

Forsythes Financial Planning Money Matters

“ In all realms of life it takes courage to stretch your limits, express your power, and fulfill your potential... it's no different in the financial realm. ”

Suze Orman

WELCOME TO THE FORSYTHES FINANCIAL PLANNING - MONEY MATTERS - SECOND EDITION 2005

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News Update

John O'Connor - Partner

Another financial year has come to a close and we are happy to report solid investment results for our clients.

The last quarter has seen considerable volatility across all asset classes. The share market suffered a significant decline over the months of March to May as company warnings of falling future profitability unnerved investors.

The share market has recently rebounded to new highs, however the rises have been across a narrow range of companies, particularly Banking and Resource stocks - there is little evidence of a more widespread and hence sustainable recovery.

Little has changed in medium term economic fundamentals to warrant the current exuberance. We therefore remain cautious and have accordingly reduced clients' exposure to shares and property, preferring to wait for these markets to present better value before re-entering.

Forsythes ranked No.1



The **Business Review Weekly** magazine has published the results of their 'Accounting Top 100' survey.

The survey results has seen Forsythes being named;

No. 1 - Top Country Firm in Australia

No. 2 - Top Most Productive Firm

No. 5 - Top Fastest-Growing Firm

No. 22 - Top 100 Accountants

(Up from No.31 in last years survey)

This is a tremendous achievement, our second year in a row as Top Country Firm in Australia. An important characteristic of this outcome has been the clear focus on providing quality personal service to our clients. Working with our clients to achieve a genuine win/win situation will ensure the future success of Forsythes.

Staff News

Welcome Lance Swansbra and Darren O'Neill to our team.



Lance Swansbra

Lance joined our team as a paraplanner 6 months ago.

He recently graduated from the University of Newcastle with a Bachelor of Commerce, majoring in Finance, and has also just completed his Diploma of Financial Services through

Deakin University. Before joining Forsythes Lance worked as a paraplanner in a boutique financial planning firm based at Greenhills.

Lance is 24 years old and enjoys going to the beach and playing squash.



Darren O'Neill

Darren joined our team as a trainee paraplanner in March of this year.

Darren recently returned home to Newcastle after spending 12 months in Melbourne working for Bi-Lo as Senior Business Manager - Private Label (responsible

for developing the Bi-Lo brand products). Prior to this he was the NSW State Merchandise Manager for Bi-Lo.

Darren is 41 years old and married with 2 children. He enjoys playing basketball and watching the Hunter Pirates play and admits to not getting to the beach as often as he would like.

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The times of your Life



It's impossible to anticipate every expense you'll face throughout your life, but you can plan for some of the big ones. In your thirties, that may mean a new car or a trip around the world. In your forties, it's school fees and a mortgage. Maximising superannuation is a priority for your fifties, while in your sixties, it's all about looking forward to a comfortable retirement.

So whatever your goals are today, the first step is to talk to a financial adviser about your long-term financial strategy.

PART ONE - FOUR PART SERIES - STAGES OF LIFE

30s

For many, the 15 or so years from age 30 represent a period of fast-paced growth and change. Careers are developing and you may have married and started a family as well as bought a home.

Craig Day, Technical Services Manager at Colonial First State, suggests a two-pronged attack for those in their thirties: reducing or eliminating debt that's not tax deductible (the mortgage on the family home, credit cards and personal loans); and beginning to think about superannuation.

"Although retirement seems a long way off all of our modelling shows that the earlier you start trying to build up your superannuation, the more effective it becomes for you," says Craig. It's the combination of the tax advantages attached to super and the power of compounding returns that helps make it the most effective long-term investment.

Gearing is another strategy for those with a long investment horizon. That's where you add borrowed funds to your own funds and invest in, say, shares to maximise your investment returns. But beware, if the market drops you'll be subject to a margin call, which is when the lender asks you to pay back some of the money you've borrowed.

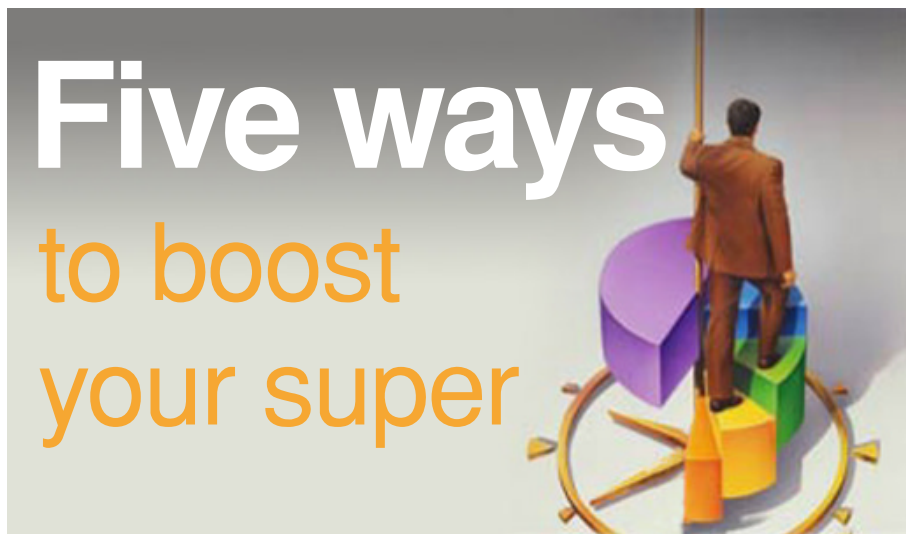
A gearing strategy can be high risk and is best decided with your Forsythes financial adviser so that you're aware of the risks involved.

Importantly, don't forget to assess your insurance needs during these years. Income protection cover and death and disability insurance could be crucial, particularly while expenses are high. Check your super fund's insurance offering first, as premiums are often lower. Your Forsythes financial adviser can help determine the level of cover you require, and ensure your beneficiaries get the most out of any death benefit payments.

Goals in your thirties

- Saving for a deposit for a home and/or investment property
- Saving for children's education
- Paying off the mortgage
- Adequate insurance

Source: Colonial First State 2005



Five ways to boost your super

Imagine the day you retire and have access to all your superannuation money. How much will you have? Want more? Here are some tips on how to get more in retirement through superannuation.

1 Save up to 33.5% tax via salary sacrifice

Salary sacrifice is where you give up some of your cash salary that's paid into your bank account and instruct your employer to pay it into your super account instead. As this is done before income tax is deducted – and because super contributions are taxed at 15%, this means you could save up to 33.5% on tax (48.5% less 15%)*. Salary sacrificing also reduces your cash salary which may put you into a lower tax bracket and you could end up paying less tax overall.

Example: Bob elects to take \$60,000pa as cash salary and \$5,000pa as salary sacrifice into his super fund. Assuming Bob's super fund returns 6% pa for 20 years, this gives him almost twice

| Use salary sacrifice | | | |
|---|---------------|--------------|---|
| | Outside super | Inside super | Financial benefit (inside super minus outside super) |
| Salary sacrificed | \$5,000 | \$5,000 | |
| After tax | \$2,575 | \$4,250 | |
| Plus 6% return (year 1) | \$155 | \$255 | \$100 |
| Minus tax on performance returns (year 1) | \$54 | \$26 | \$24 |
| Financial position after year 1 | \$2,680 | \$4,479* | \$1,799 |
| Financial position after year 20* | \$76,263 | \$151,305* | \$75,042 |

^Assumes pre-tax return of 6% pa, every year for 20 years. +Lump sum tax may be payable on this amount.
*Assumptions: Marginal tax rate is 48.5%. Superfund is taxed at 15%.

These are just a few tips to help get you thinking, there are plenty more out there you may be able to take advantage of. We recommend you speak to your Forsythes financial adviser to find out more on how you can maximise your super for retirement... it can sneak up on you.

as much money than if he invested the \$5,000 outside super in an identical investment also returning 6% pa (see below).

Any traps? Salary sacrifice may reduce other benefits you may be entitled to such as holiday pay or leave loading. You may also receive less employer contributions if they are based on actual salary paid to you.

2 Take out insurance with your superannuation

Insurance is a very important part of your financial planning as it provides you and your family with financial security should something happen to you. Linking this insurance to your super can potentially be both cost and tax-effective. You may be able to reduce your premiums – in some cases by almost 50%.

The same tax deductions, offsets and other concessions that apply when investing in super also apply to contributions made to purchase insurance through a super fund, for example you can salary sacrifice into super to purchase insurance.

3 Consolidate your superannuation

If you've changed jobs over the years you're likely to have several super funds. If one of these funds happens to have a pre-July 1983 component, you might find you're sitting on a very valuable strategy.

When you merge super funds, your pre-July 1983 service is applied to your combined benefit. As a result, the pre-July 1983 component is increased and your post-June 1983 component is decreased. What does this mean? Not much in the accumulation phase – but when you withdraw your funds – it could mean more in retirement!

| | Pre-July 1983 | Post-July 1983 |
|-------------------|--------------------------|----------------|
| Tax on withdrawal | 5% at your marginal rate | Up to 31.5% |

Any traps? There may be termination penalties as well as investment and/or tax implications. If you have insurance cover with your existing super fund, will you be adequately covered during the transfer process?

4 Offset Capital Gains Tax by making a super contribution

When you sell an asset, Capital Gains Tax (CGT) can wipe out a large part of your profit (half of your gain can be taxed at up to 48.5% depending on how long the asset has been held). So if you've recently sold (or plan to sell) an asset, you can legitimately minimise this tax by contributing to super.

If you're self-employed, substantially self-employed or under 65 and not working, you may be able to claim a tax deduction for the first \$5,000 you contribute to super, plus 75% of the remaining contribution up to your relevant age-based Maximum Deductible Contribution limit. This tax deduction can then be used to offset your capital gains tax liability.

Any traps? Contributions tax of 15% is applied to the tax-deductible part of the super contribution. Ensure you do the numbers as net tax savings may still outweigh the CGT liability. To offset the CGT the tax-deductible super contribution needs to be made in the same financial year as the asset is sold.

5 Build up your spouse's super and you can save tax

If your spouse's income is less than \$13,800 and you make a spouse contribution on their behalf, you may be able to receive a tax offset of up to \$540 (18% of the first \$3,000 contribution). This tax offset may be able to be used to offset any other tax liability you have.



Finger on the pulse

MARKETS IN PERSPECTIVE

An overview of investment markets provided by Hans Kunnen, Head of Investment Markets Research for Colonial First State.

Economic Commentary

June saw confirmation that the economy is slowing. Building activity is weak, retail sales are soft and economic growth is below trend. Unemployment remains stable - for now.

The national accounts for the March quarter showed that economic growth was 1.9% for the year to March. This is a far cry from the 4.1% growth a year earlier. The weakness in the housing sector and a high level of imports have kept growth below trend.

Building approvals rose 1.8% in April but are down 15% over the past year. Weaker house prices and three years of above average construction are dampening demand for new housing.

Retail sales have grown a mere 2.8% in the last 12 months, significantly less than the 7.5% growth the same time last year.

The Australian dollar rose against the US dollar (USD) during June. It started the month at US 75.79 cents and ended it at US 76.18 cents. The AUD bought 0.4252 UK pounds at the end of June and 1.09 NZ dollars.

Australian Shares

The Australian sharemarket shrugged off record oil prices and several profit warnings to finish the financial year on a positive note. The S&P/ASX 300 Accumulation index rose 4.8% in June to be up 26.0% over 12 months.

While rising oil prices hurt at the petrol pump, they have been a boon to the Australian sharemarket. Australia is a net exporter of energy with companies such as Oil Search (+27.9%), Santos (+12.3%) and Woodside Petroleum (+18.2%) all doing well this month. Not surprisingly, energy was the strongest sector during the month rising 13.3% to be up 67.2% for the financial year.

The month of June was also kind to the materials sector which rose 8.7%. The materials sector includes metals and mining companies; construction materials and

chemicals companies. Companies in the sector to perform well in June were BHP Billiton (+8.8%), James Hardie Industries (+13.8%) and Newcrest Mining (+30.7%).

The materials sector rose 36.6% in 2004-05 as commodity prices rose and as the US housing sector continued to expand. Ongoing growth in China will aid the sector in 2005-06 as would a pick up in demand from Japan.

The weaker sectors in June included telecommunications (+0.4%), consumer discretionary (+1.7%) and utilities (+1.7%). These sectors appear subject to weak earnings growth in a slowing economy and failed to keep pace with the rest of the market. Companies from these sectors include Telstra (+0.8%), Harvey Norman (+2.0%) and Alinta (-1.2%).

June saw both encouraging and disappointing corporate news. News Corporation announced a US\$3 billion share buyback; Brambles provided a positive performance update while Macquarie Bank received upgrades from the broking community. At the other end of the scale, Flight Centre, Brazin, Village Life, Caltex and Ansell all warned that profits would be weaker than expected.

Also on the corporate front, Telstra and the Commonwealth Bank announced the appointment of new CEOs.

Over the course of 2004-05 there were some very strong performances among the top 100 companies. Aristocrat Leisure rose 146% as its gaming machine business supplied a global boom in gaming; Oil Search rose 136% on the back of strong oil prices while Macquarie Bank (+82.3%) found support for its strong and growing base of fee income.

At the other end of the spectrum in 2004-05 were Multiplex (-23.1%), News Corporation (-11.8%) and Harvey Norman (-8.7%). Multiplex issued a major profit warning in May, News Corporation is in the process of moving out of Australian share price indices while Harvey Norman has been hit by the slowing economy.

In August, companies report on their profits for the second half of 2004-05. Of most interest will be the outlook statements. Many companies are expected to express concern over the pace of domestic economic growth while others will point to the strong performance of commodity prices. It will be difficult for most companies to repeat the strong performance of 2004-05.

Fixed Interest

The Reserve Bank left the official cash rate unchanged at 5.5% following its June board meeting. While no new information was released, it would appear the RBA still believes the economy has underlying strength which may need higher interest rates at some stage in the cycle.

With the RBA on hold and indications of a soft economy emerging in the data, bank bills traded in a narrow, 3 point range. Ninety day bills began the month at 5.68% and ended it at 5.67%.

The UBS Australian Bank Bill index rose 0.46% in the month to be up 5.64% over the past 12 months.

Ten year Government bond yields ended the month lower but not before some modest volatility. Starting the month at 5.14%, ten year yields rose to 5.28% before falling back to 5.11% at the end of June. Domestic bond yields are influenced by global markets and in the US higher oil prices are being viewed as a drag on growth.

Also keeping bond yields low has been an increase in corporate savings and strong demand from Asian central banks for US bonds. Bond yields have fallen around the globe and in Germany are at their lowest since the 1920s. Such low long-term yields do not appear to be rewarding investors for the risks taken and suggest caution ahead of locking funds away for such a long period.

The UBS Australian Government Bond index rose 0.59% during June as a rise in capital values, due to lower bond yields, added to regular interest income. The index was up 8.05% over the past 12 months.

Listed Property

The S&P/ASX 200 Listed Property Accumulation index rose 4.8% in June to be up 18.1% for the financial year. Despite underperforming the broader equity market, listed property has provided its sixth straight year of returns in excess of 12%.

In June, listed property was carried up with the rest of the market but also benefited from a decline in bond yields. While the economy has slowed, demand for property remains firm and the sector continues to generate attractive yields, estimated at 7.2%.

Over the financial year, the industrial sector returned 38.0% while the large diversified trusts rose only 5.4%. Retail was up 23.8% while commercial or office trusts rose 19.9%.

On the corporate front, General Property Trust (GPT) severed its relationship with Lend Lease and internalised its management. It also undertook a joint venture project with Babcock and Brown to acquire some European property assets. Also Centro announced plans to spin off a number of its assets into a new listed property trust.

The listed sector still provides solid dividend income with a yield of 7.4%. However, the price increases of the past three years have made listed property expensive by historical standards.

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