Connect

Spring 2011
Issue 20

Consultum
Financial Advisers

Australian equities: Is it the time to invest?

Since the commencement of the Global Financial Crisis, most daily news reports include extended coverage of the economy and financial markets.

Given the stories we've seen about debt issues in Greece, and more recently the US double dip recession, slowing economic growth, rising prices and fluctuating share markets, you could be forgiven for thinking it's all bad news.

But if we take a step back and look past the "here and now" stories, there are some positive news for investors.

Apart from the plus side of a high Australian dollar for those of us travelling overseas and buying imported goods, interest rates on term deposits have increased and a number of investment classes have performed quite well.

continued next page >

Did you know: *Breathing generates about 0.6g of CO2 every minute.*

Source: www.didyouknow.org

Have you had a banana today?

Eating three bananas a day cuts your risk of a stroke, scientists say.

Strokes are usually caused when a clot forms and blocks the blood supply to the brain. High blood pressure is the single biggest risk factor for stroke.

Findings by British and Italian researchers suggest thousands of strokes could be prevented by the consumption of potassium-rich foods such as bananas, spinach, nuts, milk, fish and lentils.

Potassium helps to lower blood pressure and also controls the balance of fluids in the body.

The average banana contains around 500 milligrammes of potassium. A daily potassium intake of around 1,600 milligrammes is enough to lower stroke risk by more than a fifth.

So a banana for breakfast, one for lunch and one in the evening would provide enough potassium to reduce the chances of suffering a blood clot on the brain by around 21%.

Too little potassium can lead to an irregular heartbeat, irritability, nausea and diarrhoea.

Source: www.dailymail.co.uk

The Fast Test

Stroke is Australia's second single greatest killer after coronary heart disease and a leading cause of disability. Close to 20% of all strokes occur to people under 55 years of age.

The FAST test is an easy way to recognise and remember the signs of stroke.

- **Face** – Check their face. Has their mouth drooped?
- **Arms** – Can they lift both arms?
- **Speech** – Is their speech slurred? Do they understand you?
- **Time** – Time is critical. If you see any of these signs call 000 now!

Source: Australian Institute of Health and Welfare 2006. Australia's Health 2006

Australian equities: Is it the time to invest?

continued from previous page>

Australian Share markets

In the last financial year for example, as the first chart below shows, global property, Australian equities, Australian property and global shares posted solid to very strong positive returns.

Australian equities, as measured by the S&P/ASX 300 Accumulation Index, finished the year to 30 June 2011 up 11.9%.

We predict strong economic growth going forward, although we expect that some sectors may experience more subdued conditions. We also believe a number of locally listed companies will perform solidly over the longer term.

So now may well be the right time to consider investing in Australian equities.

Recent activity in equities and falling yields for government bonds illustrate the current good value in the equity market.

For example, if we look at the 10 year government bond, which was yielding 4.81% p.a. at 2 August 2011, and compare this rate to the current grossed up projected dividend yield for the sharemarket of over 6%[1] for the year to 30 June 2012, we see that shares are projected to produce a reasonably strong yield with the prospect of additional capital growth in the future.

Some professional investors look at this relationship as a guide to current sharemarket value. This relationship is shown in the chart below labelled Long Bond/12m Forward Industrials Yield.

So it may be worth looking past the sensationalism of newspaper headlines.

Instead, consider whether the current turmoil may in fact present investors with a good opportunity to pick up shares in solid Australian companies at value for money prices.

It's important to remember that when you're comparing investments you need to consider the risks not just the returns, benefits and opportunities.

While an investment in equities does carry more risk than government bonds, term deposits and other fixed income products, over time Australian equities can deliver a significant reward for taking on more risk.

Given the strength of the Australian economy and the long term performance of "blue chip" Australian companies, if you're looking at your investment options for the medium to long term now may be the right time to think about investing in Australian equities.

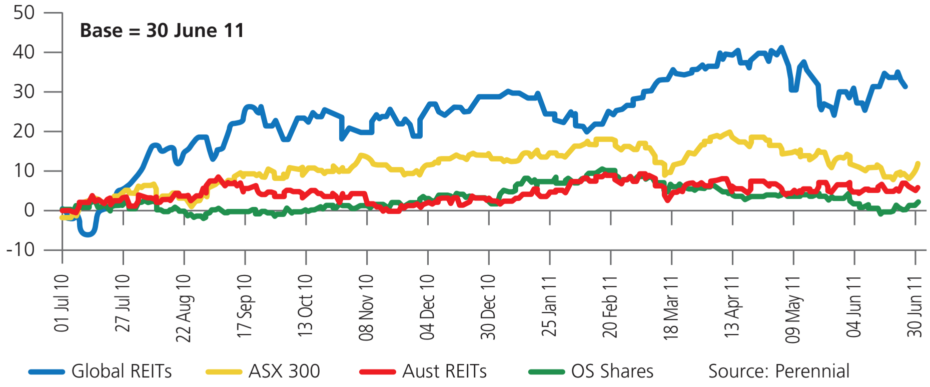
[1] Perennial Value estimates a project market yield for the S&P/ASX300 Accumulation Index, grossed up for franking credits of 6.6% for the year to 30 June 2012.

Source: Perennial Investment Partners Ltd

Did you know: *A Duke is the highest rank you can achieve without being a king or a prince.*

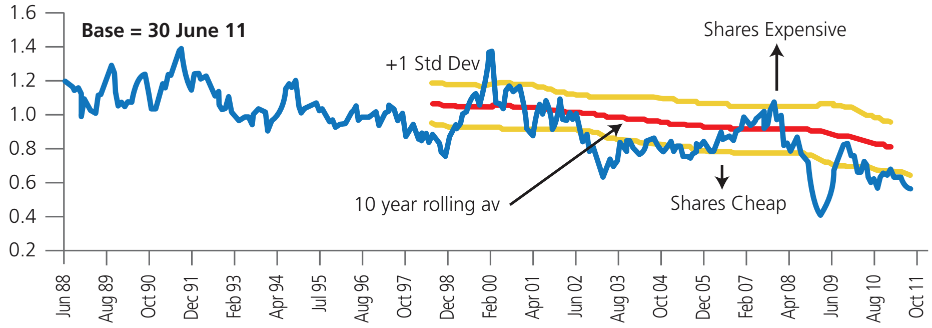
Source: www.didyouknow.org

The Investment Year That Was % return



Source: Perennial

Long Bond/12m Forward Industrials Yield



Source: Perennial

How will a carbon tax impact you?

The Federal Government has announced that, from 1 July 2012, around 500 of Australia's biggest polluters will be required to pay for every tonne of pollution they produce in the form of a carbon tax.

Many of these companies will pass on to consumers the tax costs that they incur by increasing the price of the products that they produce.

This tax will not apply to fuel that households purchase at service station bowsers, and the cost of food for most households is expected to increase by only $1.00 per week.

Average weekly household expenditure is likely to rise by $9.90. This includes a weekly rise in electricity of $3.30 and of $1.50 in gas.[1]

To compensate lower and middle income households for this increase in living costs, the Government intends to introduce new legislation to provide assistance to these households.

Compensation Payments

The Government will provide additional payments to some people in the form of increases in Government payments to some sectors of the community (see table below).

Tax Reductions

In addition, taxpayers earning up to $80,000 per year will notice a reduction in tax rates over the next couple of years. The size of the reduction will depend upon the taxable income of that taxpayer.

For example, it is expected that a person generating $20,000 of taxable income in a year will benefit from reduced tax of $1,758 in 2012/13 and $1,986 in 2013/14 under the proposed changes.

This tax benefit reduces to $253 and $316 per year respectively for a taxpayer earning taxable income of $70,000 p.a.

Make the most of the carbon tax regime

Eligibility for carbon tax compensation payments and tax incentives offered by the Government is not linked to the amount of energy a household consumes.

This means that despite any compensation on offer from the Government, there is a real incentive for all householders to reduce their energy consumption around the home.

[1] Source: 'What a carbon price means for you' – Australian Federal Government

[2] Tax shown excludes the effect of the Medicare levy and any tax offsets.

Recipients	Compensation Amount
Pensioners and Self-Funded Retirees	Up to: • $338 per year for singles • $510 per year for couples (combined)
Family Tax Benefit Part A recipients	$110 per child per year
Eligible Family Tax Benefit Part B recipients	Up to $69 per year
Allowance recipients	Up to: • $218 per year for singles • $224 per year for single parents • $390 per year for couples (combined)

Does your Adviser have your current email address?

Did you know:

- Not only do microwaves cook food faster than conventional ovens, they can use up to 70% less electricity.
- Energy efficient lamps consume up to 75% less electricity than incandescent ones and can last up to 8 times longer.
- The average household spends around $180 per year by leaving appliances on standby.
- Solar boosted hot water can save up to 50% of household hot water costs, and up to 90% on a sunny day.
- Front-loading washing machines are up to 15% more energy efficient than top loading machines.
- A hot water tap dripping every 1 second can waste up to $25 of hot water per year.
- By keeping doors to your kitchen, bathroom and laundry closed, you can prevent up to 75% of heat lost from your home.

Source: goswitch.com.au

Connect | Spring 2011 **Issue 20**

Consultum
Financial Advisers

Spouse insurance protects small business

Protecting your business against unexpected events often extends further than consideration of key employees, plant and business expenses.

In a number of instances it may also be appropriate to obtain insurance cover for people who do not hold a 'key person' role within the business.

Robyn was a fit and healthy 38 year old, raising two young teenage children.

But at the beginning of 2011 Robyn's life took an unexpected turn when a visit to the dentist for a suspected chipped tooth led to a diagnosis of tongue cancer.

Within 48 hours Robyn, a non-smoker, was in the Peter MacCallum Cancer Centre in Melbourne. Her stay in hospital lasted 27 days for treatment, which included an operation to remove part of her tongue to ensure that the cancer did not spread further.

Her husband Phillip, a self-employed IT consultant, felt that he needed to take time away from his business to care for his wife and their children. This break from work would continue during Robyn's stay in hospital and in the following months of her recovery.

Phillip's absence from the business had a severe financial impact on the business revenue. As a self-employed consultant, the business relied almost entirely on Phillip to generate income.

However, his absence did not stop the business from incurring ongoing expenses, such as rent, insurance, interest on business loans, motor vehicle expenses and professional fees.

Thankfully, a few months prior to Robyn's diagnosis, Robyn and Phillip had visited their financial adviser, Darryl Pearce, who had undertaken a thorough review of their personal and business insurances.

As well as recommending increases to Phillip's business insurance cover, Darryl also suggested that Robyn take out trauma insurance cover.

Robyn had not previously considered that she had a need for personal insurance, as she only worked part-time, assisting Phillip in this business in addition to managing their home and children.

Yet less than a year later, the purchase of this trauma cover provided Robyn and Phillip with a tax-free benefit of $100,000.

They used this money to pay for the medical expenses incurred from Robyn's cancer treatment and recovery, and the ongoing expenses which continued to be incurred by Phillip's business during his absence.

In affect, part of Robyn's benefit was used to protect the cash flow of the business without the need to increase business debt or draw on the family's finances.

As a result Phillip was able to take time away from his business to focus on Robyn and the family without financial worries adding to the family's stress.

We are pleased to report that Robyn has now fully recovered from her ordeal without any serious impediment, and all the family have been able to return to their 'normal' life.

Did you know: *Water expands by about 9% as it freezes.*
Source: www.didyouknow.org

What is the Flood Levy?

The flood levy will apply in the 2011/12 tax year to all taxpayers that earn a taxable income of more than $50,000. The money raised will be used to assist affected communities to recover from the recent floods and to rebuild essential infrastructure.

- People earning between $50,000 and $100,000 will pay 0.5% of taxable income in excess of $50,000.
- People earning over $100,000 will pay 0.5% of taxable income in excess of $50,000 and 1% of taxable income in excess of $100,000.

Taxpayers who earn taxable income of less than $50,000 or who are in receipt of an Australian Government Disaster Recovery Payment for a flood event that occurred during the 2010 /11 income year will be exempt from paying the flood levy.

General advice warning and disclaimer: This newsletter has been issued by Consultum Financial Advisers Pty Ltd (Consultum), ABN 65 006 373 995, Australian Financial Services Licence No. 230323. The information in the newsletter contains factual information and general financial product advice only. It has been prepared without taking into account any person's individual investment objectives, financial situation or particular needs. A person should not act on this information without first talking to a financial adviser. This information is given in good faith based on information believed to be accurate and reliable at the time of publication, including the continuance of present laws and Consultum's interpretation of them. Consultum does not undertake to notify recipients of changes in the law or its interpretation. Forecasts and other representations about future matters are based on economic and other factors. These factors can change and this can affect the future outcomes.

This newsletter contains some general tax information. While your Consultum financial adviser can advise you on the tax implications of any recommended strategy, we are not accountants or tax advisers and are unable to provide tax advice as such. We therefore recommend you consult your accountant to ensure that you understand the tax implications for you of any recommended strategies.

While all care has been taken in preparing this newsletter, Consultum gives no warranty of accuracy or reliability, accepts no responsibility for any errors or omissions, including by reason of negligence, and shall not be liable for any loss or damage whether direct, indirect or consequential arising out of, or in connection with, any use of, or reliance on, the information contained in this newsletter.

CFA 0001 09/2011