



Personal Wealth



Winter 2009

A Quarterly Newsletter for

Lifespan Clients

Green Shoots Buoy Markets

The Last Quarter

A great deal has happened in investment markets over the last 3 months. After world equity markets bottomed on March 6 we have had an explosive rally. The US market was up over 30% while Australia rose more than 25%. The Australian Reserve bank lowered short term interest rates to 3.0% and bond markets have sold off, i.e. yields rose. Commodity prices rallied and the Australian dollar traded at over 80 US cents. On the economic front the International Monetary Fund again revised down their forecasts for global economic growth to -1.3% in 2009 before recovering to 1.9% in 2010.

Australian Economy

Growth forecasts were revised down in Australia with the consensus being that we are now in a recession. Headline inflation fell to 2.5% for the year to March, down from 3.7% in December. However underlying inflation remained high at 4.2%. Unemployment rose to 5.7% in March before falling to 5.4% in April. Frankly no one believes the April unemployment number and the rate is expected to peak at over 8%.

The federal budget deficit is projected to be \$57.6 billion which is equal to 4.9 per cent of GDP. In the previous recession in 1992-93 the federal Budget deficit peaked at 4.1 per cent of GDP. According to the Treasurer the global downturn and lower commodity prices have led to "the biggest downgrade in Budget revenues in living memory", erasing about \$210 billion from the nation's coffers. Lower commodity prices and the large fiscal stimulus mean that the federal budget is expected to be in deficit for a number of years. One of the implications is that we should not expect any more tax cuts.

Equities

There is a perception that the rate of decline of economic activity has moderated from the precipitous fall following the Lehman collapse. While economic conditions remain tough globally, a number of 'green shoots' have buoyed stock markets over the last couple of months. Some better than expected house sale data out of the US, and a pickup in new orders in the US and China assisted the gains. China was the bright spot in the global economy with Goldman Sachs upgrading their GDP growth forecast from 6.0% to 8.3% in 2009. With China representing Australia's largest trading partner (19% of imports and 15% of exports), a resurgent Chinese economy is a strong positive for the Australian economy. Over the last two months assets that are perceived as having the highest risk such as emerging market equities and the Australian dollar have been the best performers.

The improvement in sentiment towards riskier assets such as global equities was reflected in a Goldman Sachs call in late April which said: "We expect equities to provide the greatest return over the next 12 months as better macro data reduces uncertainty...we believe the market has passed its cyclical low. In the short term, bonds could benefit from non-conventional policy actions, but over the next 12 months, we see a risk that yields will be repriced higher."

After rising over 25% it would be fair to say that the easy gains have been made in Australian equities. The weighted average 2010 Price Earnings multiple (PE) for the Australian equity market has risen from about 10 times at the low to 12.9 times (UBS estimate). Generally, market gains in the first few months following a major market bottom are driven by a PE multiple expansion as in the present case. We think that a large portion of this rally can be

justified as the market was very oversold in early March. The one year forward PE multiple of 12.9 times compares with an average of 14.3 times (UBS: 20 year median PE).

Note however that earnings estimates are still falling, although the rate of decline is slowing. How equity markets perform will depend to a large extent on how well 2010 earnings hold up. Capital raisings (\$74bn in the year to Mar 2009; GSJBW) are still providing a drag on the market

Three months ago we said it is rare to have the dividend yield above that of the ten year bond yield. This was strongly supportive of equities but this is no longer the case. We have returned to a more normal situation with the 2010 dividend yield at 4.7% (UBS: weighted average) and Australian 10 year bonds yielding about 5.0%. There are still however many stocks yielding more than government bonds particularly in the industrial sector.

We would not be surprised to see a correction in equities given the size and speed of this rally. However a study by UBS found an average PE rise (usually front loaded) in the 12 months following a major bottom of 50%. Given the 10 times forward earnings at the early March bottom, this would suggest the market forward PE could rise to 15 times by March next year.

Investment Returns to April 30, 2009 (%)

Asset Class	1 Month	3 Month	1 Year	3 Years	5 Years
Australia Shares	5.57	8.78	-28.82	-6.35	6.71
Global Shares	5.19	-7.54	-22.02	-10.70	-1.54
Listed Property	6.24	-10.8	-57.23	-24.20	-9.02
Fixed Interest	0.00	-1.11	12.76	7.04	6.61

Source: van Eyk



Property

The listed property sector has shown some signs of stabilisation lately finishing the month of April up 6.2 %, although the sector has fallen 57.2% over 12 months. REITs are busy reducing debt levels and increasing capital levels to provide a buffer as property values fall. Continuing capital raisings (about \$4 billion in the last three weeks) will limit the upside in the short term. In general we still prefer listed property over direct property as there is more transparency in the price of listed property.

Fixed Interest

We were negative on fixed interest in our last newsletter and since then 10 year Australian government bond yields have risen by about 0.7% to 5.0%. Yields in the US have also risen sharply. While there

may be a short term rally in bonds if equity markets correct, we still feel that over the long term bond yields will rise and prices will fall. One reason for this is that bond yields tend to rise in an economic recovery. The second reason is simply the sheer volume of government bonds that will need to be issued to finance deficit spending. While yields are now higher and better value, we still prefer diversified fixed interest funds to pure government bond funds. Diversified funds have a larger opportunity set and can rotate between the different fixed interest sub sectors in order to take advantage of opportunities.

To summarise we believe you should stick to your long term plan. We are still wary of fixed interest and would advise higher than normal cash weightings for conservative investors who are interested in capital preservation. We would advise some caution in equities given the recent rally, and would be inclined to accumulate

equities on pullbacks in the market. We think the best approach remains to dollar cost average into the market over a period of time.



FEDERAL BUDGET 2009 – Important Changes

The 2009 Federal budget was presented on 12 May 2009. We anticipate that the changes in Taxation, Superannuation and

Social Security will have an impact on your financial affairs if passed. Below is a brief summary of the proposed measures. We

suggest that you consult your Lifespan Adviser to learn how these changes will affect you and your family.

SUPERANNUATION (effective from 1 July 2009)

Concessional (taxable) Contributions

The concessional contributions, which includes your employer's contributions and the amount that you can salary sacrifice (or claim a deduction for if your are self-employed) will be rolled back to a maximum of \$25,000 per annum for people that are under age 50 from the current \$50,000.

For people age 50 and over during a financial year, the transitional concessional contribution has been halved to \$50,000

from the current \$100,000 up to the 2011/12 financial year, after which it will reduce to \$25,000.

Non Concessional Contribution

The planned \$165,000 non concessional contribution cap for 1 July 2009 will remain at \$150,000 and the "Bring Forward" option over 3 years, which allows you to contribute up to \$450,000 in one financial year, will remain at \$450,000 instead of the planned \$495,000.

This in fact amounts to a reduction for this component as opposed to the official "unchanged". These thresholds, from 1 July 09 will be 6 times the amount of the concessional cap of \$25,000 and will still be increased when the \$25,000 concessional cap is increased by indexation in increments of \$5,000. Assuming an average annual increase of 4% in the Average Weekly Ordinary Time Earnings (AWOTE), which is the benchmark used for indexing this concessional contribution, this would take over 4 years to happen.

The table below summarises the proposed changes versus the existing caps.

	Current \$	As per Budget 2009 \$
Concessional Contribution Cap (indexed)	50,000	25,000
Transitional Concessional Contribution Cap 50 & over to 30/06/12 (non indexed)	100,000	50,000
Non Concessional Contribution Cap - per financial year	150,000	150,000
Non Concessional Contribution Cap – if Bring Forward rule is triggered	450,000	450,000



Co-contribution:

The Government Co-contribution, which was put in place to help taxpayers with lower incomes, has been reduced to \$1 (currently \$1.50) for every \$1 contributed to a maximum of \$1,000 (currently \$1,500)

per financial year. The maximum co-contribution amount will be reduced for any income above the shade out threshold, currently \$30,342 for 2008/09. The changes are summarised in the table below.

	Personal Contribution \$	Co-Contribution %	Maximum Co-Contribution \$	Reduction for each \$1 above the shade out threshold %
Current	1,000	150	1,500	5.0000
2009 / 10 – 2010 / 11 – 2011 / 12	1,000	100	1,000	3.3333
2012 / 13 – 2013 / 14	1,000	125	1,250	4.1670
2014 / 15 onwards	1,000	150	1,500	5.0000

Transition to Retirement

There were no proposed changes to the Transitional to Retirement strategy, but those who have such a strategy in place could be affected by the reduction in the concessional caps as detailed above.

Account-Based Pension – Drawdown Relief

The halving of the minimum amount for account-based pensions has been extended to the 2009/10 financial year. This is to help retirees to minimize the need to sell assets at a loss in order to meet the minimum payment requirement.

Age	Minimum Annual Payment		
	Original	Reduced for 2008 - 09	Reduced for 2009 - 10
Under 65	4%	2%	2%
65 - 74	5%	2.5%	2.5%
75 - 79	6%	3%	3%
80 - 84	7%	3.5%	3.5%
85 - 89	9%	4.5%	4.5%
90 - 94	11%	5.5%	5.5%
95 or more	14%	7%	7%

SOCIAL SECURITY (effective from 20 September 2009)

Age Pension

The Age Pension base benefits for a single pensioner will increase by \$30 per week along with a new pension supplement of \$2.49 per week. A new pension supplement of \$10.14 per week will also be paid to a couple (combined) receiving the age pension payments. Both increases will take effect from 20 September 2009.

The qualifying age for the Age Pension and the Commonwealth Seniors Health Card for men and women will increase to 67 years of age from July 2023. The qualifying age will begin to increase from July 2017, by six months every two years.

New Pension Supplement

The new supplement will merge the existing GST pension supplement, Pharmaceutical, Utilities and Telephone Allowances. This new supplement will be available to all income support payment except for the Newstart Allowance, Special Benefit and Sickness Benefit.

Income Test

From 20 September 2009, the income test taper will increase from 40 to 50 cents in the dollar for a single pensioner and from 20 to 25 cents in the dollar for each member of a couple above the allowable income free thresholds. This threshold is currently \$138 per fortnight for single pensioners and \$240 per fortnight for pensioner couples (combined).

Commonwealth Seniors Health Card (CSHC) – income test

The government will remove the inclusion of gross tax-free superannuation pension income in the proposed amendment to the definition of income used for determining eligibility to the Commonwealth Seniors Health Card. The government will proceed with the inclusion of income that is salary sacrificed to superannuation in the income assessment.

Paid Parental Leave from 1 January 2011

A government funded Paid Parental Leave scheme will be introduced. The parental leave payment will be equal to the federal minimum wage currently \$543.78 per week. Payments can be received for a maximum of 18 weeks. An income and work test will apply.





TAXATION

Individual Income Tax (effective from 1 July 2009)

In accordance with the tax cuts announced in last year's budget, the new personal income tax thresholds for the 2009-10 year will be as follows:

Income Threshold	Tax Rate
\$0 - \$6,000	0%
\$6,001 - \$35,000	15%
\$35,001 - \$80,000	30%
\$80,001 - \$180,000	38%
\$180,000 +	45%

Low Income Tax Offset (effective from 1 July 2009)

The Low Income Tax Offset will increase to \$1,350 and will continue to increase gradually to reach \$1,500 for the 2010 – 11 financial year. This means that people with a maximum income of \$15,000 in 2009/2010 and \$16,000 in 2010/2011 will not pay income tax.

Medicare Levy (effective from 1 July 2008)

The Government will increase the Medicare levy low income threshold to \$17,794 for individuals and \$30,025 for individuals in families. The additional amount in the threshold for each dependent child or

student will also increase to \$2,757. The Medicare levy threshold for pensioners below age pension age will also be increased to \$25,299. This is to ensure that pensioners below age pension age will not have a Medicare liability where they don't have an income tax liability.

Private Health Insurance Rebate and Medicare Levy Surcharge (effective 1 July 2010)

The government has proposed to means test the 30% private health insurance rebate for middle to high income earners according to age. This is going to be achieved through introducing a three tier system (Private Health Insurance Incentive Tiers), with a parallel increase to

the Medicare Levy Surcharge for persons without private health insurance.

Existing arrangements will remain unchanged for singles with annual income of less than \$75,000 and \$150,000 for families. This means that singles and families in that category will have no surcharge to pay and will enjoy the full 30% rebate if they are aged under 65, 35% if they are between 65 and 69 and 40% if aged over 70 as detailed in the table below.

Also detailed in the table below is the Tier system that will apply from 1 July 2010 for Singles with annual income above \$75,000 and Families with annual income above \$150,000.

	Existing arrangements	Tier 1	Tier 2	Tier 3
Singles	\$0 - \$75,000	\$75,001 - \$90,000	\$90,001 - \$120,000	\$120,001+
Families	\$0 - \$150,000	\$150,001 - \$180,000	\$180,001 - \$240,000	\$240,000+
Medicare Levy Surcharge	Nil	1.00%	1.25%	1.50%
Private Health Insurance Rebate				
Less than 65 years	30%	20%	10%	Nil
65 – 69 years	35%	25%	15%	Nil
70 years +	40%	30%	20%	Nil



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