

Money Matters



With money in your pocket, you are wise and you are handsome
and you sing well too.



A Yiddish Proverb

WELCOME TO THE FORSYTHES FINANCIAL PLANNING - MONEY MATTERS - FOURTH EDITION 2004



The Team (from left to right) - Lauren Mears, Louise Parker, Kylie Aiello, Wendy Hose, Desley Niccoli, Allan Goodwin, Rani Benton, Anna Bevan, Desley Brunette, Tristen Cosgrove, Bruce Killingly, Kate Mantle, Nick Grayson & John O'Connor.

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Wishing you a very 'Merry Christmas' from the Forsythes Financial Planning Team

The end is rapidly approaching for what has been an exciting and very successful year at Forsythes. Buoyant investment markets, combined with the diligence and focus of our Investment Review Committee, have provided solid financial returns for our clients.

The addition of the Serendipity Team to our ranks has provided valuable depth and experience in Investment and Financial Planning Strategy. We have spent the last three months getting to know each other better and selecting the very best operational aspects of each practice to combine, creating the best Forsythes Financial Planning for the future.

I express my personal thanks to Allan Goodwin in this regard for his dedication and focus on our clients' best interests at all times throughout the process of integration.

We have had a strong investment year with significant growth in the critical areas of Australian Shares and Property Securities. We will have a far more challenging year in 2005 as we

progressively reduce our investment allocation to growth assets to hedge against the ever present possibility of a market correction, whilst seeking satisfactory returns.

May we take this opportunity to thank all our clients for your support and friendship throughout the year. We wish you all a Merry Christmas and a happy and prosperous New Year.

John O'Connor - Partner

Christmas New Year Closure

Forsythes will be closed for the Christmas break with the last working day for the year being Thursday 23 December 2004, reopening on Tuesday 4 January 2005.

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\$erendipity says...

Quarterly report of news & views

Issue No. 39 - December 2004

Self Funded Retirees

The Government will make a new payment of \$200 per year to self funded retirees who have a **Commonwealth Seniors Health Card**. This payment will be made via Centrelink twice per year in June and December, starting December 2004.

Age Care Hostels - Accommodation Bonds

Accommodation Bonds are currently assessable as an asset for Centrelink purposes. The Government proposes to exempt these Bonds from the Assets Test until the Bond is refunded when the person leaves Age Care. This measure should apply from **1 July 2005**, once legislation has been passed.

Superannuation - Government Co-Contribution Scheme

Legislation has now been passed to:

- ◆ Increase the co-contribution to \$1.50 for every \$1 of personal contributions.
- ◆ Work test requirements for any person under the age of 65 have been abandoned; that means contributions can be made by, or on behalf of, any person under the age of 65.

Note however, such contributions will still be subject to Preservation rules (generally, retirement after age 60).

- ◆ Furthermore, people aged 65 - 74, if they pass an annual work test (based on the previous year) will no longer be forced to take accrued benefits (from Superannuation) at that age.

Superannuation Concessions Extended for Individuals of Interdependent Relationships

Previously, tax concessions on Death Benefits were generally available for children, spouses or financially-supported dependents (usually lump sum payments with no tax liability at all).

While there are still more regulations to be passed, it is proposed that from 30th June 2004, the tax concessions will expand to include people in an "interdependent" relationship. Broadly, a person will have an interdependent relationship if:

- ◆ They have a close personal relationship; and
- ◆ They live together; and
- ◆ One or each of them provides the other with financial support; and
- ◆ One or each of them provides the other with domestic support and personal care.

While that may sound a bit restrictive (all four conditions need to be satisfied) it could extend tax benefits, for example, to:

- ◆ Two elderly siblings who reside together and are interdependent;
- ◆ A family who care for their elderly grandparent in their home;
- ◆ Same-sex couples who reside together and are interdependent;
- ◆ The person with a disability who may live in an institution, but who was nevertheless interdependent with the deceased.

If you believe any of these situations affect you, please raise it with your adviser at some stage.

Life Expectancy Tables

Apart from the Government's largess in the forgoing situations, the new life expectancy tables published 25th June (to be used for all pension calculations on pensions commencing from 1st January 2005) mean most people reading this have now had an additional one to two years added to their life expectancy!



This will be the last issue of 'Serendipity Says'.

To the many, many clients who wrote and rang, to enquire and comment on my health and retirement - too many to personally respond to - I am sincerely grateful.

My 19 years in financial planning have been the most satisfying years of my life, and I will remain indebted to you wonderful people.

Allan Goodwin

Money Matters Email Request Form

Yes I would prefer to receive my future Money Matters via email.

Please fill in your details and fax to... 02 4929 1435
or email Rani on... rbenton@forsythes.com.au
or post this form to...

Forsythes Financial Planning
Level 5 Hunter Mall Chambers, 175 Scott Street
Newcastle NSW 2300

Name	_____
Company	_____
Address	_____

Phone	_____
	Fax
Email	_____

Top of mind

Frequently asked questions

Keeping you up-to-date with topical issues around your investments

How can franking credits reduce tax?

Peter talks about how you can make franking credits work for you, and the magic of 43%.

Answer by Peter Hogan, Head of Technical Services - Colonial First State

Australia's taxation rules and the system known as 'imputation' mean franked dividends paid by companies have a significant advantage over unfranked income. Investors should consider the impact of imputation when comparing investment returns. An estimated 83% of dividends paid by S&P/ASX300 companies are franked, and therefore investors in any Australian share fund are highly likely to be receiving franked income.

Imputation basically means that the shareholder receives a credit for any tax already paid by the company. Tax paid by a company is allocated to investors by attaching a franking credit to the dividend payment. The investor combines the income received plus the franking credit when calculating assessable income, but the franking credit offsets some or all of the tax liability.

For example, if a company pays a \$140 dividend fully franked, the ATO treats the investor as receiving \$200 (the grossed-up amount) on which \$60 tax has already been paid, based on the company tax rate of 30%. For a taxpayer on a marginal tax rate of 30% (earning between \$21,601 and \$58,000), no further tax is payable. A higher income earner pays the difference between their marginal tax rate and 30%.

Subject to certain rules, investors are eligible for a refund of excess franking credits if their basic tax liability is less than the value of the franking credit. In other words, franking is not wasted regardless of your tax rate.

Sounds complicated? Then just remember a fully franked dividend is 43% better than an unfranked dividend or other form of income. A fully franked 5% return is equivalent to about 7.15% unfranked.

Investors should check with their financial adviser or accountant for the impact of franking in a particular circumstance. For example, franked dividends are payments made from profits earned in Australia, and there may be reduced or no franking on dividends paid by companies with overseas operations.

Franking credits in managed funds work in exactly the same way as they do for direct shares. The fund receives the franking credits which result in additional income.

As super funds can't pay distributions (income), the super fund gets the benefit of franking which is reflected in the unit price. So when you are thinking about investing, talk to your adviser about franking credits!

What are the differences between co-contributions and spouse contributions?

Answer by Peter Hogan, Head of Technical Services - Colonial First State

Co-contributions:

Last year the Federal Government introduced some new rules to make it more attractive for low income earners to contribute to super. For any personal, after-tax contributions you make to your super account, the government will 'co-contribute' provided you meet the eligibility conditions.

To be eligible for the incentive, you must be under 71 years of age and earning assessable income plus reportable fringe benefits of less than \$58,000 a year.

The maximum co-contribution is \$1,500 for a contribution of \$1,000.

Spouse contributions:

This concept was primarily introduced by the government to increase the amount of super held by low income earning spouses. The key differences to the co-contribution incentive are that:

- ◆ The contributions are made by one spouse into an account held by the other (whereas with co-contributions you make contributions into your own account).
- ◆ The receiving spouse does not have to be working, but must be less than 65.
- ◆ The contributing spouse can receive a tax rebate (\$540 maximum).
- ◆ You must be a permanent resident of Australia.



Who should have a will?

Answer by Paul Cleary, Corporate Solicitor - Colonial First State

A will is a binding legal document that sets out what is to happen to the assets of a person when they die. It is very important to understand who should have a will and how to make one. Everybody should have a will, even those with only a modest level of assets or income. The reasons for this are twofold – personal assets usually increase over time and a will provides certainty as to who is to receive the assets. If there is no will, there is a legal formula that sets out how the assets of a deceased person are to be shared. Having a will therefore helps avoid the significant delays or litigation that can occur where a person dies without a will. A will can also assist the trustee of a deceased person's super fund in deciding to whom the superannuation benefits are to be paid.

Parents of minor children or people at greater risk in their jobs or in their out-of-work activities, such as miners or light aircraft pilots, should consider making a will right now if they have not already done so. People going overseas for extended periods of time also often find it useful to make a will to give them peace of mind.

It's important to bear in mind that a will is not just about assets – there are a number of other matters that can be included in a will such as guardianship of children or organ donation, or other wishes relating to the administration of the assets or property.

The safest way to make a will is through a solicitor. Whilst there are cheaper alternatives to solicitors available such as will kits, having a solicitor draft your will ensures that your wishes are properly recorded and that your will is drafted and witnessed properly.





Finger on the pulse

Markets in perspective

The September quarter saw oil prices soar, bond yields fall and the Australian sharemarket reach record highs. Domestic companies reported a strong rise in profits while offshore sharemarkets struggled in the face of a slower US economy and higher US interest rates.

Fixed interest and cash

There have been no changes to the Reserve Bank of Australia's (RBA) target for official interest rates since the December quarter 2003. The target remains at 5.25%, having stood at 4.75% a year earlier.

The stability in interest rates reflects ongoing low inflation and the steady, but not excessive, pace of economic growth. However, the RBA believes the current cash rate is still stimulating the economy and is prepared to lift it if the RBA's inflation target comes under threat.

The UBS Australia Bank Bill index returned 1.4% during the September quarter and 5.5% over the 12 months to 30 September.

Longer-term interest rates fell during the September quarter. These rates are more sensitive to global trends and the decline in bond yields reflected both low global inflation and the prospect that US economic growth will slow in 2005.

Ten-year government bond rates ended the September quarter at 5.47%, almost half a percent lower than at the end of the June quarter 2004 when long bond rates stood at 5.87%.

At the end of September the decline in longer-term interest rates means there is hardly any difference between overnight cash (5.25%), one-year government bonds (5.12%), three-year bonds (5.25%) and five-year bonds (5.35%).

Property securities

The listed property sector returned 5.4% in the September quarter, marginally outperforming the broader sharemarket which returned 5.3%. The sector was boosted by a strong profit reporting season, continued merger activity and a decline in domestic bond rates.

The profile of the listed property sector is changing. Trusts have taken on more debt, have lifted their offshore exposure and several have added property development to their activities.

These changes have the potential to make the sector more cyclical than in the past. Income is now more likely to be affected by interest rates,

currency and property development cycles than it was in the past.

The sector continues to provide solid income returns with a prospective yield of 7.2%, however strong demand for listed property trusts has pushed the sector's premium to net tangible assets to 48%, close to its highest on record.

While changes to the structure of trusts may warrant some additional premium, the current premiums appear excessive by historical standards and could make future capital gains more difficult to achieve.

The past 12 months have seen 'super-normal' returns from listed property due primarily to consolidation within the industry. The strongest sector has been retail which rose 33.7%. Of the other major sectors, industrial returned 27.8% and the commercial sector 18.6%.

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Australian shares

The Australian sharemarket rose 5.3% in the September quarter as economic activity remained firm. Interest rates stayed low as companies reported solid earnings growth. The domestic market's rise to record levels came despite high oil prices and declines in major global markets. Over the past 12 months, the sharemarket is up 20.7%.

The Australian share-market rose 5.3% in the September quarter as economic activity remained firm.

During the September quarter, companies announced their results for the second half of 2003-04. Across the market, earnings were up over 20% on the same period the previous year.

Companies in the resources sector reported particularly strong earnings growth as commodity prices rose to their highest levels in over 10 years. Strong earnings results also came from the insurance and media sectors.

During the September quarter the stronger performing sectors included resources (+13.6%), retailing (+12.8%) and utilities (+13.7%). Dragging their heels were banks (-2.6%) and media (-4.1%).

Looking forward, the market will have to cope with higher US interest rates, continued volatility in oil prices and potentially some slowing of earnings growth domestically and in the US. Supporting the market should be ongoing domestic and global economic growth and continued low inflation. The next domestic profit reporting season begins in early 2005 and will provide the hard evidence on how Australia's companies are performing.

Global shares

It was a poor quarter for global shares. The MSCI Global index fell 1.4% in US dollars as most major markets were down. A slightly stronger Australian dollar meant that in \$A terms the MSCI fell 5.8%.

Rising oil prices, rising US interest rates and concerns that global economic growth may be slowing held markets back. In the United States, election uncertainty seemed to keep investors sidelined.

During the September quarter, the US Dow Jones index fell 3.4%, the broader S&P 500 index was down 2.3% and the NASDAQ index fell 7.4%. During the quarter the US Federal Reserve lifted interest rates by 0.25% to 1.75%. Despite some recent softness in the economy, it is widely anticipated that the interest rate will be lifted over the next six months.

Asian markets were mostly down with the Nikkei falling 8.7%. Japan is a major oil importer with no oil of its own and recently released economic growth figures were disappointing.

In Europe, the UK market posted a 2.4% rise on the back of strong economic growth, however, the markets in Germany (-3.9%), France (-2.5%) and Italy (-0.9%) all fell.

China and India remain sources of medium-term global economic growth.

Over the year to 30 September 2004, the MSCI was up 15.2% in \$US but rose only 7.2% in \$A.

Rising oil prices, rising US interest rates and concerns that global economic growth may be slowing held markets back.

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