

The Key

Issue 27 of the latest market insight
from Financial Services Partners



In this issue

Wealth protection
for small to medium
business owners



Growing and
accumulating your
wealth with dollar
cost averaging



Government
guarantee scheme

Make the most of the end of the financial year

The end of financial year is rapidly approaching and this presents a great opportunity to look at your situation with your Financial Services Partners adviser to give your finances a well deserved boost. The summary below outlines some of the opportunities that might be available to you.

Personal contribution to super

If you are under 65 years of age and would like to contribute more to your super than your annual non concessional contribution limit of up to \$150,000 you may be allowed to bring forward two years of super contributions. This means you can contribute up to \$450,000 in the one year. No further non concessional contributions may be made in years two and three.

Government co-contribution to super

If you earned less than \$61,920 this financial year, are under age 71 and make a personal super contribution from your take home pay, the government may make a co-contribution payment of up to \$1,000 to your super. This offer applies to both employees and the self-employed.

Spouse contribution to super

If you make a super contribution on behalf of your non-working or low income-earning spouse you may be able to claim a tax offset, up to a maximum of \$540.

Salary sacrifice contribution to super

If you receive a bonus before June 30 you can ask your employer if they can salary sacrifice the payment into super which can potentially reduce your income tax bill.

Ongoing salary sacrifice contributions to your super may also help you save tax.

Tax deductible personal contribution to super

If you have not worked as an employee this financial year or your income from employment, as an employee, is less than 10% of your total assessable income then you may be able to make a tax deductible contribution to your super subject to contribution limits.

Important note

Concessional contributions limits have been reduced by half of what they were in the previous financial year. This financial year these limits are \$25,000 (if you are under 50 years) and \$50,000 (if you are 50 years or more). Concessional contributions include employer contributions, salary sacrifice contributions and tax deductible personal contributions. Should you have questions about your current level of concessional contributions you should speak with your Financial Services Partners adviser.

Offset capital gains

If you have made a capital gain this year, as a result of selling an asset, you may be able to reduce the amount of capital gains tax you pay, if you are eligible to make tax deductible personal contributions to super (please refer above).

If you are planning to sell a profitable asset you may be able to defer, or reduce, the amount of capital gains tax you will

(cover story cont..)

have to pay if you hold off selling the asset until after June 30th.

Investment loan repayments

If you pre-pay 12 months interest on an investment loan, before June 30, you can potentially pay less tax by bringing forward the tax deduction.

Insurance

Income protection insurance replaces the income lost through your inability to work due to injury or sickness. By taking out an income protection policy outside of your super account, and paying your premiums 12 months in advance, you will be able to claim a tax deduction this financial year.

To find out what options are specifically available and suitable to you, you should speak with your Financial Services Partners adviser who is ready to help you make the most of your end of financial year opportunities.

Government guarantee scheme

The Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding (the Guarantee Scheme) which started at the end of 2008 closed at the end of March this year. The scheme was originally designed to promote financial system stability in Australia during the Global Financial Crisis. Given the recent improvement in funding conditions, the Government announced that the Guarantee Scheme would close to new liabilities from 31 March 2010.

What this means for consumers is that large deposits guaranteed under the Scheme as at 31 March 2010 will remain guaranteed, for a fee, for the relevant term. Deposit balances totalling up to and including \$1 million per customer per institution will remain guaranteed without charge.

Wealth protection for small to medium business owners

Are you or do you know someone who owns a business? If so, read on...

Australians are familiar with insurance especially with their cars, home and contents and business property. Yet for business people, irrespective of whether they operate as self-employed, in partnership or in a company structure, their business ownership presents them with a personal business insurance need.

In business life, as in daily life, unexpected issues can and do occur. Business owners can be temporarily or permanently taken out of action as a result of sickness and accident, major health traumas (such as heart attack, heart disease, stroke and cancer) and premature death.

When one of the above unexpected issues occur, there are more often than not two immediate consequences like dealing with the emotional consequences, and finding a caretaker for the business.

Dealing with the emotional consequences around unexpected issues is challenging for everyone involved. This presents an even greater significant risk for business owners. Knee jerk reactions can be costly in both financial terms and on relationships with suppliers, clients and staff.

It is important then, that business owners give consideration to questions such as:

1. What is the likely short term impact on the business from 'shock' of the unexpected event?
2. What is the amount of working capital a business would need in the short to medium term to keep things on track?
3. What are the costs of finding, hiring and training a suitable replacement?
4. What borrowings or financial commitments need to be repaid?



5. What is the value of a particular contract or client if it is lost to the business as the result of an unexpected situation?
6. What is the value of the business if it gets sold? And if a partnership exists, do they automatically get the option to buy it?

Each business owner will have a unique set of requirements and potential challenges to consider, so often the simplest and most efficient solution to the above issues involves speaking to a Financial Services Partners adviser

The advice may result in a product solution to implement the advice. Each product has its own features and options. Typically wealth protection products fall into four categories:

1. life cover
2. trauma cover
3. total and permanent disablement cover, and
4. income protection cover.

A Financial Services Partners adviser will also be able to assist business owners to structure and implement insurance solutions, and then should an insured event occur, guide you or your loved ones through the claims process.



Growing and accumulating your wealth with dollar cost averaging

Have the recent stock market fluctuations left you uncertain as to when might be the best time to invest your money? Or are you keen to make a long term investment but don't have a sizeable sum to invest just at the minute? One strategy that may help you overcome these issues is dollar cost averaging. Rather than investing one lump sum in managed funds on a particular day you can buy units in small amounts at regular intervals instead.

Dollar cost averaging means you invest a set amount of money on a regular basis, no matter whether the market is up or down. By doing this you can average out the cost of the units as you will be buying units when the cost is high and when the cost is low.

This strategy is also like having a regular savings plan; by drip feeding a portion of money on a regular, say monthly, basis you can accumulate and grow your wealth.

The example below demonstrates a possible scenario after 12 months of investing. You can see that as the price per unit goes up you buy fewer units, and as the price per unit goes down you buy more units. Over the 12 months the average price per unit works out at \$9.01, which is less than the unit price during January when the lump sum investment was made. In this example, dollar cost averaging comes out ahead of investing in a lump sum because the number of units held after investing on a monthly basis is 13,316.88, whereas the lump sum investment purchased only 12,000 units.

If you were to sell your units at the unit price on the 12th month of \$11.50, you can see from the example below, the monthly investment would result in a value of \$153,144 versus \$138,000 for the lump sum investment.

If you are interested in finding out more about dollar cost averaging and potential investment opportunities suited to you, your Financial Services Partners adviser will be willing and able to help.

Month	Unit Price	Investing once		Investing monthly	
		Amount Invested	Units Purchased	Amount Invested	Units Purchased
1	\$10.00	\$120,000	12,000	\$10,000	1,000.00
2	\$11.00	-	-	\$10,000	909.09
3	\$10.00	-	-	\$10,000	1,000.00
4	\$9.00	-	-	\$10,000	1,111.11
5	\$8.50	-	-	\$10,000	1,176.47
6	\$7.50	-	-	\$10,000	1,333.33
7	\$6.50	-	-	\$10,000	1,538.46
8	\$8.00	-	-	\$10,000	1,250.00
9	\$8.50	-	-	\$10,000	1,176.47
10	\$10.00	-	-	\$10,000	1,000.00
11	\$10.50	-	-	\$10,000	952.38
12	\$11.50	-	-	\$10,000	869.57
TOTALS		\$120,000	12,000	\$120,000	13,316.88
Average unit purchase price		\$10.00		\$9.01	

Investment Value (end of 12 months)	\$138,000	\$153,144
Interest	Nil	\$4,180
Portfolio Value¹	\$138,000	\$157,324

¹ For illustration purposes only. Ignores all fees and taxation. If the unit prices were reversed (eg month 1 was \$11.50 and so on) the difference in the Portfolio Values from the frequency of investing would be even greater - Investing once \$104,347; Investing monthly \$137,348.

Market commentary

The Australian economy recorded growth of 0.9% in the quarter, taking the annual growth rate to 2.7%. This confirmed Australia's position as one of the best performing developed economies in 2009, due to a very effective government stimulus package, a strong banking system, solid population growth and trade links to Asia. The global economy continued to recover in the March quarter. The International Monetary Fund (IMF) upgraded its forecasts for the global economy to 3.9% (from 3.1%) in 2010 and 4.3% in 2011.

Australian Shares

The Australian share market was fairly volatile during the March quarter. The year got off to a poor start, with the S&P/ASX 200 Accumulation Index declining 6.2% in January, but the market subsequently rebounded and was able to record a positive return in the period as a whole thanks to a strong rally in March. In the quarter as a whole, the market added 1.4%.

There was a fair degree of variance in the returns from individual sectors. The Health Care (+3.3%) sector was a notable outperformer, while the financials (+1.4%) sector also performed well, buoyed by gains in all four of the major banking stocks. Telecoms (-12.8%) was by far the worst performing area of the market, dragged lower by index heavyweight Telstra, while the energy (-1.3%) sector also underperformed despite the oil price rising 5.5%.

International Shares

International sharemarkets added value in the quarter, assisted by a recovering global economy and rising investor confidence. The major economies recorded positive GDP growth rates and some are seeing falls in unemployment rates.

In the United States (US), company profits have recovered sharply, rising 31% for the 12 months to December 2009. This has largely been driven by aggressive cost cutting and improved productivity. As the economy continues to recover, operating leverage is expected to provide upside potential for company profits. With profits returning this should encourage further business investment and jobs growth. Over the quarter, the Dow Jones Industrial index rose 4.1%, the S&P 500 was up 4.9% and the NASDAQ index rose 5.7%.

Markets in Europe were predominantly positive, although falls were experienced in markets plagued by sovereign risk concerns. Germany (+3.3%) and France (+1.0%) both rose. The UK FTSE 100 also added value, rising 4.9%. The UK economy is providing some signs of recovery with improving manufacturing output, assisted by recent falls in the sterling. Greece (-5.8%), Spain (-9.0%), Portugal (-4.4%) and Italy (-1.7%) all fell.

Asian markets were also mixed with Japan providing the strongest gains on some signs of a recovery in the economy. The Nikkei rose 5.2% and is now up 36.8% in 12 months. Thailand also recorded strong gains, up 7.3%. Hong Kong (-2.9%) and Singapore (-0.4%) both fell in the quarter despite economic strength in the region.

Fixed Interest

The Reserve Bank of Australia (RBA) continued the process of returning the cash rate to normal levels, lifting the official cash rate by 25bps to 4.00% in March and the same again in April to take the rate to 4.25%. The RBA noted that this was 'a further step in the process' of returning interest rates 'closer to average'. Further interest rate rises are expected by the market over 2010, with the market pricing in

a 5% cash rate by year end. This is a reflection of the expected strength of the Australian economy in coming years and concerns that the Australian economy is entering the next upswing with less spare capacity than previous upswings and could lead to inflation pressures.

Listed Property

Listed property stocks underperformed the broader Australian share market in the March quarter of 2010, with the S&P/ASX 200 Property Accumulation Index declining 1.5%. Stocks with significant office property exposure performed particularly poorly, while those in the industrial sector fared somewhat better.

Encouragingly, a number of significant transactions of commercial property were agreed during the period. The prices achieved for these sales suggested that the decline in asset values is close to an end, which should help restore investor sentiment towards the sector. Demand is also expected to be supported by improving economic conditions.

Written by: Colonial First State. Colonial First State Investments Limited ABN 98 002 348 352 AFS Licence Number 232468. This article is not advice. Information in this publication, which is taken from sources other than Colonial First State is believed to be accurate. However, subject to any contrary provision in any applicable law, neither Colonial First State nor any of its related parties, their employees or directors, provides any warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it.

Financial Services Partners Pty Ltd

ABN 15 089 512 587 • AFSL No. 237590

IMPORTANT NOTE: The information/advice provided in this newsletter is General Advice Only. It has been prepared without taking into account any of your individual objectives, financial situation or needs. Before acting on this advice you should consider the appropriateness of the advice, having regard to your own objectives, financial situation and needs. You should obtain a Product Disclosure Statement relating to the products mentioned, and consider the statements before making any decision about whether to acquire products. Performance is influenced by market volatility over time. Past performance is not necessarily indicative of future performance. Contact your adviser to discuss your individual needs. The taxation position described is a general statement only and should only be used as a guide. It does not constitute tax advice and is based on current tax laws and their interpretation. Please contact a taxation specialist to discuss your individual situation.

PRIVACY: Personal information held by Financial Services Partners and their affiliates may have been used to enable you to receive this publication. If you do not wish your personal information to be used for this purpose in the future please advise us via mail to Level 39 Australia Square, 264-278 George Street, Sydney NSW 2000, or via telephone to 1800 006 216, or alternatively via email to info@fspartners.net.au

