

December 09 NEWSLETTER

Tax Effective Investing

Many Grand Parents decide to set aside some money to assist with their Grand Children's education. A common way to do this is to establish an investment and perhaps put this in the grand child's name with the Grand Parents as trustee. The Commissioner of Taxation usual procedure is to attribute any income from the investment to the Grand Parents so there is no saving in tax.

An investment product that Grand Parents may wish to consider is an Insurance Bond. These come in a few different forms but they are available with investment choices that suit investment horizons and risk tolerance.

Importantly, they are tax paid investments. They are fully paid life insurance policies and, therefore, any withdrawals after the investment has been in force for more than ten years are tax free. In addition, during the term of the investment the investors' income tax is not affected as any income is taxed within the investment.

There may be no tax advantage where the investors would get the benefit of the Senior Australians Tax Offset.

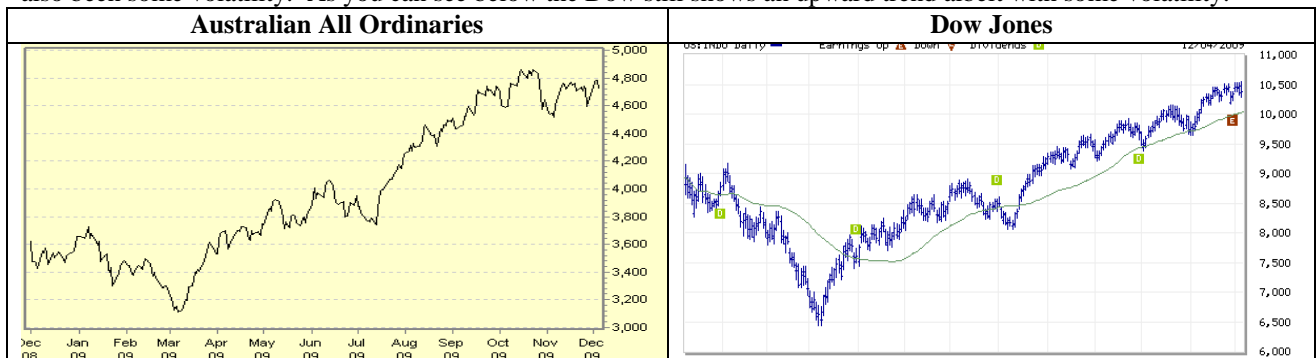
Care should be taken when making such investments as any lump sum invested may still be counted as assets in the Centrelink Asset Test.

Economy:

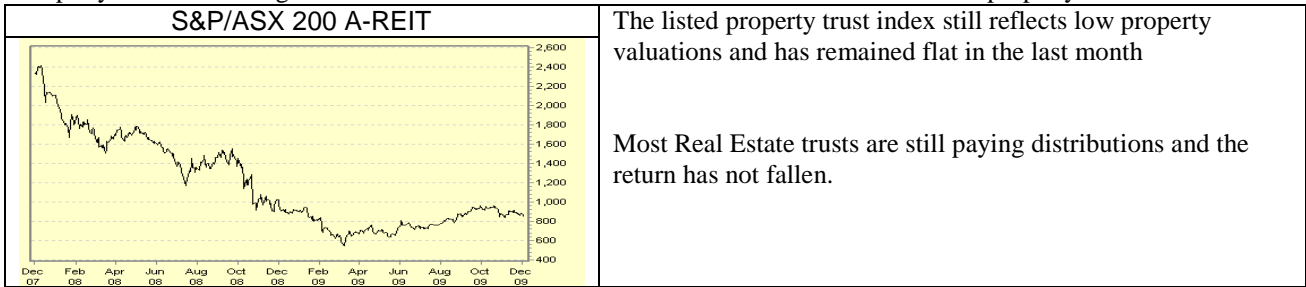
Economic indicators are still pointing to a continuation of recovery within Australia. The RBA and the Government both seem to have a confident view of the economy with the RBA raising the Official Cash Rate (OCR) by 0.75% over the last three months. New car sales are up but that can be discounted by the fact that the Government investment allowance s stimulating that area. Generally, most commentators see that the international economies have also commenced growing again.

Markets:

The Australian market has remained flat for the last month with doubt arising over the Dubai debt however, there has also been some volatility. As you can see below the Dow still shows an upward trend albeit with some volatility.



Property – The following table shows the movement of the S&P/ASX 200 index for listed property trusts.



Home and Investment loans:

Lifespan is still offering loan health checks.

Superannuation

Industry Superannuation Funds are now being subject to a bit more scrutiny than before. A lot of these funds have large investments in unlisted assets consisting of property, private equity, natural resources and high-yield debt. As most asset sectors have suffered a loss in value so the unlisted investments have suffered giving Industry Super Funds a very poor performance compared to the retail funds in the last six months. These assets are generally illiquid giving them a double pronged problem.

In addition, there has been a call for the Industry Funds to disclose their real costs not just those charged direct to the members accounts. Generally, it has been revealed that Industry Funds deduct their operating costs before crediting the members' accounts with any income or growth. Retail funds generally credit members' accounts with all the income and growth and then show the true fees as deductions from the members' accounts. As one journalist said, there must be more costs than those revealed or how else do the industry funds pay for their exorbitant advertising.

Personal Insurance

Is Total and Permanent Disablement (TPD) insurance worthwhile?

In order to answer that we should look at the two more common definitions of TPD.

1. Own occupation – the sum insured is paid when the life insured cannot work at their own occupation again.
2. Any occupation – the sum insured is paid when the life insured cannot work again at any occupation for which they are qualified by reason of education, training or experience.

We can understand life insurance where the sum insured is paid on the death of the life insured but what happens if the life insured is injured or contracts a medical condition that prevents them from ever working again. The person is still alive so death insurance cannot get paid.

- How does the mortgage get paid?
- How does the family pay for any additional medical expenses or care?
- How do the children get educated?
- Etc. etc

If these questions are important to you please look at the need for TPD insurance. I am more than happy to guide you through assessing the need for the insurance and how much is enough.

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, ATO website and Zurich technews.

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