

### **Economy:**

We have had two months in a row where the Reserve Bank has not raised interest rates. Last time they left the rates where they were but did a bit of sabre rattling about consumer spending and finance. This month the rates were not raised but there was barely a squeak published about the RBA's fears of rampant inflation. They appear satisfied that they have achieved their objective but there are some economists who believe they have over cooked it. Perhaps the RBA have finally worked out that we have not had inflation and that it is the price mechanism working.

### **Markets:**

There are now enormous economic forces affecting the markets.

**Oil** – Demand is rising as people in countries like China and India start to enjoy their increasing wealth and purchase cars. At the same time, the oil producers cannot increase the supply at the same rate the demand is increasing. Added to that, the speculators are there in the market deriving arbitrage on oil as they speculate on the forward price. A recent comment that demonstrates the situation was “it is like as though the ownership of the oil changes hands four times while on the high sea”

**The Credit Crisis** – I thought we were over the worst but it is clear that there is a shortage of bank capital which is adversely affecting lending and therefore hurting business.

**Consumer and business confidence** - is falling and slowing growth

**Cost pressures are increasing** – Oil, the cost of labour and commodity prices are all rising.

Carbon trading – this will increase the cost of doing business in Australia. So far we have heard the populist theories about global warming, the cause and how carbon trading will help us all. Personally, I feel as though I have been given a white wash job and no alternatives seem to have been discussed. The carbon trading scheme has been promoted as the great panacea but the downside has not been put to us. It seems to be a bit like the King's new set of clothes.

Anyone who disagrees must be mad. As such, I include a couple of articles written by Dr Ron Woods about global warming and carbon trading. I am not saying he is correct but he presents an alternative view and does talk about the downside of the carbon trading if we get it wrong. I will leave it to you to make your own decisions

With all the above costs, company profits are then likely to fall and as share prices reflect expected future earnings we may see a further fall in equity markets.

As such the shares are not currently cheap compared to expected earnings but they may present an opportunity to buy on a falling market.

Property markets are still patchy. Brisbane house prices are being talked up at the moment by the real estate industry while Sydney and Melbourne property markets are still flat.

### **Home and Investment loans:**

If you are thinking of finance for any reason please give me a call. At the very least the Lifespan resources will be able to give you something to compare your bank's or other finance company's offer with.

### **Superannuation**

Now is the time to put in place your superannuation strategy for the new financial year. Don't leave it till the last minute where a large contribution will test your cash flow capabilities. Let me help you to make a plan for increasing your tax effective superannuation asset and provide for your retirement.

### **Seniors Loans**

A business has been established called ageing in place. This is run by a firm of architects who can provide an assessment of older peoples homes and then recommend any changes that will be necessary to allow them to remain at home as the age. Some changes may mean changes to door width's etc that will involve cost. Home owners may not have the resources to pay these costs that will allow them to stay in their own homes. A reverse mortgage may be able

to provide them with sufficient money to pay for those changes and allow them to age in place rather than looking at an aged care facility.

### **Tax Effective Investing**

I have been including in my newsletter suggestions for funding children's education. So far I have covered Term deposits and high yield savings accounts, Insurance bonds, Scholarship funds and managed funds. This month I would like to draw your attention to direct shares as a tax effective way to save for children's education.

For clients who have a high risk tolerance and whose time horizon (i.e. the length of time that they are unlikely to need access to the money) is above 7 years direct shares may offer an attractive option.

Children cannot generally own shares in their own name and, instead, would be purchased by the parent as trustee for the child, or alternatively, by the parent in their own name. E.g. in the name of the non-working or low income spouse.

### **Advantages**

- Can be tax effective where you can take advantage of a nonworking or low income spouse.
- Allows you to take control over investments and ability to avoid fund manager fees.
- Transaction costs (brokerage) can be quite cheap if using an online broker.
- Eligible for the 50% CGT discount if held for more than 12 months.
- May also allow the use of gearing through margin loans if appropriate.
- Imputation credits may give rise to a tax refund where the owner has a marginal tax rate less (MTR) than 30%. For those with an MTR of 30% the tax is paid on the dividends and for those with an MTR over 30% the franking credits will assist with the tax to pay

### **Disadvantages**

- Hard to get sufficient diversification with small investments.
- Hard to drip feed small amounts to achieve dollar cost averaging. E.g. drip feeding say, \$100 per month into direct shares may only buy one or two shares and in addition would not satisfy the ASX minimum transaction amount.
- Annual dividends may generate an annual tax liability and hence the inclusion on the trustee's tax return. Selecting a low income trustee and trying to maximise franking credits will help.

If you would like to discuss any topic raised in this newsletter please do not hesitate to contact me.

Regards

Duncan Walker

### **Sources of information:**

Kaplan Monthly updates, Econoclast, Comsec, CBS Market Watch, BT Monthly Report, HFA, Colonial geared Investments newsletter, InvestSmart newsletter, Deutsche Desk Caddie and Van Eyk Investment Outlook Report.

### **Disclaimer:**

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Before making any investment decision, you should assess your own position, and if appropriate, seek the assistance of a financial adviser and your taxation adviser as appropriate.