Portfolio**Watch**

www.bridgesweb.com.au Quarterly newsletter for Portfolio**Watch** clients **Summer 2009**

Confidence returns

So you've heard. The Australian economy is the envy of the world.

Recent government announcements about our economic outperformance could mean a green light for a more confident approach to your investment strategy. What a difference from how the year commenced when equity market valuations were reflecting a poor economic outlook and considerable uncertainty.

The US Economy

In our view the US economy continues to battle major headwinds, with the unemployment rate rising to 10.2% and a slow housing recovery adding further strain to the already fragile consumer confidence.

With the US consumer accounting for around 70% of the economy, a relapse in consumer confidence could in the short term dent economic growth prospects.

While more recent employment recoveries were driven by the tech boom and the housing markets, the next positive employment catalyst appears well beyond the horizon.

The high public debt levels will remain for years and in due course the US will be focussed on repayment of this debt resulting in higher tax rates for the consumer.

While the US market has been a beneficiary of corporate cost cutting, we expect revenue growth will prove more difficult to achieve with current forecasts appearing optimistic.

Despite expressing a little optimism about economic conditions, the US Federal Reserve kept interest rates on hold at very low levels and with the economic recovery expected to be constrained, it's unlikely we'll see interest rates rising in the US before the second half of 2010.

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Welcome to the Summer edition of Portfolio Watch.

You will notice it looks different to past editions. Following a year of tough investment times and feedback from you asking us to add a little colour, we decided to give our newsletter a fresh, bright new look. We hope you like the new design. Please note that whilst the design of Portfolio Watch has changed the important content we provide in each issue has not.

Whilst 2009 has been a challenging and testing year, the encouraging news about the state of our economy has started to bring confidence back to the way many investors are approaching their personal investments.

The Australian economy has been recognised as the only advanced economy to register positive GDP growth in 2009 and this positive tone appears set to continue in 2010. However, personal debt and rising interest rates need to be given careful consideration and attention.

With possible superannuation tax reforms, a stronger Australian dollar, a robust property market and positive growth in our resource sector, 2010 is expected to be a year of change which will no doubt bring new investment opportunities.

At Bridges we welcome the opportunity to assist family, friends or acquaintances who need access to quality financial advice as these changes and opportunities unfold.

As 2009 draws to a close, I would like to wish you and your family a very happy festive season and a safe and prosperous New Year.

Michael Carter
Chief Executive Officer

Confidence returns ... *continued*

The European Economy

In Europe, conditions are set to improve with several countries now formally out of the recession. Significant contributors to the recent improvements have been export performance and the fiscal stimulus measures, however, most of these temporary measures are set to conclude next year.

The European Central Bank and the Bank of England have also expressed slight optimism about the economic conditions. Despite the positive outlook, the decline in jobs in October was greater than expected.

Overall, the economy in Europe is expected to grow over the next quarter but is likely to remain vulnerable.

Australia – the best performing advanced economy

The prompt recovery of our economy from the global financial crisis is due in part to the early action of the federal and state governments in implementing various stimulus measures.

The Reserve Bank (RBA) reduced official interest rates by 425 basis points between September 2008 and April 2009 and we also benefited from the strongly expanding Chinese economy.

Going into 2010 we expect continued growth as China remains an important trading partner for Australia with its growth forecasts estimated to rise to 9.0% in 2010.

In contrast to other countries, where jobless rates have skyrocketed, Australia's unemployment rate has defied predictions by remaining below 6%. However, with the domestic economy having to date proved more resilient than generally expected, we do anticipate a series of further interest rate rises over the coming months as the RBA moves to a neutral policy setting from that of an emergency setting.

Our view on the Australian economy remains cautiously optimistic with positive growth in our resource sector with the government placing $16bn worth of mining projects back on the agenda. We also expect to see business activity improving across the economy and the property market remaining strong.

In addition, investors in cash, hybrid securities and mortgage funds should also see higher levels of income in the coming months.

The rise of the Australian dollar

The recent surge of the Australian dollar peaking above US93 cents as the US dollar crumbled to a 15 month low has left many wondering what has been driving this surge and how will it affect future investments?

Factors influencing the $A

There are many factors that have driven the $A higher including the relative strength of our economy.

A major driver of the $A is monetary policy. As the Reserve Bank of Australia has increased interest rates (and is likely to continue to do so in 2010), offshore investors have been acquiring the higher yielding Australian Dollar. In Australia, short term cash yields around 3.7% compared to 0.25% in the United States.

Another influential factor is a high demand for our commodities. As a major exporter of commodities, the $A is a beneficiary of stronger export volumes. The emergence of China has also been a positive driver as it has boosted demand for our exports.

However, should some of the positive influences outlined above reverse, the currency trade could be unwound quickly and could result in a major reversal of fortunes for the A$. This is not our expectation and we expect the $A will remain relatively strong in the medium term with potential periods of volatility.

The impact of a higher $A

A strong $A compared to the $US impacts us in a number of ways. Generally, it makes our exports more expensive for overseas buyers and imports into Australia become cheaper as our buying power has increased.

This is a positive for retailers sourcing significant product lines from offshore such as electricals and imported cars. For Australian's looking at an offshore holiday, now is a great time to take advantage of lower fares to Hawaii, North America or even take an Alaskan cruise.

What impact does the $A have on the international component of your portfolio?

International funds can be hedged, unhedged or active with respect to currency positioning. When a manager is hedged, they are protected from a rising $A, but do not derive benefit from a falling $A. An unhedged manager will gain when the $A declines, but is not protected when it rises. An actively hedged portfolio allows the manager to alter the hedging depending on their currency view.

Generally speaking if the $A dollar declines against the $US dollar a $US dollar asset rises in value in $A dollar terms. Conversely, if the $A strengthens (and asset prices remain unchanged), the $US investment falls in value in $A terms.

"The $US dollar crumbles to a 15 month low"

The ATO never says goodbye

When planning a Will, most people forget that down the line beneficiaries often inherit tax liabilities along with inherited assets. However, with careful planning, possible tax liabilities can be reduced and minimised.

To avoid any tax liabilities from the start, the legal personal representatives (LPR) of the deceased must file a 'date of death' tax return for tax liabilities from the beginning of the financial year up until death. A new tax file number is then required for the estate and a further tax return is submitted for the period from death until the end of the financial year. Additional returns are required for each financial year until the administration of the estate is completed.

Capital gains

If an asset is inherited that the deceased purchased prior to 20 September 1985, it will not be subject to tax upon death. However, the market value of the asset should be assessed at the date of death because when it is sold in the future, the beneficiary is subject to tax on any increase in value between the date of death and the date of disposal.

Depending on the specific circumstances, it may be better for the estate to sell the asset, in which case it becomes liable for any CGT. With its own tax-free threshold, this may lead to a better outcome than passing the asset to a beneficiary who is on a higher marginal tax rate.

The family home of the deceased is likely to be exempt from CGT, particularly when it is sold within two years of the date of death or if it becomes the principal residence of a beneficiary.

Tax on superannuation death benefits

If a superannuation death benefit is paid to a dependant of the deceased, it will be free of tax, however, adult children rarely meet the definition of a financial dependant as defined by tax law.

Investment income

The assets of the estate will continue to earn investment income, which must be included in the estate tax returns for each financial year.

A Testamentary Trust might provide beneficiaries with much greater flexibility in relation to the allocation of investment income. They can also act to protect assets from risk of loss, which is important if the beneficiaries are going through divorce, have gambling or drug problems, or are at risk of bankruptcy.

The right advice

Dealing with taxes is never enjoyable, but it is made even more difficult when it relates to the death of a loved one.

For more information on how to minimise tax liabilities relating to any inherited assets, please speak to your Bridges financial planner.

Monitoring your Contributions

With regular changes to superannuation contributions, it's crucial to monitor the level of contributions you make so as not to exceed the limit as excess contributions are taxed at 46.5 per cent and in some cases can be taxed up to 93 per cent.

When making contributions, it's important to remember the following:

- Contributions made after tax (also known as non-concessional) are subject to an annual, per person cap of $150,000 (for the 2009/10 financial year).
- If you are under the age of 65, you can bring forward two years worth of non-concessional contributions and contribute up to $450,000 in one year.
- Non-concessional contributions are generally not taxed into or out of super.
- The limit for pre tax contributions (also known as concessional) such as salary sacrifice contributions, is $25,000 per person if you are under the age of 50. If you are aged 50 and over, there is a transitional rule in place until 30 June 2012 allowing you to contribute up to $50,000 per person per year.

For more information on contribution limits and how you can make the most of the opportunities available to you, please speak to your Bridges financial planner.

When was your last super review?

The months seem to fly by in a blink of an eye and each Christmas feels like it was only celebrated a few months ago.

With many superannuation system changes occurring on a regular basis it's hard to keep track of what they are let alone what impact they can have on your super strategy.

A regular review of your financial plan, especially your superannuation strategy will not only allow you to have top of mind awareness of all the changes but it will also allow you to take advantage of any benefits and opportunities the change may have introduced.

A regular review of your superannuation strategy should take place on an annual basis and cover such topics as:

- Have your financial objectives and circumstances changed?
- Are you on course to achieve your objectives in the planned timeframe or are adjustments needed?
- Has there been new legislation or taxation changes which you need to factor into your plan?
- Is your super strategy appropriate for current market conditions?

Your super is your savings for retirement so it's important to make the most of every opportunity. Your employer's compulsory 9% Super Guarantee Contributions alone may not be enough.

To make sure you're making the most of your super strategy and are aware of the available opportunities, speak to your Bridges financial planner and make the most of any recent changes to the superannuation system.

Did you know?

- In 1972, only 32% of employees were covered by super
- By 1993 (after Superannuation Guarantee was introduced), 80% of employees were covered by super
- In 2006, 90% of employees were covered by super.

Stockwatch Campbell Brothers (CPB) – BUY

Campbell Brothers Limited's principal business divisions are:

1. Laboratory Services: A world leader in analytical laboratory services in the environmental, minerals and oil markets with additional technical services provided in the areas of food, microbiology, electronics, ecotoxicology, occupational health and air quality.

2. Campbell Chemicals: This division incorporates three business units (Cleantec, Deltrex Chemicals and Panamex Pacific) covering a wide range of industrial and commercial products and engineering services throughout Australia, New Zealand, the South Pacific and other export markets.

3. Reward Distribution: This division is a major supplier of chemicals, paper goods, tableware, kitchenware and associated non-food consumables to motels, hospitals, restaurants, fast food chains, 5-star hotels, nursing homes, sporting clubs as well as the retail sector.

Campbell Brothers owns the ALS Laboratory Group. ALS accounts for approximately 93% of earnings. The ALS Laboratory Group is the global leader in the provision of analytical laboratory services to the minerals sector. The company also has exposure to environmental testing which is a rapidly growing area.

The rapid contraction of the minerals exploration sector last year has clearly impacted near-term demand for testing services. The company is largely leveraged to mineral volumes, not commodities prices which is a clear positive. The company should benefit as long as commodity volumes hold up. Minerals exploration is cyclical and, along with all cycles, will upturn in due course.

Its extensive global network facilitates significant economies of scale and provides a basis for ongoing expansion of its commercial footprint. We regard the company as a high quality franchise with strong near to medium-term earnings growth potential as minerals exploration volumes gradually recover from a deterioration in the first half of 2009.

Accommodation options for older people

While selling the family home and moving to another is nothing new, ageing and health related issues might require more consideration when it comes to choosing the right place to call home.

An older person who wishes to remain independent and stay in the family home will need to address issues such as, mobility around the house, personal hygiene and access to services. They might need to spend a certain amount of money on installation of some crucial equipment. However, people need to be aware of the danger of spending much more than they could recover if the house is sold.

Depending on family and friends for support might be an option only for some, however, there are also community care services that provide a range of services from housework to personal care and transport.

Home and Community Care (HACC) services are designed for people who are older and frail or who have a disability and have difficulty with everyday tasks such as dressing and preparing meals.

Community Aged Care Packages (CACP) are individually planned and coordinated packages that are tailored to the individual.

The Extended Aged Care at Home (EACH) and Extended Aged Care at Home Dementia (EACHD) programs also provide high care services that are individually tailored.

Information about HACC, CACP, EACH and EACHD is available from the Commonwealth Respite and Carelink Centre on 1800 052 222.

Retirement villages

Retirement villages generally provide accommodation to people aged over 55 who may be in excellent health or who may require assistance in daily living.

They are suited to people who do not want to look after a large home but want the lifestyle or facilities offered by the retirement village.

Other options

Moving in with family or friends is another option. However, there are a number of personal issues that must be considered before such a decision is made.

When age and frailty mean that some people can no longer live independently in the community, residential care in an aged care home may be the best option. There are generally two types of residential aged care:

- Low level care (such as hostel care) – provides personal care with occasional nursing care
- High level care (such as nursing home care) – provides care for people with a greater degree of frailty and who often need continuous nursing care.

A lump sum bond may be payable on entry. In addition there are daily fees and charges that a resident must pay. This is a complex area to navigate unaided as there are financial and lifestyle ramifications with each decision made.

The ageing population and the challenges of limited availability and increasing costs of care will impact potential residents and their families.

Talk to your Bridges financial planner to explore your options and make an informed decision.

Investment market review

quarter ended 31 October 2009

Asset	Index	1 yr return	5 yr return pa	Comments
Australian shares	S&P/ASX 300 Accumulation index	21.98%	8.76%	A strong quarter for the Australian share market. During the quarter the market was largely preoccupied with the reporting season with many companies reporting much improved prospects. The last few weeks of the quarter were met with increased caution exercised by investors and some profit taking, however, the share market weathered the Reserve Bank's rate rise well. The big banks have been the notable outperformers of the index.
Listed property trusts	S&P/ASX 300 A-REIT (property) Accumulation index	-6.11%	6.79%	The A-REIT sector charted one of the strongest gains in unit prices seen in a very long time. The recent spate of equity raisings across the A-REIT sector facilitated a significant reduction of the debt levels. Most Trusts seem to have taken the bulk of asset value write-downs. These facts combined with cash earnings now expected to fully fund the future distributions and maintenance expenses assisted in the re-rating of the sector.
International shares	MSCI World Accumulation index (AUD)	-14.53%	-1.49%	Global equities posted strong gains over the quarter helped by emerging signs of stability in the key economic indicators. However, the strong rise in the Australian dollar over the period materially offset the returns denominated in foreign currencies.
Fixed interest and cash	UBS Warburg Comp. Bond All Maturities index	4.87%	5.71%	The credit markets continued recovery over the quarter with most investment grade corporate bonds seeing their credit spreads tighten. Recent equity raisings have helped push up the credit quality of the recapitalised balance sheets thus tightening their spreads on offer. This is particularly true of the banks' fixed interest securities which in some cases are trading at a premium to their face value.

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Bendigo	03 5441 8700
Bowral	02 4862 1230
Brisbane	07 3217 6044
Brisbane – Bayside	07 3821 1161
Brisbane – North Quay	07 3236 3711
Broadwater	07 5500 6994
Canberra	02 6247 4111
Canberra – Kingston	02 6239 5188
Castle Hill	02 8850 1466
Charlestown	02 4942 2922
Chatswood	02 8448 2006
Coffs Harbour	02 6651 2000
Darwin	08 8981 7722
Dubbo	02 6881 8177
Essendon	03 9379 1166
Gippsland	03 5144 1622
Gold Coast	07 5562 2177
Gosford	02 4323 7468
Griffith	02 6964 2122
Homebush	02 9735 9156
Honeysuckle	02 4927 5833
Hurstville	02 9570 3222
Launceston	03 6334 4900
Laurieton	02 6559 9950
Lismore	02 6622 0353
Liverpool	02 9821 2274
Maitland	02 4934 6133
Melbourne	03 9629 8188
Melbourne CUC	03 8779 5254
Mildura	03 5022 7062
Miranda	02 9525 5900
Newcastle	02 4926 5255
Nowra	02 4422 1877
Parramatta – George St	02 9635 5305
Parramatta – McNamara	02 9633 9044
Parramatta – North	02 8843 0677
Parramatta – PCU	02 9841 8207
Penrith	02 4721 5800
Perth	08 9221 7566
Perth – King St	08 9481 0501
Port Macquarie	02 6584 5050
Shepparton	03 5821 4711
St Leonards	02 9906 8005
Sunshine Coast	07 5476 0811
Sydney – Maritime Centre	02 8243 6500
Sydney – St Martins Tower	02 8262 4000
Tamworth	02 6701 9100
Toowoomba	07 4638 3611
Townsville	07 4725 2910
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Wiring your brain for wealth

Neuroscience seems the most unlikely subject to provide new insights into investing. But research into the circuitry of the brain is uncovering fascinating clues as to why we behave the way we do. Understanding this might help us become better investors.

For most of our time as a species, humans were hunter-gatherers, living in nomadic tribes and focused on finding food, mates and shelter. Our brains developed to solve the day-to-day problems of those primitive times. We were good at recognising short-term trends and responding rapidly to threats or opportunities. We weren't so good at distinguishing long-term patterns or focusing on many things at once. However, these are just the skills a good investor needs.

The key to successful investing is to develop the habits that neutralise your brain's weaknesses while making the most of the brain's strengths. Researchers suggest the following strategies.

Strap yourself in

The amygdala is the part of your brain responsible for processing emotions. It initiates feelings of fear so aim to avoid behaviour that could cause panic. Try not look at daily prices and consider dollar cost averaging to regularly invest and benefit regardless of what the markets are doing.

Stay in balance

The prefrontal cortex in the brain is wired to predict from past patterns where we are predisposed to take risks for a big reward. Experience shows that you should try and set limits on any big bets.

Double your research on winners

If an asset performs spectacularly well, your brain will believe nothing can go wrong. That is the time to speak to your planner to ensure you are not over-weight in that asset class.

Use different wallets

Our brains push us to predict winners. If you take a higher than normal amount of risk, you should only do it with what you can afford to lose.

Look at the long run

The accumbens in our brain identifies trends in anything that repeats a couple of times, so it's important to have a long-term outlook when selecting an investment.

Flex your cortex

The prefrontal cortex also evaluates the consequences of actions. It deteriorates as you get older, as a result, it is crucial to get the advice of an expert on important issues.

Diversify

The single most powerful technique to avoid our brains working against us is by spreading our investments over many sectors and asset classes. This avoids the temptation to see a short-term trend as a sure thing. By keeping your money in a broad basket of investments you also avoid sending the amygdala (the panic button) into overdrive.

There might be nothing new in these findings, but it appears that the latest scientific research validates the old truths of investing.

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