

January 2010 NEWSLETTER

Tax Effective Investing

Well, the share market has started the year with a good result. Where can we get tax effective investments from the share market and, at the same time, increase the value of our investment?

Shares in companies participate in company profits and that is paid to shareholders by way of a dividend. In the majority of cases Australian companies pay franked dividends. A lot of companies also offer a dividend reinvestment plan (DRP) whereby investors can direct their dividends to purchase shares in the company where they do not need or want the cash dividend.

Using the dividend reinvestment strategy gives the following advantages.

1. Although no cash is received your investment value will rise by virtue of the shares purchased under the DRP.
2. If your marginal tax rate is under 30% you will not pay any tax on the dividend by virtue of the franking credit. If your marginal tax rate is over 30% the tax on your dividend is partly paid.
3. The value of your investment will rise exponentially as the market rises.

Economy:

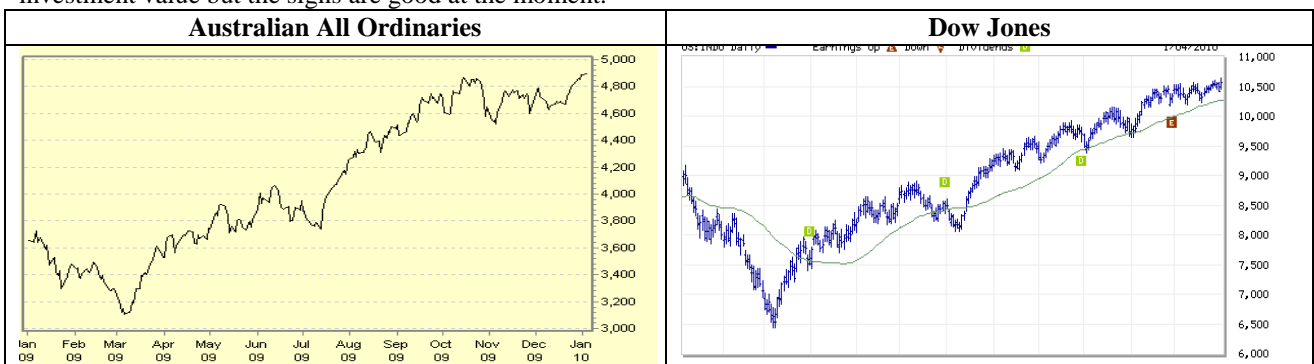
The news so far this year is that.

- China is increasing its industrial and building activity
- India looks like increasing its production and building
- The news is that companies in the US are going to increase production to re-stock.
- Domestic new car sales have increased and economists expect an increase in building approvals
- A major building in Sydney has been sold for approximately \$650 Million

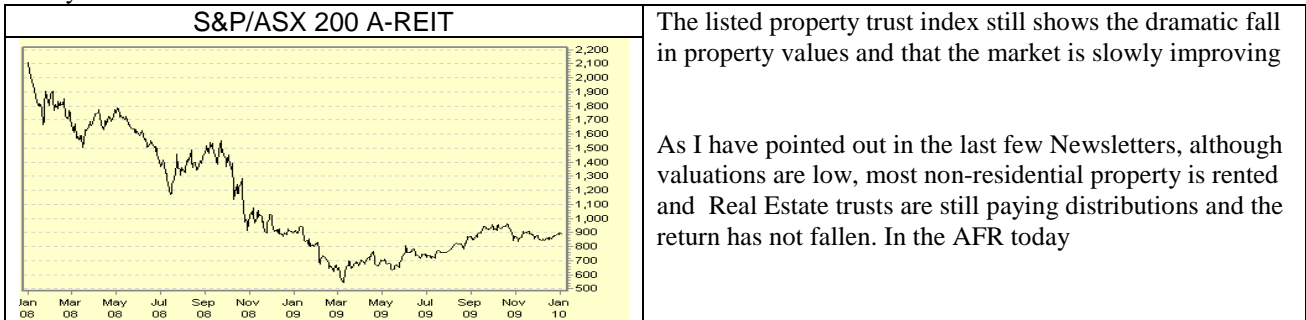
All this seems to confirm the RBA view that "growth is likely to continue this year, though it will probably be modest in the major countries, due to the continuing legacy of the financial crisis. In China and Asia generally, where financial sectors are not impaired, recovery has been much quicker to date and prospects appear to be for good growth in 2010. Financial markets have improved considerably during 2009, notwithstanding periodic setbacks, and capital flows into Asia and other emerging market regions have been picking up.'

Markets:

The Australian market dived in December when the news of loan repayment suspension in Dubai hit the press. Since the start of this year the markets have increased in value as these loans have been supported by the Middle East. The ASX All ords was higher on 5th January than it was during the whole of 2009. At the peak, before the financial crisis, the ASX All Ords exceeded 6,500 and the Dow exceeded 14,000 so we have a way to go to recover all our lost investment value but the signs are good at the moment.



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



Home and Investment loans:

Interest rate rises are in the wind but be careful before locking in fixed interest rates. You pay more in the long term with fixed rates than with variable rates. Check the length of your loan and other loan conditions to make sure that you will not incur costs to change from variable to fixed

Superannuation

Start planning for the year end. It is only six months away and you can reduce tax while at the same time increase your wealth through superannuation.

Look at your cash flows and consider

- Deductible contributions to your superannuation fund
- Spouse contributions
- Non-deductible contributions to qualify for the Government co-contribution

Conditions are attached to all the above so please contact me if you want to use any of those strategies

Personal Insurance

Insurance companies have been requested to provide better income protection cover for the riskier occupations. So now, there are many options that will give the trade person affordable and comprehensive Income Protection insurance.

AIA have introduced improved features to their policies. As an example, Life Cover - Final Expenses benefit will pay on death of the life insured an amount equal to the lesser of 10% of the sum insured and \$25,000 if the owner of the policy is a company or business entity.

Total and Permanent Disablement, and Total and Permanent Disablement Stand Alone Benefit - The period of unemployment immediately prior to a claim is now unlimited for the 'Own Occupation' definition.

If you would like me to check your current policies to make sure you have the best benefits please 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, ATO website and Zurich technews.

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