

Financial planning news

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Last chance to contribute \$1 Million into super!

So what exactly is this opportunity all about?

Last year the Treasurer announced that an undeducted (post-tax) contribution limit of \$1 million will apply from 10 May 2006 to 30 June 2007. This is a one-off opportunity for individuals who are eligible to contribute into superannuation in order to maximise their retirement benefits. With the end of financial year fast approaching this opportunity will soon be lost.

What are the restrictions on making undeducted contributions after 1 July 2007?

From 1 July 2007, the maximum undeducted contribution for an individual will be \$150,000 per

year. Averaging provisions will apply for individuals under the age of 65 effectively allowing them to 'bring forward' two extra years worth of undeducted contributions totalling \$450,000.

Are there financial assets that can be directly transferred into super?

Yes, certain assets such as listed securities, property trusts, managed funds and business real property may be transferred in-specie (directly) into the superannuation environment. However, assets such as residential investment properties cannot be transferred directly into superannuation.

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What are the issues to consider prior to either selling or transferring assets?

It is extremely important to consider capital gains tax and stamp duty implications. However, there are several strategies that may be available to legitimately reduce or negate capital gains tax. BDO Kendalls Financial Planning will be able to assist you in determining if the long-term benefit of making an undeducted contribution into superannuation will outweigh any short-term costs involved with either selling or transferring an investment asset.

What are the long-term benefits of holding additional monies within super?

By maximising the level of funds held within the superannuation environment an individual from 1 July 2007 will be able to take advantage of the new Simplified Super reforms. These reforms include the ability to receive tax-free pension payments and tax-free lump sum capital withdrawals from the age 60 assuming a condition of release is satisfied.

What other superannuation strategy ideas should you consider?

1. *Salary sacrifice contributions* – This covers employer contributions made into the superannuation environment on behalf of an employee. These contributions are taxed at the concessional rate of 15% rather than an individual's marginal tax rate of up to 46.5%.
2. *Transition to retirement income stream* – This strategy allows a member of a superannuation fund who has reached the age of 55 and is still engaged in either full time or part time gainful employment to commence an income stream with their existing superannuation entitlements. They may

“This is a one-off opportunity for individuals who are eligible to contribute into superannuation in order to maximise their retirement benefits.”

also simultaneously start a salary sacrifice contribution strategy. There are definitely taxation advantages associated with this strategy given that withdrawals from the income stream may be eligible for a 15% tax rebate whilst salary sacrifice contributions are taxed at the concessional rate of 15%.

3. *Roll back allocated pension accounts* – Allocated pensions require a member to drawdown a minimum amount of income each financial year based on their account balance and age. Under the new superannuation rules a retiree may elect to roll back a portion of their pension account into an accumulation account and effectively reduce the minimum withdrawal amount required from the allocated pension.
4. *Consolidation of superannuation accounts* – By consolidating various superannuation accounts an individual may be able to increase the future tax-free component of their superannuation entitlement. This opportunity will not exist after 1 July 2007.

AFR Smart investor magazine congratulates Sidney Lim!

Congratulations to Sidney Lim in making the Top 50 of the AFR Smart Investors Masterclass 2007 list. The announcement follows AFR Smart Investor magazine's eighth annual masterclass exam, set by leaders in the financial planning industry, testing technical expertise and applied knowledge across the full spectrum of financial planning as well as the application of this knowledge in real-life situations.

In addition to the kudos of making the top 50, Sidney will receive national exposure through the AFR Smart investor magazine and inclusion on BT Financial services list of recommended financial planners.

In addition, we would like to congratulate Sidney and his partner Belinda on the birth of their second child.



Structured investments—combining tax effectiveness and performance

Tax effective investing used to be the domain of olive trees and emus. These days there is a myriad of options for investors looking for products which are structured to combine performance with tax effectiveness to provide the best of both worlds. In this article, we explore how the two strategies can be combined into one product.

With June 30 fast approaching now is the time many people begin thinking about ways to minimise their end of year tax liabilities. This last minute approach often results in investments which serve the sole purpose of tax minimisation, and deliver little in the way of long term performance. By addressing these issues with a long term approach and utilising the right investment vehicle you can seamlessly combine efficient tax planning with investment performance.

One of the simplest and most effective ways of reducing an investor's tax obligations is to borrow to make an investment and then claim any applicable interest as a tax deduction.

As an example of the types of products now available, one of the structured products we have reviewed is described in detail below. This product combines an underlying hedge fund, index outperformance options, capital protection features and the ability to finance 100% of the investment.

The funding mechanism has been structured to eliminate the risk of increasing interest rates by having a fixed rate for the term of the loan. Additionally, a capital protection option mitigates downside risk, while the 100% interest only loan, secured against the investment, means no margin calls.

For example an investor can borrow an initial investment of \$250,000 at an indicative fixed rate of 8.40% with annual interest payment of \$21,000.

Investors may then claim 100% of this interest as a tax deduction, which equates to a tax saving (at a marginal tax rate of 46.5%) of \$9,765. This leaves an after tax cost of loan to the investor of \$11,235 pa.

Most importantly, the key consideration with structured products is the underlying investment. This fund will primarily give investors leveraged exposure to a leading global Long/Short absolute return fund, coupled with access to Asian, European or US equity markets.

The product is structured in such a way to give investors 200% - 300% exposure to two complementary investment approaches in one product, with the security of capital protection at maturity.

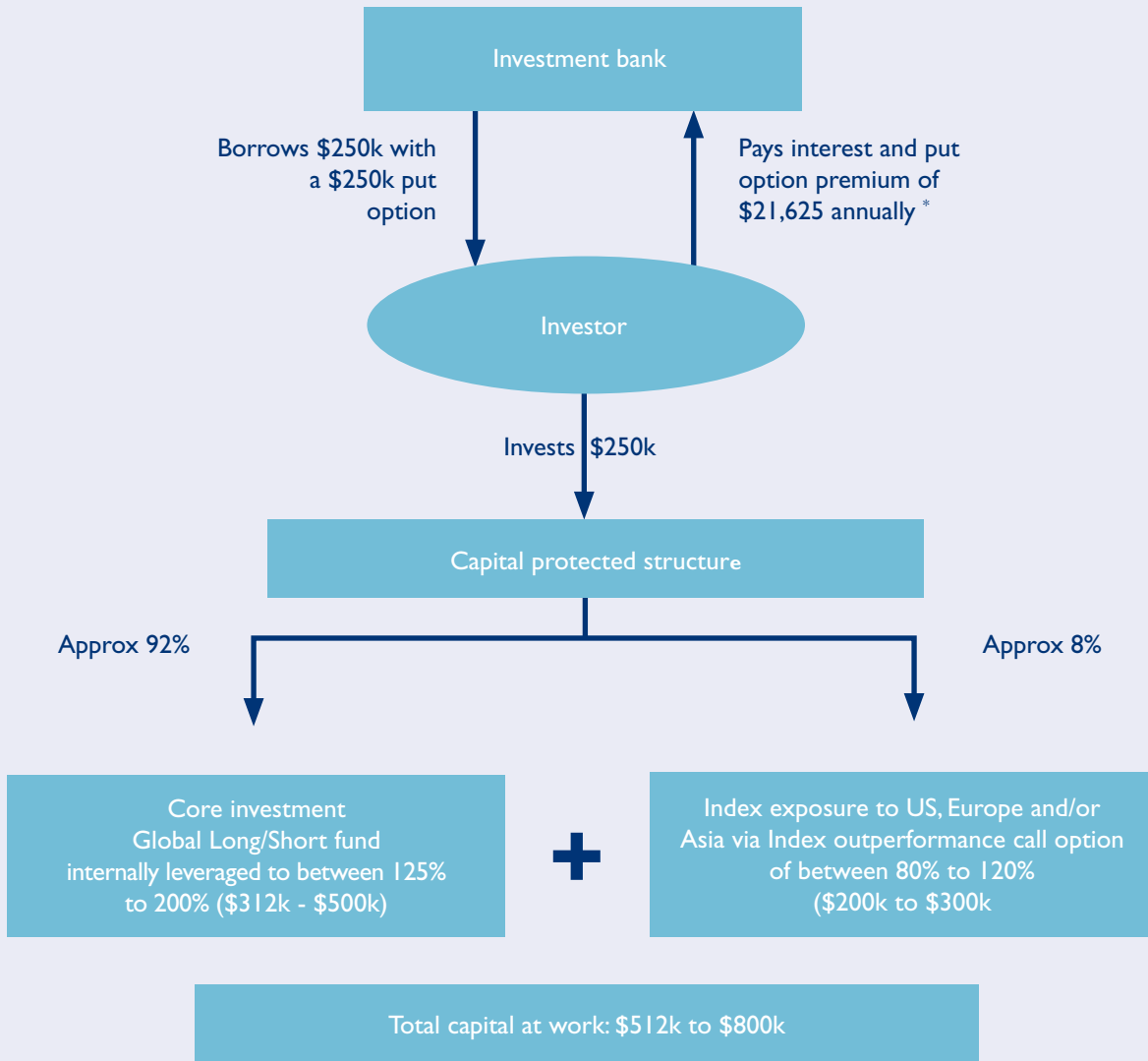
This type of investment is an ideal addition to the portfolio of many investors including;

- Investors seeking a tax deductible investment leading up to 30 June
- Investors seeking a capital protected exposure to high growth investments
- Investors wanting the cash flow advantages of 100% investment loans
- Investors in need of absolute return exposure in their portfolios
- Self Managed Super Fund investors seeking investments with the benefits of internal leverage (note that the external gearing facility is not available for SMSF investors).

The primary fund has a term of approximately eight years, with a maturity date of July 31, 2015. The secondary Index Outperformance Call Option (refer diagram) expires after 5 years (31 May 2012) and any gain will be distributed at that time.

All leveraged products, and structured products in particular, carry risks related both to the underlying investment product and the gearing facilities used. To ensure that structured products are an appropriate investment for your personal circumstances it is important to seek the advice of a qualified financial adviser.

The product described here is one example of a *tax effective investment* coupled with a *sound underlying investment strategy*. To discuss the use of structured products in your investment portfolio, please contact us. Refer to the diagram on the next page.



* Indicative interest rate of 8.40% pa and put option premium of 0.25% pa

Meet Wendy Irik

Accounts and Administration Officer

We are pleased to introduce, Wendy Irik, who joined BDO Kendalls Financial Planning (NSW) in February 2007.

Wendy has a wealth of experience in Accounts and Administration. Her key focus is to provide back office support for our business and financial planners.

Wendy enjoys travelling and has recently been appointed as head coach for her local dragon boat club.



Economic update

Global shares

The March quarter saw increased volatility in world equity markets, with major markets providing strong gains in January & February, followed by a sudden downturn at end of February/early March, and then recovering again to be in positive territory by the end of March (on a 'hedged' basis).

The catalyst behind the late February sell-off was a 9% one-day fall on the Chinese stock market, resulting from reports that the Chinese government was clamping down on speculative activity in the local share market, and considering imposing a tax on capital gains. It should be noted however that the domestic Chinese stock market is small in terms of global equity market value (roughly the same size as the Australian market) and has few links with other world equity markets.

While falls in Chinese shares may have been the psychological trigger, the real issue is the outlook for global economic growth. As is usually the case, the US is at the centre of global economic matters, and problems in the US sub-prime (mainly low doc) mortgage market soon took centre stage. The US remains the world's biggest economy, with the most influential investment markets. In this regard, many economists are still broadly optimistic.

Dr Shane Oliver, AMP Capital's Chief Economist, states:

"While shares may still experience some turbulence in the short term on the back of ongoing worries about the US housing downturn, our view remains that both global and Australian shares are on track to provide solid gains for the rest of year." However, he also warns "the US sub-prime loans crisis does not change our assessment of a US soft landing – but it does add to the risk."

Australian shares

Until the final day of February, a robust reporting season and continued takeover speculation had seen the Australian sharemarket reach record highs. The All Ordinaries share price index briefly surpassed the 6000 point mark for the first time in late February.

The Australian market then followed leads from overseas, with a sharp sell-off in late February/early March. However the market rebounded quickly, with the All Ordinaries again crashing through 6000 points in early April, supported by ongoing Merger and

acquisition activity, strength in resources stocks, and the Reserve Bank keeping interest rates on hold at their 3 April meeting.

Commentary

Falls in share markets are unsettling, however markets never go up in straight lines. Bull markets are generally characterised by steady advances in share market values, with occasional sharp setbacks – the previous such setback was in May/June 2006.

During times of volatility it is important for investors to take a long-term view on investment markets, whilst also ensuring portfolios are regularly re-balanced to benchmark asset allocations.

Listed property

Listed property securities rose in January and February however, unlike the broader sharemarket, property securities have not yet recovered from the recent sell-off. From peak levels in late February to their recent lows, US Real Estate Investment Trusts (REITs) have had a 13% fall, and Australian Listed Property Trusts (LPTs) have had a 10.5% correction.

Despite these falls, listed property still posted solid gains for the year to 31 March 2007, with the UBS Global Real Estate Investors ex-Australia Index (Hedged) returning 26.7%, and Australia's S&P/ASX 300 Property Accumulation index returning 28.6% for the period.

Fixed interest

Following bond market weakness in December and January, the volatility in equity markets at the end of February provided strong support for bonds. Global bond markets rallied with the 'flight to safety' evident during the equity market sell-off. The Australian bond market returned 1.2% in February, with some overseas bond markets (including US & UK) providing even higher returns as investors moved to the safe haven of government bonds.

Whilst bond returns had levelled off by end of March, this serves as a timely reminder of the diversification benefits of bonds, by providing potential for some offset during periods of equity market downturn.

In relation to credit markets, there was a deterioration in sentiment due to concerns in the US mortgage backed securities market and equity market weakness. Credit spreads on issues exposed to sub-prime borrowers widened sharply in the US. Whilst causing some concerns in the US high yield credit markets, the impact on investment grade corporate bonds was muted.

Despite the offshore volatility, domestic credit spreads were relatively unchanged, reflecting the high credit quality and defensive nature of the Australian market.

Interest rates & currency

The Reserve Bank left interest rates on hold at 6.25% throughout the March quarter, and again in April.

However, this may be a temporary reprieve. If the US economy proves to weather its housing downturn, domestic demand remains strong, and the March quarter inflation figures prove troublesome, then an interest rate rise may follow.

Expectations that the RBA may lift interest rates in the near future, coupled with a buoyant domestic economic outlook, led to the Australian dollar appreciating during February and March. This strong Australian dollar is likely to continue while the RBA retains a tightening bias and US interest rates remain on hold.

Sources: AMP Capital Investors, BlackRock Merrill Lynch Investment Managers, Lonsec, UBS Global Asset Management.

For more information about items in this newsletter or our services, please contact any member of our Financial Planning team.

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- Investment planning & portfolio construction
- Superannuation & retirement planning
- Redundancy advice
- Life & disability insurances
- Life goal setting & tracking
- Corporate superannuation & employee benefit programs
- Wealth accumulation strategies

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