

Forsythes Financial Planning Money Matters



Make no little plans; they have no magic to stir men's blood...

Make big plans, aim high in hope and work.

Daniel H. Burnham - US architect & city planner (1846 - 1912)



WELCOME TO THE FORSYTHES FINANCIAL PLANNING - MONEY MATTERS - FIRST EDITION 2006

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*The Forsythes
Financial Planning
Team wishes
everyone a happy
and safe Easter*



News Update

John O'Connor - Partner

The first quarter of 2006 has been a busy time for us here at Forsythes. I am pleased to announce that in March we moved to a new workspace on the 4th floor of our current building. This move is a result of continued growth within both the Financial Planning and Accounting divisions of the firm, which saw us outgrow our old space on the 5th floor. In addition to increased space for our staff, our new area incorporates several new client meeting rooms. We look forward to welcoming all of our clients to our new facilities over the coming months.

Recent legislative changes, such as the introduction of 'Super Splitting' and the new 'Transition to Retirement' provisions, have provided significant planning opportunities for many of our clients over the past few months. The article on Page 3 provides a brief explanation of the new 'Workforce Pensions' and the case study illustrates the potential benefits of these new rules for people over age 55. If you think this type of strategy could apply to your circumstances, please discuss this further with your Forsythes adviser. Or, if you have a friend or relative who you think could benefit from this type of strategy, remember that our advisers are always appreciative of referrals and are happy to hold an initial meeting free of charge or obligation.

On behalf of all of the Forsythes Financial Planning team, I wish everyone a happy and safe Easter.

Staff Profiles



Kate Mantle

Congratulations to Kate who has recently completed her Advanced Diploma in Financial Services (Financial Planning)!

Kate currently fills the roles of Account Manager and

Paraplanner within our team. Following her recent appointment as our newest Authorised Representative, she will now be progressing into an assistant Financial Planner role.

She has recently commenced studying towards her Certified Financial Planner (CFP) qualification, which is the highest designation available in the Financial Planning industry.

Kate joined the Financial Planning team at Forsythes almost four years ago, following several years experience in a small Newcastle Financial Planning firm and the banking industry.

For the last two years, Kate has been involved in the Hunter Star Foundation's Mentor Program, which helps at risk teenagers through difficult times in their lives. She is also an active member of the Hunter Business Women's Network.



Tristen Cosgrove

Tristen has been with Forsythes for over 18 months now, joining us as a part of the Serendipity Financial Planning team.

As a qualified financial adviser, he enjoys working closely with his clients to help them achieve their financial goals. He has almost ten years experience in financial planning and, prior to this, three years working as an accountant, specialising in superannuation.

Tristen holds a Bachelor of Commerce from the University of Newcastle and a Diploma of Financial Planning. This year he will commence studies to gain his Certified Financial Planner qualifications.

Tristen is married, with two young children. Apart from spending time with his family, his interests include fishing and cricket.

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2006 SPECIAL EVENT

We invite you to attend & support the

Forsythes 'Collectors Care' Art Exhibition

in support of the
Samaritans Foundation

Paintings, sculptures, drawings, photographs, fine art prints and ceramics will fill the Hunter Street TAFE Gallery with a joyous celebration of artistic talent in the 2nd Annual 'Collectors Care' Art Exhibition.

Staff from the TAFE and the University of Newcastle, as well as selected individual artists, have submitted works that will be available for no more than \$1000.

A third of the proceeds will be donated to Samaritans supporting their work with the disadvantaged in your community.

Dates: Thursday 15th June 2006 - Sunday 25th June 2006

Opening: Thursday 15th June 2006 at 6pm

Exhibition Times: Monday to Friday 12pm-6pm, Sat/Sun 12pm-5pm

Location: Hunter Street TAFE Gallery, 590 - 608 Hunter Street Newcastle West

Cost: Free

More Details:

Phone
Samaritans
on
4969 0000



PART THREE OF OUR FOUR PART SERIES - STAGES OF LIFE

50s

Hitting your fifties is a milestone and the next decade or so can represent another period of great change.

Children are settled in jobs or graduating from university, you're deciding the best time to retire and wondering whether "empty nest" syndrome is to be feared or hoped for. For some, the scent of a seachange is in the air.

Sound financial advice is critical at this time.

By this stage, many will have amassed a considerable amount of wealth, particularly in their home and their superannuation – probably the two biggest assets that people have leading into retirement these days.

In this age group you may also have people receiving inheritances, or they're at the point where they're thinking of selling a small business in preparation for retirement. Any extra lump sums provide an opportunity to top-up super.

Don't forget the considerable tax advantages of spreading your super between yourself and your spouse.

And there's another tax-saving strategy that shouldn't be overlooked: recontributions. If you retire at 55, you've got an option to take up to \$129,751 (2005/06) out of your superannuation account tax-free. If you then repay that into your super fund as an 'undeducted contribution', when you later draw an income from your super fund, part of it is not taxed.

Some of these strategies can be tricky, so it's best you speak to your Forsythes financial adviser who can provide you with more information.

Goals in your fifties

- Deciding on the best time to retire
- Maximising superannuation
- Selling the family home
- Planning a 'seachange'

Save Tax & Increase Retirement Savings with Transition to Retirement Pensions

New superannuation legislation came into effect 1 July 2005. Under the new legislation, people who have reached their preservation age can access their superannuation without the need to retire.

What are the requirements?

To meet the transition to retirement rules, a person must have reached their preservation age, currently between 55 and 60 years of age. There is no requirement for any termination or change in employment status.

The income stream must be a non-commutable income stream, which means no access to lump sum payments until becoming fully retired. If a non-commutable allocated pension is commenced, once a person retires from gainful employment (as defined under superannuation law) or attains age 65, the income stream can then be commuted to cash or will effectively revert to a commutable allocated pension.

Is this strategy worthwhile?

Commencing an income stream earlier will draw down on your capital faster than if you were to retire at a later age. However, there are some significant benefits in salary sacrificing income to super while supplementing income from a non-commutable income stream.

Case study - Bob and Mary

Assumptions:

Bob and Mary are both aged 55 and want to continue working until age 65.

- ◆ Mary earns \$40,000 pa and has \$230,000 in accumulated super benefits (all post 30 June 1983 benefits).
- ◆ Bob earns \$100,000 p.a. and has \$500,000 in accumulated super benefits (all post 30 June 1983 benefits).
- ◆ Their super funds currently earn approx 9% pa and their respective employers will allow them to salary sacrifice up to 50% of their income.

The table below shows their tax position and accumulated super if they were to:

- ◆ do nothing (option 1).
- ◆ salary sacrifice 50% of their income to super and supplement the shortfall by commencing a non-commutable income stream (option 2).

You can see that under option 1, Mary will pay more tax over the 10 years to retirement and will have less in accumulated benefits. Bob will pay significantly more tax over this period and also have less in accumulated benefits.

If Bob and Mary had any undeducted contributions in their super accounts when they commenced the non-commutable income streams, their tax payable under option 2 would have been greatly reduced.

In the example, option 2 produces estimated savings of between \$30,000 and \$75,000 over 10 years. We view this as a conservative estimate and feel that savings could be further increased through personal financial advice. Please contact your Forsythes adviser to discuss further.

	Mary		Bob	
	Option: 1 No salary sacrifice	Option: 2 50% salary sacrifice	Option: 1 No salary sacrifice	Option: 2 50% salary sacrifice
Personal income and tax				
Income	40,000	40,000	100,000	100,000
Tax (year one)	8,460	8,460	32,050	32,050
Offsets		3,000		7,500
Net Income	31,540	34,540	67,950	75,450
Accumulated tax paid til age 65	84,600	54,600	310,690	235,690
Super accumulation				
Contributions	3,600	23,600	9,000	59,000
Earnings	21,024	2,124	45,810	5,310
Contribution Tax	540	3,540	1,350	8,850
Earnings Tax	3,437	347	7,490	868
Balance at end of year 1	250,647	21,837	545,970	54,592
Balance at age 65	565,149	354,469	1,246,218	886,172
Pension				
Income stream balance		230,000		500,00
Earnings		20,700		45,000
Drawdowns		20,000		50,000
Balance at end of year 1		230,700		495,000
Balance at age 65		242,292		412,198
Summary				
Total benefits (super & pension) at age 65	565,149	596,761	1,246,218	1,278,370
Net income in year 1	31,278	34,278	65,788	73,288
Tax paid over 10 years	87,220	57,220	342,120	267,120
Assumptions used in calculations				
◆ Superfund earning rate of 9% is pre tax and no allowance made for imputation credits				
◆ Employers will pay superannuation guarantee on top of base salary (pre sacrificing)				
◆ Excludes any co-contribution eligibility				

IMPORTANT INFORMATION

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Finger on the pulse

Investors Mutual Limited - Quarterly Sharemarket Commentary – March 2006

Main Factors Driving the Market in the March Quarter

The Australian equity market gained a further 9% during the first quarter of 2006 largely driven by an 18% rise in the Resource sector which continued to rally as the prices of base metals and gold reached fresh 20 year highs. The Industrials sector also had a good quarter, up 6.7%, thanks mainly to a strong quarter from the banks (up 9%) as well as a flurry of corporate activity with several takeover/mergers being announced over the quarter.

The US indexes, Dow Jones (+1.20%), S&P 500 (+1.24%) and NASDAQ (+2.62%), all posted positive returns despite another interest rate hike by the US Federal Reserve, which lifted the federal funds rate by 0.25 basis points for the fifteenth straight time to 4.75% in March. The rate hike was the first under new Fed Chairman Ben Bernanke. The key interest rate is now at its highest level in five years, with the Fed signaling more rate hikes ahead.

In Australia, the March quarter was dominated by reporting season news with most companies reporting their six monthly results to the end of December 2005. Resource companies like BHP and RIO fared best as they announced record results and special dividends, as they benefit from the current boom in commodity prices. Industrials had a mixed reporting season with many companies in the media, building materials and retail sector, such as Ten, Fairfax and Boral, reporting lack lustre results due to a slowdown in activity in their respective sectors.

In M&A news, John Fairfax announced it will acquire the four year old NZ internet auction site, TradeMe, for NZ\$700m – on the not inexpensive multiple of 15.6 times EBITDA. PBL announced it will pay US\$900m to US casino operator, Wynn Resorts, for a sub-concession to own and operate hotel casinos in Macau. Unitab and Tattersall's announced a merger-of-equals in an effort to create a diversified gaming company with \$3bn in revenue. ASX announced a merger with the Sydney Futures Exchange which will place the merged company, valued at \$5.3bn, in a better position to compete globally. The industrial services provider, Transpacific Industries Group rallied after offering to acquire Waste Management NZ for \$769 in cash.

In other relevant news, Coles Myer sold its Myer

chain, including its Melbourne CBD flagship property, to private equity group Newbridge Capital for a higher than expected price of \$1.4bn. Macquarie Infrastructure Group said it would spin-off its stakes in the Eastern Distributor, M4 and M5 toll roads as part of a portfolio restructure.

Given clearance by ACCC on its acquisition undertakings, Toll continued to pursue its hostile bid for Patrick offering \$5.2bn (\$7.66 per share) for the company. Toll also announced an "irrevocable agreement" to acquire a 60% interest in Singapore logistics provider, SembLog for \$534m, to be funded by debt, while Patrick moved ahead with its acquisition of freight forwarder FCL for \$134m in cash and continues to seek a break-up of its rail JV with Toll, Pacific National.

Woodside Petroleum had two positive announcements during the month. First, it progressed with its Pluto LNG project by signing a Heads of Agreement with Kansai Electric (KE) whereby KE will buy a 5% stake and 1.75 to 2.0 mtpa of LNG for 15 years starting in 2010. Secondly, it approved the Vincent oil field development for US\$720m with first oil expected in 2008.

Commonwealth Bank released an updated Business Strategy to be pursued under the leadership of new CEO, Ralph Norris. The Strategy update extends from the 'Which New Bank' (WNB) transformation program undertaken over the last three years. The WNB program entailed significant investment in, and improvement of, internal systems and processes. The next phase of the CBA strategy is largely externally focused, with a particular emphasis on improved customer service and reinvigoration of its business banking operation.

Management disclosed that group capital investment will likely double to \$400m p.a. over the next three years. However, it expects to fund this increase in capital expenditure (\$200m) from information technology cost savings and elimination of duplicated costs in the group. Savings from the WNB transformation program in 2006 should also underpin this increased business investment.

Management is confident that its strategy will deliver profitable market share growth, ongoing productivity improvements (3-4% p.a.) and increasing dividend growth. CBA expects to achieve EPS growth exceeding its peer group, implying 9-10% p.a. over the next three years. Despite the recent strong share price

performance following a robust 2006 interim result, CBA remains reasonable value trading on a 2007 P/E of 13.5x and a dividend yield of 5.2%.

Publishing and Broadcasting Limited (PBL) announced that it had acquired a sub-concession from US casino operator, Wynn Resorts, to operate casinos in Macau for US\$900m. As part of the deal, 40% of the sub-concession has been sold to the Melco JV resulting in both PBL and Melco now holding a 50% interest in their Asian gaming joint venture. The positive aspect of the deal is that PBL now has greater control over its investments in Macau. It no longer has to pay an estimated 22% of gross gaming revenue as a fee to SJM for the operation of the casino and, in addition, PBL now has flexibility over the number of gaming machines and tables it can operate in each casino. We continue to consider PBL as a core holding of the fund with predictable earnings from its gaming and magazine businesses and growth coming through from its associate investments including Foxtel, Ninemsn and Seek. PBL continues to trade on a reasonable multiple of 14.8x excluding its portfolio investments.

Following **Alinta's** aggressive \$8.9b takeover bid for bigger rival **AGL**, the AGL Board rejected Alinta's merger/demerger proposal stating that "it substantially undervalues AGL for a change of control". In response, AGL issued its own merger proposal offering Alinta shareholders 0.564 AGL shares for each Alinta share, which matched Alinta's original proposal. The main difference between the two proposals is AGL's slightly greater synergy benefits expected from internal management of Infrastructure and no cross ownership, as opposed to Alinta's external management model involving Energy owning 20% of Infrastructure. Our expectation is that Alinta will have to improve its offer substantially to be successful.

Market Outlook for the coming 3 months

The Resource sector is likely to stay volatile as the bullish hypothesis of "stronger for longer" is tested as new supply hits the market.

Industrials are likely to remain reasonably well supported by continued low interest rates and a continued benign economic outlook, although the valuation of many sectors, such as healthcare and mining contractors, remains stretched in our view.

Source: Investors Mutual Limited. ABN 14 078 030 752
AFS Licence No. 229988 - April 2006.

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