



Newsletter

Spring 2008

Welcome

It's our pleasure to welcome you to our new look Spring newsletter, in which we have included a selection of articles that we hope you find both interesting and enjoyable to read.

This winter proved to be rather chilly for investors. The bears were out of their cage and clawing at shares and super funds. Spiralling oil prices and soaring home rental rates contributed to rising inflation figures. And thanks to America's woes, our dollar almost reached parity with the US\$. In this Spring issue we'll be taking a closer look at the rise and fall of our Aussie dollar and examining transition to retirement strategies that could make the decade between ages 55 – 65 especially lucrative for investors. We also offer some thoughts on achieving a better work life balance – important for your health as well as family and social relationships.

Kind Regards,

Scott Farmer



Latest news

We have just passed the first anniversary of the US Sub Prime credit crisis, but the fallout is still hurting us. We've seen some large corporate collapses in the US such as Lehman Brothers, Freddie Mac and Fannie Mae in the past quarter and the big chill continues for investors in shares and super funds too – the latter recording their worst results in a decade. Even Australia's blue chip companies are feeling the pinch and many are lowering their profit forecasts. New home building starts have also dropped and rents are expected to creep up as a result of a shortage in new homes. But at least it is not all bad news. It seems unlikely that the Australian Reserve Bank will raise interest rates in the near future given two rate cuts have now been passed through totaling 1.25%, and the consensus is rates may continue to fall somewhat. There is also hope that the credit crisis effecting share markets world wide will be offset by Henry Paulson's proactive funding initiatives in the US. This is good news for those of us patiently waiting for the share market to recover. (We know it will, but if only we knew exactly when...)

On the 11th and 12th of October I participated in the Scott 24 Hour Mountain Bike Championships at Stromlo Park in Canberra with 4 other riders, Michael Williams, Ian Bennetts, Andrew McCormack and Sean Godwin. We were lucky enough to have warm weather, lots of fun and in the process raise \$500 for the Cancer Council of Australia. Unfortunately cancer is something that affects nearly all of us at some point either directly or indirectly and it was fantastic to raise some money for such a great cause. This year's event was the 10th anniversary of what is now the largest 24 hour mountain bike race in the world. There were 2390 riders, 12,786 laps completed, and 182,194 Km ridden which is a bit over 4 and a half times around the planet!

Passing the buck

What the rise and fall in the Aussie \$ might do to you



The Aussie dollar has had more ups and downs than a TV soap opera since it replaced the pound in 1966. Way back then, it was pegged to British sterling, but a year later, the AU\$ abandoned the pound and was linked to the US\$ at an official rate of AU\$1.00 = US\$1.12.

Our dollar has been on a real roller coaster ride since 1968, but never once matched or exceeded the value of the US\$. In 2001, it hit its lowest ever value of only 49 US cents. By May 18 this year, its value had increased to 96.53 US cents, an increase of almost 100% since 2001 and its highest rate in 24 years. However recently it has started to go in the opposite direction and that's down.*

So what caused the increase in the value of our dollar vs. the US dollar in the first place? The basic answer is that the US and Australia were following diametrically opposite policies. In the USA, fearful of a wipe-out of middle class home owners and a major recession, the Federal Reserve Bank focused on keeping interest rates low – as low as 2% (by cutting interest rates).

In Australia, our Reserve Bank has made curbing inflation a priority in the last six years so interest rates have increased 12 times since 2001.

The good news for Australian homeowners with a mortgage is that this trend seems to be reversing with the Reserve Bank recently cutting interest rates by 0.25 per cent for the first time since 2001.

One result of this interest rate imbalance between the USA and Australia has been the surge in demand for the Australian dollar from international investors, putting upward pressure on the AU\$. This simply means fixed interest investors for example, now find Australia more attractive to invest in compared to the USA. Given both countries exhibit a stable political system, reasonably strong balance sheets and are part of the 'first world', Australia has become a good fixed interest alternative compared to the USA.

The other factor keeping the value of the AU\$ high is our amazingly good balance of trade figures. Once Australia lived off the sheep's back, but today we live off the miner's shovel. As China and other major trading partners scramble for our mineral wealth, this too increases the demand for our currency.

The big question is how the surge in the value of the Aussie \$ affects you and impacts on Australia's future? After all, we are paid in Aussie dollars and we pay our mortgages and shop with Aussie dollars, so how does it affect us if the rate goes up against the US\$ or down.

In theory, we should be paying less for imported products right now, as they are being paid for with a stronger dollar (relative to its long term average). In practise, importers don't always pass on the savings, which have in any case been eroded by higher crude oil and transport costs. At least we can be thankful we are paying for our crude oil imports with a healthy dollar – if the dollar was still worth 49c, the cost of petrol would be double what it is today! Every coin has two sides however. So while the high value of the Aussie dollar makes this a great year to be vacationing to the USA (in spite of higher airfares), it also makes it a tough year for Americans to visit us - a factor that has already impacted on our tourist industry.

A high Aussie dollar also affects Australian exports to other countries. Demand for mineral resources remains strong, but all the other products and services Australia sells overseas are also affected. These goods now cost more and overseas buyers may buy less of them. At the same time, our imports are cheaper and this could encourage demand and increase inflation. Both these scenarios could exert downward pressure on our balance of trade figures.

It's no wonder very few people except for the currency speculators were hoping that the Aussie dollar would crash through the US\$1 barrier. While the dollar has since fallen from its recent highs, where it goes next is a topic of much speculation!

*www.livenews.com.au/articles/2008/02/28/Aussie_dollar_reaches_24_year_high



You can draw exactly the same take home pay you are receiving now, yet pay a lot less tax.

The most important ten years of your life!



An ideal strategy

Your 55th birthday may be the earliest date you can officially retire and access your super, but these days most of us would consider 55 way too young to stop working altogether.

The main reason for this is that we are now living longer and expect more out of life – we feel too young to retire. The cost of living isn't getting any lower either, a thought that persuades many of us to keep working a little longer to sock away a bigger nest egg before we take to the road as grey nomads or embark on whatever adventure we have planned when we stop working.

What most people aged around 55 don't know, is that there is a financial strategy called "Transition to Retirement" for those who want to (or have to) keep on working full time to age 60 or 65, and who would like to pay a lot less tax while boosting their super. It also works very well if you want to switch from working full time to part time without reducing your income.

Who should consider this strategy?

Transition to Retirement is a perfect solution for people who aren't ready to retire, but would like to reduce the

pressures of working full time. It's also an ideal strategy for successful people who by age 55 are in the higher income tax brackets (earning above \$35,000 to make the strategy effective), and would prefer to put more money in their own pocket and give less to the tax man without breaking the law.

How does it work?

A Transition to Retirement strategy involves taking advantage of the ability to access your super fund at age 55 or older by converting part of it to a pension fund (called a non-commutable account based pension). This means you will be entitled to receive part of your super as an income stream. This income stream is tax free after age 60, or eligible for significant tax concessions between ages 55 – 60.

Because you receive this income from your account based pension tax free (or significantly tax advantaged), you don't need as much money from your normal salary anymore. This means you can contribute more of your salary into your superannuation fund, significantly reducing your tax. You can then keep on working full time and save tax, or work part time, relying on the tax advantaged pension income to top up your monthly living costs.

Another benefit often overlooked under this strategy is the compounding tax benefits your superannuation money receives when commencing a non-commutable account based pension. That is, the tax rate falls from 15% on earnings and 10% on capital gains* whilst in superannuation phase, down to zero. Over time that is a big tax saving for simply rearranging your affairs.

The key benefit of this strategy is that you can draw exactly the same take home pay you are receiving now, yet pay a lot less tax. You can preserve your nest egg by drawing a low pension amount while continuing to work part time and topping up your super at the same time. Alternatively you can increase your retirement fund by socking a much larger salary sacrificed amount into it while gaining a tax advantage.

The ins and outs of superannuation funded pensions do require thorough explanation and the actual tax benefit varies from individual to individual. If you are 55 or older, you should ask us to analyse the benefits of a Transition to Retirement strategy for you. It could definitely be a decade worth taking advantage of!

*Assumes investment asset is held for 12 months or longer

Enjoying life?

We're almost the longest living people ...



“Methusaleh lived nine hundred years... But who calls that livin’ when no gal will give in to a man what’s nine hundred years old” - George & Ira Gershwin “It Ain’t Necessarily So”

A report called Australia’s Health 2008 tells us that we are now the second longest living people on earth at 80.4 years, bettered only by Japan.¹ But what is the point of living longer if you are not getting more out of life? If you Google the internet, you’ll find lots of advice on how to get more out of life, but it all seems to boil down to a few simple things:

1. Don’t make life your work – make life work for you!

Work/life balance is about the effect your job has on your family, your relationships and your own stress levels. Bosses today are smart enough to realise that unhappy employees are less efficient, so the Human Resources Managers of larger companies worry about your work/life balance as part of their jobs.

But what if you work for a small business or work for yourself? If you have a slave-driving employer, you might consider another job for your health’s sake as well as your family’s – we all know that stress has been linked to suppression of the immune system and consequent illnesses. And if you work for yourself,

you should take extra care to keep your work and your life in balance.

If you’re putting all your effort into growing your business right now, you might be spending a disproportionate amount of time working compared to family life, socialising or allowing time for yourself. You only have 24 hours – 1440 minutes – each day, less sleeping time. Spend those minutes as carefully as you spend your cash.

2. Take control with all your might

We have all heard that physical activity is an anti-ageing prescription in itself. Exercise training cannot restore tissue that has already been destroyed, but it can protect us against a number of chronic diseases. More importantly, exercise maximizes residual function. In some instances, biological age is reduced by as much as 20 years.² Life expectancy is increased, partial and total disability is delayed, and there are major gains in quality-adjusted life expectancy.

Much of what we consider normal about ageing actually has nothing to do with ageing, but rather with lack of muscle use leading to muscle atrophy. But not all of us want to jog, lift weights or go to the gym to reap the benefits. Walking up and down stairs is a great, low impact, safe, heart healthy exercise, even if you only manage a couple of flights 2-3 times a day – just don’t do it in high heels, which could risk a fall.

3. Feed your brain as well as your body

In the USA the latest thinking is that your brain tone and your muscle tone have a lot in common – in other words, it’s a case of “use it or lose it”. As a result, the US market for brain exercising computer games grew to \$80 million this year. (You can get much of the same effect a lot cheaper by learning a new language or doing a crossword puzzle). And believe it or not, there is a strong connection between increasing physical exercise and reducing risk of Alzheimer’s disease.

Scientists believe that regular exercise slows the age-related shrinkage of the frontal cortex of the brain and may reduce the risk of dementia by as much as one third – so you can actually shrink your butt and grow your brain at the same time. You have been given the gift of longer and healthier life, don’t waste it!

¹Australian Institute of Health and Welfare 2008

²Shephard, R.J. (1998). Aging and Exercise. In: Encyclopedia of Sports Medicine and Science

Are you serious?

A teenager approaches his father saying “Dad, you gave me terrible financial advice! You said to put my money in that big bank, and now that bank is in trouble.” “That’s one of the largest banks in Australia - there must be some mistake,” he answered. “No - they just returned one of my cheques with a note saying, ‘Insufficient Funds’.”

General Advice Warning: This advice may not be suitable to you because it contains general advice that has not been tailored to your personal circumstances. Please seek personal financial advice prior to acting on this information. **Investment Performance:** Past performance is not a reliable guide to future returns as future returns may differ from and be more or less volatile than past returns.

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