

# Successful Investing

Issue 1 - 1<sup>st</sup> Quarter 2009

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## Economic Update

Leading indicators for US growth suggest further deterioration ahead. The continued losses in the labour market are quite alarming. The latest data also suggests consumers have cut back real spending at the fastest pace in decades, while the decline in housing activity showed signs of accelerating. Interest rates look likely to be kept low for an extended period of time. President Barack Obama is expected to deliver further fiscal stimulus aimed directly at domestic demand. It is more likely to come in the form of tax cuts.

The European economy is in recession. Recent survey data suggests that further deterioration is expected in the coming quarters. The manufacturing sectors have undergone a deep retrenchment, particularly impacted by the slowdown in external demand. Domestic consumption is also slowing at an alarming rate.

In a similar situation to Europe, slowing foreign demand and stalled domestic demand have brought the economy to a halt in Japan. Leading economic indicators suggest that the economy will continue to contract in 2009.

China is becoming the most aggressive country in an attempt to stimulate its economy. The magnitude of the recent monetary and fiscal policy stimulus has overwhelmed most market observers. Economic growth is still expected to slow to 8% in 2009.

For Australia, the negative wealth shocks from falling asset prices and the expected unwinding of gains in the terms of trade have put significant pressure on businesses and consumers. The policy response, with the most aggressive monetary easing since the recession in 1991 and the Federal Government's \$10.4bn stimulus package and \$42bn Nation Building and Jobs Plan, has and will help to bolster current sentiment and cushion the weakening outlook for domestic demand. However, the real help from these measures will come with time. The economy is expected to experience a mild recession and unemployment is likely to rise to around 7% by mid 2010. On top of the interest rate cuts of the last few months the market expects further interest rate cuts in the future.

Source: Aviva

## Tame the Beast



A 'bear market' is typically defined as a fall in the sharemarket of more than 20%, and a feeling of widespread pessimism. However, when fear reigns it can always help to look at the past to see what opportunities can arise.

Generally, bear markets have occurred in times of slower or negative economic growth and a pickup in unemployment. However, to date the Australian economy is still growing, albeit at a slower pace than in recent times, and the unemployment rate is at around 30 year lows. In spite of this, the S&P/ASX All Ordinaries Index fell from its high of 6,853 points on 1st November 2007, to a low of 3,332 on 20th November 2008 – a fall of around 51%.

### Disaster or opportunity?

The sharemarket has not fallen so much since the sharemarket crash of 1987. This equates to dramatic share price falls of around 30% for some of Australia's most recognised brands such as Westpac, Foster's and Harvey Norman.

It's interesting to note how we react to lower share prices. Often when we see prices of consumer goods fall, many of us race in to catch a bargain.

However, when it comes to shares we tend to react differently. If the share prices of well managed, dividend-paying companies fall, we view them with suspicion and fear, when perhaps we should see them as opportunities.

Buying and holding shares in good companies after the crash of 1987 would have been a good investment strategy. There were bargains to be picked up.

From the end of 1987 to the end of 1989, all major banks rose by more than 50% as did BHP, Rio Tinto, Harvey Norman, Coca-Cola, Caltex, Wesfarmers and QBE Insurance.

These are all household names providing services at a profit. That's what businesses do and will continue to do into 2009. While we may not see such rapid gains as post-1987 there are opportunities for growth in share prices as profits rise over time.

While the Australian sharemarket is down close to 45% from its high of November 2007, not all share prices have fallen or by as much. Companies in the healthcare sector such as CSL and ResMed have seen their share prices rise since November.

Bear markets are dominated by bad news but there will still be good news if you care to look for it.

### Where to from here?

Growth in the Australian economy over the next two or three years may not be as robust as it's been for the past ten years but it should nonetheless continue.

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# Tame the Beast

## Continued

Our population is growing, the world needs the products we sell and Australian companies are reinvesting some of their profits back into their businesses.

Authorities both in the US and Australia have acted aggressively to calm financial markets. The problems to work through in global financial markets are significant, but investors can be reassured that actions are being taken to restore stability and confidence. Australia is well placed relative to many other countries given the strong financial position of the Federal Government, the ability of the Reserve Bank of Australia to cut official interest rates if needed and the solid regulatory framework within which Australia's financial institutions operate.

Some share prices have been punished – because they will not be able to earn the profits they and the market had been expecting. However, others have fallen as investors start to panic and sell everything. When this occurs, bargains can begin to emerge!

## Over to the fund managers

Many investors find bear markets nerve racking, but it is a fund manager's job to keep a cool head and ask themselves some questions:

- Which companies will supply the growing population of Australia with groceries, finance, insurance, healthcare needs and beer?
- Which companies will supply the growing demand for energy, agricultural products, metals and minerals?

By doing this they are identifying opportunities to buy companies that are likely to produce solid returns for their clients over the long-term.

*Source: Colonial First State*

# From Little Things, Big Things Grow

With the state of investment markets being what they are, investing more of our money now is perhaps one of the furthest things from our minds.

Many of us have heard stories about the benefits of dollar cost averaging and compound interest. That is, building wealth for the long-term by investing small amounts on a regular basis. Of course, it was Albert Einstein who is attributed with having said “the most powerful force in the universe is compound interest”.

I was recently reminded of a story of a successful accounting practice that had a large number of individual clients for whom they prepared annual tax returns. Rather than simply preparing tax returns, the principals of the firm decided they would turn their tax clients into investors.

When a client came into the office to have their tax return prepared, when clients received a tax refund, and when new clients visited the office for an interview, they were reminded of the benefits that could be achieved by establishing a regular investment plan. In fact, clients could establish a regular investment plan with as little as \$25 per week (two pizzas, garlic bread, and a bottle of soft drink). Clients could increase their monthly commitment at any time, or could reduce it if circumstances changed. They were not locked into a contractual arrangement.

Over time, many clients of the accounting practice participated in this program with quite a number increasing their regular savings commitment when they received a salary rise or a tax cut. The regular savings were

channelled into a well managed diversified investment fund that gave exposure to a range of asset classes including cash, fixed interest securities, property and shares.

This simple strategy gave clients access to two of the great investment principles, dollar cost averaging and compound interest.

One of the advantages of a regular investment program is that once we set up an automatic facility to divert a regular amount from our bank account or salary, we adjust our spending habits accordingly and, after a couple of weeks, we don't miss the amount being saved.

The benefit of a regular investment program is that you don't need to have a large amount of money to start. A number of fund managers have plans available that can be commenced with as little as \$1,000 and regular contributions of \$100 per month.

Speak to your financial adviser today about starting a regular investment plan. With markets being in a depressed state, the opportunity to get in “on the ground floor” has never been better.

*Source: Peter Kelly - Professional Investment Services*



# Superannuation

## for Temporary Residents



Australia is a popular destination for many people who visit from overseas each year. In fact, for many young people, a working holiday in Australia is a right of passage. We are all very familiar with the backpackers who come and enjoy the sights and experiences that Australia has to offer. However, it is not just young people who visit Australia for extended periods. In many cases, mature aged people come to work in Australia on a temporary basis bringing vital skills and experience that can benefit the country.

On 18th December 2008, legislation was enacted that will have an impact on superannuation benefits held by Australia's temporary residents. This legislation had been foreshadowed before the previous election; however, the format on the new laws is somewhat different to that originally proposed.

Temporary residents can still make contributions to an Australian superannuation fund during their residency and, those who are employed will, in many cases, be having contributions made on their behalf by their Australian employer under obligations imposed by the Superannuation Guarantee system.

Many readers will be familiar with the notion that benefits within a superannuation fund are "preserved". This simply means that they cannot be taken out of the superannuation system until a "condition of release" has been met. The most common condition of release is having retired on or after reaching preservation age (currently 55).

Some years ago, a person who permanently departed Australia could access their superannuation benefits. This was available not only to temporary residents, but also to permanent Australian residents who were leaving Australia on a permanent basis. In 2002, the laws relating to accessing

superannuation benefits on permanent departure from Australia changed significantly.

Effective from 1st July 2002, the only people who could access their superannuation benefits upon permanently departing the country are those who met certain conditions. One such condition was that the person had to have held one of a number of classes of eligible temporary resident visa and that visa had expired or been cancelled. No longer could a permanent resident access their superannuation if they were leaving Australia to live overseas.

Where a superannuation benefit is paid out to a temporary resident on their departure, it is referred to as a "Departing Australia Superannuation Payment" (DASP). A DASP is subject to its own special taxation rates which, incidentally will increase from 1st April 2009.

Where the new amendments have a specific impact is in relation to benefits held in an Australian superannuation fund by someone who:

- Left Australia at least six months ago; and
- The person no longer holds a current temporary visa.

Where a former temporary resident falls into this category, any unclaimed superannuation amounts held in their Australian superannuation fund must be paid to the Australian Taxation Office (ATO) upon request.

A former temporary resident (who held a prescribed class of eligible temporary resident visa) will still be able to claim their superannuation benefit in the future. They will claim the benefit from the superannuation fund where it is still holding the funds, or from the ATO, if the benefit has already been transferred.

There are a number of exemptions from these arrangements, including New Zealand residents, holders of permanent visas, and holders of retirement visas. Importantly, a permanent Australian resident who departs Australia is still not able to access their preserved superannuation benefits until they meet a condition of release.

*Source: Professional Investment Services*

# Trivia

Money isn't made out of paper; it's made out of linen.

At the height of its power, in 400 BC, the Greek city of Sparta had 25,000 citizens and 500,000 slaves.

Every person has a unique tongue print.

After spending hours working at a computer display, look at a blank piece of white paper. It will probably appear pink.

You share your birthday with at least nine million other people around the world.

The coldest temperature ever measured on Earth was -129 Fahrenheit (-89 Celsius) at Vostok, Antarctica, on July 21st 1983.

All gondolas in Venice must be painted black, unless they belong to a high official.

Caffeine is on the International Olympic Committee's list of prohibited substances. Athletes who test positive for more than 12 micrograms of caffeine per millilitre of urine may be banned from the Olympic Games. This level may be reached after drinking about five cups of coffee.

The Arctic Tern (*Sterna paradisaea*) may be a small bird, but it undertakes the world's longest migration each year when it travels almost from pole to pole. After breeding in the Arctic Circle, these birds migrate during the Northern Hemisphere winter to the border of the Antarctic ice pack. The round trip migration is almost equal to flying all the way around the earth - totalling approximately 35,000 kilometres.

Banana plants are the largest plants on earth without a woody stem. They are actually giant herbs of the same family as lilies, orchids and palms.

Colgate claims "Tooth Fairy" as a registered trademark.

The honeybee kills more people world-wide than all the poisonous snakes combined.

Great Britain was the first country to issue postage stamps. Hence, the postage stamps of Britain are the only stamps in the world not to bear the name of the country of origin.

Sources:

[www.corsinet.com/trivia/](http://www.corsinet.com/trivia/) and [www.funfunnyfacts.com](http://www.funfunnyfacts.com)

# Insuring your Key People



**Building up your business into what it is today has probably taken many years, lots of hard work, and no doubt quite a few risks along the way.**

You certainly wouldn't want to jeopardise the business in any way. You could be doing just that if you have not taken adequate steps to secure its future operation.

What would happen to your business, for example, if you or a partner in the business died suddenly, suffered a trauma or became permanently disabled?

You may have insured your individual situation with life insurance to help protect your family's lifestyle on your death or incapacitation, but it is also important to consider things in a business context.

In most businesses, beyond the physical equipment and machinery, it is the employees who ultimately keep things running. A senior employee, such as a manager, director or sales executive, may be considered a key person. These people are critical to whether or not a company makes a profit.

So if something was to happen to that key person in the business, you as the other owner may be left with a business without someone there to bring in the income. You may want to offset that risk by insuring the key person and providing a lump sum injection into the business to help during the transition/replacement phase.

## What is key person insurance?

Key person insurance involves the taking out of insurance on the lives of the people whose loss would cause your business to suffer.

Should your key person die, become disabled or suffer from a serious trauma, a lump sum benefit would be paid to the business. In this way, key

person insurance helps protect your business from the impact that the loss of this key person would have.

Without key person insurance, a business may suffer from the potential loss of key clients, reduced business growth and development, and the loss of goodwill. Furthermore, the business will need to replace the key employee and most likely have to train the replacement.

## Features of key person insurance

Key person insurance will help protect a business by paying a benefit to compensate for loss of production and subsequent loss of revenue. The benefit will also give the business funding to find and train a suitable replacement without it losing financially from the loss of a key person.

To begin the process, the business should identify its key personnel. It is then important to estimate each key person's net worth to the business by considering how much the effect of losing each person would cost the business financially.

The owner should then take out life, disability and/or trauma insurance to protect the business from the impact of losing key personnel. The sum insured will be determined by the estimation of each key person's net worth to the business.

Premiums are paid by the business and if a claim is accepted on your plan for the event that you have insured, your business will be paid a benefit in accordance with the sum insured.

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Source: Aviva

Contact our office for further information:

Rodney Gibson Financial Services Pty Ltd  
Level 2, 54 Amelia Street  
Fortitude Valley, QLD, 4006

Ph: (07) 3252 9990  
Fax: (07) 3257 7366

Email: [admin@rodneygibson.com.au](mailto:admin@rodneygibson.com.au)  
Web: [www.rodneygibson.com.au](http://www.rodneygibson.com.au)

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