012. The tighter legislative standards for investments in collectables and personal use assets will apply to new

investments from 1 July 2011, with all holdings of collectables and personal use assets to comply by 1 July 2016.

The above extract has been sourced from the Ord Minnett Research Strategy Bulletin June quarter 2011 and May Monthly 2011. Please refer to their disclaimer at the end of this document.

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

Risk Insurance

When was the last time you reviewed your insurance?

McLean Delmo Financial Services has an in-house Risk specialist who can help review your current insurance policies. We can consider whether any policies are still appropriate; and if there are any better options available.

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

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 lending institution.

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

☎ For any assistance, please contact Daniel Zadnik or Jarrod Hodges at McLean Delmo Finance and Lending on 9018 4665.

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