

Issue 6 – 3rd Quarter 2010

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Economic Update

Investors had a lot to consider over the June quarter

US and European first quarter earnings were positive as inventories were built back up from historical lows, which also contributed to an expected spike in above average GDP amongst many developed markets. Risk aversion entered quickly in mid-April with concerns around the sovereign debt risks in Europe, particularly for the PIGS (Portugal, Italy/Ireland, Greece and Spain).

The S&P/ASX200 briefly broke through 5,000 points which was up 66% from the March 2009 lows. The index finished the quarter at 4,532, an 8.8% increase over the 12 months to 30 June 2010, and at the time of writing is close to these levels.

The RBA increased cash rates again to 4.25% in April before a pause that is expected to last late into the year. This had provided strength to the AUD, which had seen 93c before finishing the quarter at 85.5c with a more stable outlook moving forward.

Debt levels of developed countries played on concerns over future growth, while the proposed introduction of the Resource Super Profit Tax (RSPT), announced in the Australian Budget,

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Top Up Your Super Tank



Super is the best way to grow your retirement savings. If you're aged 60 or over, and you are a member of a 'taxed' superannuation fund, any money you withdraw from your concessionally taxed super fund will be tax-free. It doesn't matter whether it's a lump sum or a pension. So there's plenty of incentive to get as much money into super as you can. And there's NEVER been a better time than right now!

The 2007 changes included abolishing the unpopular 'reasonable benefits limit', allowing you to accumulate as much concessionally taxed money in your super fund as you like. However, to offset this welcome break there's a limit on how much you can put into super every year. From 1 July 2007, your after tax personal contributions can't exceed \$150,000, or \$450,000 averaged over three years.

If you are planning to retire soon there's a number of strategies you could consider to boost your super.

Who can contribute?

The opportunity to contribute up to \$450,000 in super is available if you are under 65.

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created uncertainty for investors. The RSPT has already been amended after former Prime Minister Kevin Rudd's departure to a softer Minerals Resource Rent Tax under the Gillard Government.

China has implemented several policy measures to ensure a more sustainable growth pattern into the future. This has affected short term investor returns but is expected to create stronger results in the future.

Through the adversity, smart investors have found opportunity. This is expected to continue for the next 12 to 24 months.

Source | All Star Funds



Borrowing to contribute

Borrowing money to take advantage of this super opportunity is clearly not for the faint-hearted and won't suit everyone. However, if you think it'll take longer than a few months to sell an asset this strategy may be for you. You could borrow the money interest only and contribute it to super while the opportunity is there. Once the asset is sold you would immediately repay the loan before your interest costs got too high.

To add to your peace of mind you could take out some life insurance to cover the loan principal, plus income protection in case you're unexpectedly out of action and can't meet the interest payments. Your insurance can be held inside your super fund with the premiums funded by the income return.

Other than the non-deductibility of the interest, this is effectively a negative gearing strategy. The benefit is that any capital gains realised will be in a concessionaly taxed environment and possibly completely tax free if a pension is commenced. This tax saving would partially offset the non-deductible nature of the interest.

Transfer business real property to SMSF

You may not be a small business owner but if you own the property a small business is operating out of, you also have the opportunity to contribute up to \$450,000 to your super fund.

If the property is in your own name, you can consider establishing a Self-Managed Super Fund (SMSF) because business real property is one of the few exceptions to the general prohibition of in-specie transferring assets to a superannuation fund. CGT considerations will arise upon transfer and stamp duty will also need to be considered (depending upon the State you are in). If your property is valued at more than \$450,000, establishing a tenants-in-common relationship with the SMSF could be considered.

Act now

If you think you can take advantage of these super strategies, act now! Make an appointment to see your financial adviser and top up your super tank.

Source | Asgard

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If you are 65-74 and meet the work test requirements you can still contribute up to \$150,000 per annum. If you operate a small business or receive compensation as a result of permanent disablement you can contribute even more.

What are some strategies?

Sell assets and contribute

If you've been thinking about selling assets – like an investment property – to make additional contributions to your super as you approach retirement, now may be the time to do it.

If you leave it until later, what would be the potential capital gains tax (CGT) liability you would face compared to selling the asset now and having future capital growth occurring inside the concessionaly taxed superannuation environment and even potentially CGT free if you convert to a pension in retirement?

If you were relying on an income return from that investment, you could consider starting a transition to retirement strategy if you're over 55, or undertake some gearing to provide extra income (and tax deductible interest).

Why Urbanisation Matters For Investors



Within the next two decades, the entire US population will move into China's cities. Alright, not the US population, per se. But 350 million Chinese will leave behind their rural life in a move expected to provide a massive impetus to China's urban economy.

China is not alone. All across the developing world, cities are acting as people magnets. The UN forecasts the urban population of Asia will grow by 1.8 billion by 2050, while Africa will see nearly one billion people join city life and 200 million from Latin America and Caribbean will leave their rural homes behind. All up, more than 60% of the world's population is likely to live in cities by 2030 compared with fewer than one-in-three in 1950.

The attraction of city life lies in the financial incentives found there. In China, urban incomes are already estimated to be three times those of the rural population and studies forecast that urban China will come to have disposable incomes and consumption demand twice that of Germany by 2025. But city infrastructure in the developing world is stressed by growing populations. Emerging countries need to extend electricity grids, water mains & transport links to support growing urban centres.

China and India are among the developing nations that have announced major stimulus plans centred on infrastructure investment. The Indian government is committed to raising infrastructure investment, with various studies suggesting US\$500 billion (A\$570 billion) needs to be spent to bring it up to standard. The power and transport sectors are expected to attract around 60% of that money. China's expected urban migration over the coming decades is up 70% of its total population. This could create one of the greatest booms in mass-transit construction.

Redeveloping the developed world

While emerging markets must build core infrastructure from scratch, in the developed world, much of the infrastructure is in place but needs replacing. Failure to make significant progress towards upgrading the basic infrastructure of the west could prove costly in terms of congestion, unreliable supply lines and growing environmental issues, not to mention the implications of standards of living and quality of life.

It is little wonder then that the global recession led to plans for a massive government stimulus directed at rebuilding crumbling infrastructure. The US committed around a third of its US\$825 billion stimulus package to new infrastructure projects, including US\$150 billion over 10 years to clean energies. More than a year later, much of the investment has yet to be made so expect there to be ample opportunity for private industry to get involved through public-private finance initiatives.

An investment in the urban age is an investment in the majority of the world's people and in the growth of the world economy. It's perhaps a 21st century investment opportunity like no other that will have wide spread effects on industries and economies. Prior to making an investment decision retail investors should seek advice from their financial adviser. *Source | Fidelity Int'l*

Time is on your side



Remember the old adage ‘time heals all wounds’?

We don't always think of it in relation to investing but by taking a long-term approach we allow our investments to recover from the downswings that are a natural part of any investment cycle, and reap the rewards of the inevitable upswings.

More importantly time allows compounding returns to work their full magic. In fact, the power of compounding becomes profound over time, and it's quite startling to discover how much of a difference a long-term approach can make.

The most powerful force in the universe

Let's imagine for example that you're back in your twenties. We'll say that at the age of 21 you decide to invest \$5,000 adding an extra \$1,000 each year until you turn 30. From here you stop investing altogether.

We'll also assume that as the years go by your money earns an average return of 8% pa (after fees and taxes) which is always reinvested. To keep things simple, we'll assume inflation is zero, so your real return remains at 8%.

By the time you celebrate your 65th birthday, your investment would have grown to a massive \$332,413. And remember, you only invested \$14,000 back in your youth.

It's an amazing result. But to see just how extraordinary compounding can be let's look at a very different scenario.

We'll say you wait until age 31 to invest \$5,000, adding \$1,000 a year to your investment until age 65.

So over time, you personally contribute \$39,000 to your savings pool. If we follow the same assumptions that your money earns 8% annually and inflation remains at zero, under this second scenario your investment would be worth \$227,077 when you reach 65. The dramatic difference is solely due to the effects of compounding. Remarkable isn't it? No wonder Albert Einstein called compounding the most powerful force in the universe.

Source | BT

Welcome Michelle

We would like to welcome Michelle to the Abound Financial and Lifestyle Planning Team.

Michelle has taken over from Rhiannon as our Administration officer.



We are sure it won't be long before you get to meet or speak to Michelle, so please make her welcome. Michelle's administration and client services experience will be make her a great addition to the team.

Michelle is an avid Western Bulldogs fan!!
Please don't hold that against her!!

Thank you Rhiannon



We would also like to thank Rhiannon for all her assistance over the last 12 months. As some of you may know Rhiannon has headed off on a holiday of a lifetime across America – prior to returning to her studies and honors year in early 2012. We wish her all the best.



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