

Winter 2011

INVESTMENT SOLUTIONS

Welcome to the Winter 2011 edition of Investment Solutions.

In this issue we highlight some key points from the 2011-12 Federal Budget such as the new Flood Levy and removal of the low-income tax offset for minors, and discuss how these may affect you.

For centuries, gold has been a store of wealth. In more recent times, the yellow metal has gained notoriety for its spectacular rise in value. We take a look at what this means to the average investor.

More and more people are leaving well-paid jobs to do something more fulfilling. Find out whether 'zenemployment' may suit you and how you could make a successful transition, personally and financially.

And of course, we have our regular market commentary from Advance Investment Solutions.

We hope you enjoy reading this edition of Investment Solutions.

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THE RISE AND RISE OF GOLD

Ten years ago, gold was languishing at around \$A400 an ounce. But since 2006 the price of gold has skyrocketed, reaching \$A1,421 by early May 2011. Felix Stephen, Manager, Strategy & Research, Advance Investment Solutions, BT Financial Group says there are several reasons behind gold's stellar climb.

THE AVAILABILITY OF GOLD HEDGE FUNDS

Gold has historically offered protection against inflation and elevated levels of social or political uncertainty. The downside has been the limited opportunities for ordinary investors to dabble in gold. This changed when a number of exchange traded funds¹ (ETFs) became available that focused on gold.

These ETFs made it easier for investors to buy into the precious metal, thereby increasing the popularity – and price of gold.

DEMAND FROM INDIA AND CHINA

“Economic prosperity is also seeing households in India and China – two of the world's most populous nations; increase their demand for gold along with the sharp increase in household wealth,” says Stephen.

A DEFENCE AGAINST INFLATION

Amid continuing economic uncertainty, Stephen points out that many central banks have invested in gold as a form of protection against depreciation in the value of major reserve currencies, in particular the US Dollar.

PSYCHOLOGICAL BENEFITS

The interesting aspect of gold is that while the yellow metal is a relatively good conductor of electricity, it has relatively little intrinsic value. In fact, as an investment gold has significant shortfalls including the absence of ongoing return.

“Gold has purely psychological benefits for people who want to hold it as a hedge against currency and other investment risks,” says Stephen.

Traditionally, gold producers would “cap” the rise in the price of gold by hedging production costs. This was achieved by selling exchange traded futures contracts when the gold price was attractive.

However, as the price of gold continued to accelerate due to reasons outlined earlier, the resulting price appreciation forced producers to liquidate these futures hedges with significant drawdowns.

Since then, gold producers have not been participating in futures hedging, as actively as they once did. The exponential growth in ETFs in futures-based commodity investing has resulted in “gold now behaving much like any other financial asset”, meaning it has lost its original value as a real asset and/or a hedge against inflation or adverse currency movements.

BE WARY OF A GOLD ‘BUBBLE’

So while gold may offer psychological comfort to investors, the transition of gold to a fundamentally ‘paper’ asset underpins the need for caution.

Stephen says, “The fact gold has become a financial asset driven by hordes of speculators makes it essential for investors to ‘watch this space’. If speculators bale out of the market en masse, the price of gold could fall quickly.”

In particular, investors need to be on the lookout for the turning point when the price of gold reaches ‘bubble’ levels and perhaps, with a corresponding rise in the US dollar. Investors should also pay close attention to regulators who may not hesitate to act to dampen excessive speculative activity in derivative markets.

“When there is a structural upward shift in the US Dollar, the gold price may fall.” according to Stephen.

Undoubtedly at that point, gold will quickly lose its lustre among investors. Stephen warns that a turnaround could happen quickly. “Investors could suffer – but that's the risk of investing in gold.”

For investors keen on tapping into the market for gold, speak with your financial adviser about the investment options available and the risks involved.

¹ ETFs are managed funds listed on the Australian Stock Exchange, which typically aim to replicate a particular market index such as the S&P/ASX 200 Resources Index

SOMETHING A LITTLE MORE ZEN

Traffic jams, endless emails, and long hours filled with meetings, deadlines and PowerPoint presentations. It's all in a day's work for the modern workforce.

But a new trend is emerging – one where more and more people are trading in traditional jobs in the search for something a little more meaningful. It's called zen employment, a second or alternative job that's more in line with your goals and values, and of course, less stressful.

So who is your typical zen employee?

Typical zen employees include people who may not be happy with their current employment, people who have recently been made redundant, and those who want a fun or fulfilling career to provide additional income in retirement.

It's particularly relevant to those who are looking to retire, or who have recently retired but are not quite ready to ‘retire fulltime’. Perhaps they were adversely affected by the Global Financial Crisis and would like to give their savings a final boost. Or maybe they just want a job to keep them physically, mentally and socially active.

Is zen employment for you?

Just because you're dissatisfied with your current job doesn't mean you necessarily have to overhaul your career. So spend some time thinking about what it is that makes you feel unfulfilled and what you could do to make it better.

Besides a career change, other possibilities include making changes within your current role to make it more satisfying or meaningful, or moving to another company that's more aligned with your values.

If it's the hours that are bothering you, consider talking to your boss about going part-time or find a company that offers more work-life balance.

KEY POINTS FROM THE FEDERAL BUDGET

On 10 May 2011, the Federal Government released a lean Budget, aiming to return the economy to a \$3.5 billion surplus by 2012-2013. While there wasn't a great deal of news for investors, here's our snapshot, highlighting some key points that may affect you.

THE REMOVAL OF THE LOW-INCOME TAX OFFSET FOR MINORS

It's a widely-used strategy for family trusts to pay a proportion of distributions to a non-earning minor in order to take advantage of their low income tax offset and decrease the overall level of tax paid. By employing this strategy a minor has been able to receive up to \$3,333 pa in distributions from the trust, completely tax-free.

However from 1 July 2011, the Government stated that minors under the age of 18 will no longer be eligible to access the low income tax offset (currently worth a maximum benefit of \$1,500) on their unearned income. While the change will not affect income from inheritances or testamentary trusts, it will make it more tax-effective for family trusts to pay distributions to adults on marginal rates below the highest rate.

FLOOD AND CYCLONE RECONSTRUCTION LEVY

The 2010-2011 Queensland and Victorian floods cost the economy an estimated \$9 billion in lost output, and reduced real GDP by 0.5%. The Government's plan to recoup some of these losses through a temporary Flood and Cyclone Reconstruction Levy was announced earlier this year and was reaffirmed in the Federal Budget.

A flood levy of 0.5% will apply to individual taxpayers, both resident and non-resident, who have a taxable income over \$50,000 to \$100,000 in the 2011-12 financial year. Those with a taxable income over \$100,000 will have a levy of \$250 plus 1% of income over that threshold. However those individuals who were affected by a natural disaster during 2010-11 and received an Australian Government Disaster Recovery Payment, will be exempt.

The 2011-2012 rates of tax for residents (excluding Medicare levy) are:

For those not subject to the levy		For those subject to the levy	
Taxable income (\$)	Tax Rate (%)	Taxable income (\$)	Tax Rate (%)
0 - 6,000	Nil	0 - 6,000	Nil
6,001 - 37,000	15	6,001 - 37,000	15
37,001 - 80,000	30	37,001 - 50,000	30
		50,001 - 80,000	30.50
80,001 - 180,000	37	80,001 - 100,000	37.50
		100,001 - 180,000	38
180,000 +	45	180,000 +	46

A MAJOR CHANGE TO FRINGE BENEFITS TAX ON CARS

The Government has announced they will reform the statutory formula method for determining the taxable value of car fringe benefits. Instead of determining the fringe benefit value based on the number of kilometres travelled, the Government has proposed to replace this with a single rate of 20% regardless of the distance travelled.

This measure will be phased in over four years and will impact clients who enter into new salary sacrifice car arrangements, as well as those who have an employer-provided vehicle post 7:30pm on 10 May 2011. Talk to your financial adviser to determine if salary packaging is a good alternative for you.

expenses like life insurance premiums or administration costs) that exceed the concessional cap are taxed at a penalty rate of 31.5% on top of the 15% contributions tax.

However under the new measure, from 1 July 2011, people will be granted a one-off relief, if they have breached the concessional cap by less than \$10,000. The excess contribution can be refunded and taxed at the person's marginal tax rate instead.

Please note: this is only valid for the first year you exceed the concessional cap. So talk to your adviser to ensure you're maximising super without exceeding the concessional cap.

A ONE-OFF REFUND ON EXCESS CONCESSIONAL CONTRIBUTIONS

The Government is giving first-time exceeders of the concessional contributions cap 'a get out of jail free card.' Generally, any concessional contributions (including Super Guarantee payments, salary sacrifice contributions and employer payment of fund

There are a number of other Budget measures that could impact on your finances, depending on your personal circumstance. We encourage you to discuss these changes with your financial adviser and explore ways to benefit from any new opportunities or changes that arise.

On the other hand if you find that your job is just not challenging or fulfilling enough, consider speaking to your manager about taking on more responsibilities, becoming a mentor to a younger staff member or working on a new project.

Planning for zenemployment

When it comes to changing to a new career there are so many things to consider. Here are a few tips to get you started:

- Spend some time thinking about your goals and values, what you're good at and what makes you happy. This is a good framework for finding a job that will make you happy and fulfilled.

- Consider how much money you need to maintain the lifestyle you want. Create a budget that includes all the things you couldn't live without, and tally-up how much income you need to maintain this lifestyle.
- Research different jobs. Start by searching the internet and reviewing books. There are numerous websites and books in the market on career change, such as 'What colour is your parachute?' by Richard Nelson Bolles.
- See a career counselor or coach. A good career coach can help you recognise your strengths, do a reality check and create a clear picture to aim for.

- Build a network. Use your network of friends and colleagues to get an initial foot in the door, and get out and about at seminars and events.
- Create a financial plan for the transition. It's important you plan your finances to support your career change. Talk to your financial adviser before making a change.

Changing careers can be extremely daunting, but the more you plan, the more likely you are to succeed. So it pays to put the effort in upfront – after all the reward could be the career of a lifetime.

MARKET COMMENTARY

by Advance Investment Solutions

Natural disasters and social and political unrest may have marred the first few months of 2011 but the global economic recovery is gaining momentum, and we remain positive on the outlook for growth assets. However, volatility is likely to continue.

ECONOMIC OVERVIEW

The global economic recovery continued to gain strength in the first few months of 2011. The US saw a much-anticipated pick-up in jobs growth and the northern core of the Euro zone is enjoying robust growth, though the peripheral economies continue to struggle. Political developments in North Africa and the Middle East saw oil prices surge, stoking worries that the nascent economic recovery could be derailed by higher petrol and fuel prices.

In Australia, consumers continue to be cautious. However a build-up in household savings, coupled with a strong labour market, point to a recovery in consumption in the second half of 2011.

The mining sector continues to benefit from strong demand and high commodity prices, and this will provide support for the Australian dollar. Economic growth in Australia is expected to reach 3.8% for 2011, up from 2.7% in 2010.

Equities

We anticipate the first half of 2011 to be volatile, with the markets delivering net returns of around 5%. The second half of the year should be more positive, with higher overall returns of around 20% for the 2011 calendar year.

Fixed interest

The first half of the year should be positive for developed and emerging market sovereign bonds and corporate credit. However, developed market sovereign bond prices may decline as markets anticipate a gradual normalisation of monetary policy in key economies. Aggregate fixed income returns are expected to be around 7% for 2011.

Currencies

The US dollar is expected to gather strength against most major currencies as the US economy gains momentum, particularly in relation to its trading partners. Emerging market currencies

are expected to appreciate gradually over the year. The strong Australian dollar is expected to weaken against the US dollar, the British Pound and emerging market currencies, while strengthening against the Euro and Japanese Yen.

Commodities

Commodity markets should gather upward momentum by mid-year. Supply bottlenecks, coupled with investment flows into this asset class and investor appeal for a hedge against higher inflation, are likely to buoy the commodities sector, with possible returns of around 21% over 2011.

Listed property

Domestic and global listed property markets are expected to deliver returns slightly below equities over the short term, then move sharply higher later in the year as investors search for yield and protection against inflation. We expect listed property to deliver a return of around 16% for 2011.

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