

# PortfolioWatch

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Quarterly newsletter for PortfolioWatch clients

Summer 2010

## Double dip recession? Unlikely

Positive performance indicators from China and, surprisingly, the speculation of further stimulus from the US Government saw stronger market performance towards the closing stages of the September quarter.

### Global economy

Earlier in the quarter, economic indicators from the US and China on the whole had been mixed, muddying the water on the global recovery.

US GDP figures were revised lower, with employment data pointing towards weaker growth. The US housing sector also remains under pressure, with continued sluggish housing sales and low levels of new developments.

Until this sector shows more signs of stabilising, it is likely that the consumer will remain cautious. With the US consumer focused on repaying debt, it is likely this issue will keep a constraint on consumer spending, which is a major driver of the US economy.

Despite the tightening and slowing down of the housing sector in China, industrial production and fixed asset investments are continuing to perform better than expected. This was another factor in the market's recent good run during September.

With disappointing US growth and a slow down in the Chinese housing sector, there were concerns that the developed world could slip back into recession.

We believe these concerns are exaggerated, as the core European economies are performing relatively well, with the weak Euro helping the export sectors and Chinese domestic demand remaining robust. However, should Chinese demand fall off too far, we are likely to see renewed weakness across the European region.

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# Ending the year on a high

## Welcome to the summer edition of Portfolio Watch.

With just over a month left until the end of 2010, it's safe to say that this year has been a year of opportunity and change.

Globally, while we continue to see mixed messages regarding economic recovery and investor sentiment, it's become clear that Australia has emerged as the envied economy post the Global Financial Crisis.

While the US, and other European economies are facing a slow recovery, poor government financial positions as well as negative investor sentiment, the Australian economy continues to grow, with a positive domestic outlook, low unemployment and growing consumer confidence.

This year, we have also seen the appointment of our first female Prime Minister, and most recently the Australian dollar reach parity with the US dollar. This milestone will no doubt provide new investment opportunities and its own challenges for the year ahead.

With a return of investor confidence, Bridges financial planners have seen a welcomed increase in people seeking financial planning advice and strategies to help build and secure their financial future.

So as you start making plans for the new year, remember to speak with your Bridges financial planner to ensure that your financial plans continue to reflect your goals for the year ahead and beyond.

As 2010 comes to a close, I would like to wish you and your family a very happy festive season and a safe and prosperous New Year.

For more information, or assistance on any of the topics covered in this issue of Portfolio Watch, please speak to your Bridges financial planner.

**Michael Carter**  
Chief Executive Officer

Double dip recession?  
Unlikely... *continued*

## On the domestic front

While globally we continue to see mixed messages, domestically we have seen a number of positive economic movements.

The June quarter GDP was stronger than market expectations, with exports powering ahead. We also saw capital expenditure improve and unemployment remaining at very low levels. Retail sales and consumer confidence also remained positive.

While these are certainly positives, we continue to see tepid credit growth. This is a major driver of our economic growth, especially business credit. Overall we continue to see the domestic economy in a strong position and believe that should underpin local investment markets.

While we remain positive on the domestic economy, we still see a number of structural issues across the global economy that could increase volatility and uncertainty across markets. The main concern being the elevated levels of sovereign debt as well as the general de-leveraging process we are seeing across the western world, from the consumer to the financial system. All of which mean there is less margin for error in policy decision making with very little 'dry powder' left to help economies through any further negative shocks.

# Does parity mean party time?

That depends which side of the coin you are on literally!

Our relationship with the US dollar has been quite turbulent since decimalisation in 1966.

In May 1974, our dollar reached an all time high of \$1.4875 against the US dollar, eventually dipping to an all time low of \$0.489 in March 2001.

Before the collapse of Lehman Bros and the onset of the Global Financial Crisis in September 2008 we came close, but it wasn't until 15 October 2010 at 11.28pm, that the AUD reached parity with the USD for the first time in 28 years.

While the economists started speculating how much higher it would go, the opportunists started booking overseas holidays and shopping online. But the issue of parity is a double edged sword.

## What does it mean for our economy?

The rise in the value of the Australian dollar reflects a strong domestic economy, high commodity prices and relatively high interest rates.

The high Australian dollar means our export industries become less competitive. For example, education is one of Australia's largest export industries-international enrolments make up a large portion of Australian universities revenue as well as higher education student enrolment. Our manufacturing export sectors, of course, experience the same issue. The end product is priced in Australian dollars and is now more expensive.

For commodities it is a slightly different story as the goods are priced in the global market in US dollars. In this way, it's not that the goods become more expensive, our resource and commodity exporters simply receive fewer Australian dollars per unit of sales.

A high Australian dollar also opens our market to those countries with a more competitive currency, such as the UK, US and China, which affects our domestic companies that compete with those imports.

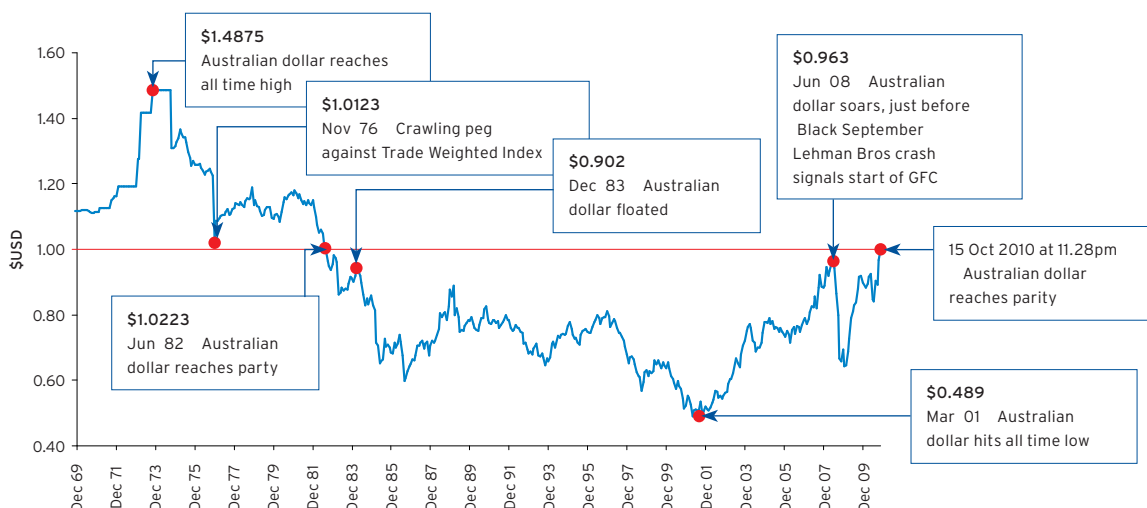
## What does it mean for your investments?

Australian investors are usually exposed to currency fluctuations as a result of international assets held in a managed fund. When the Australian currency rises, the value of foreign assets falls and, vice versa.

So, when investing in international markets, at a time when the Australian dollar is close to, or at parity, it's important to understand that some international investment managers hedge their currency exposure so that currency fluctuations do not affect the capital value of the investments. Currency hedging simply protects the value of the investment in Australian dollars from exchange rate fluctuations but it does have other implications which can affect the investments ability to pay distributions.

To find out more about the impact of parity and how currency fluctuations affect your investments, please speak to your Bridges financial planner.

## Australian dollar vs US dollar 1969-2010



Source: RBA historical data & IRESS

# Bridging the gap in super

Did you know that Australian women who have children and take a career break of five years in total will, on average, have 26 per cent less in superannuation savings by the time they retire at 67 compared to women who work continuously? Not only that, but they also have 35 per cent less in their super compared to the average Australian male<sup>1</sup>.

This, of course, translates through to the retired householders as well; of those receiving a single Age Pension, a startling 73 per cent are women<sup>2</sup>. This is also partly due to women living longer than men.

So, if you're a woman, or you have daughters or granddaughters, who tick any of the boxes above, addressing the super gap needs to be given urgent and serious consideration as strategies can be implemented to help close the gap.

Women also have longer life expectancies than men, so not only do their savings need to stretch further in retirement but they also have to last longer.

## Why are women missing out?

Women tend to have less in their super savings because they generally earn less than their male counterparts, they take time out of the workforce to have children and, if they do return to work, they are more likely to work casual hours or take part time roles.

Many women also make the mistake of relying on their partner when it comes to super, assuming it will take care of them both. While this can work well in some cases, in others, where divorce has taken place, it can cause extreme hardship and financial distress. Taking control of your own retirement savings is a much more certain option.

## Closing the gap

The first step is to make super your friend. No matter what stage of your life you might be at, understanding your options as well as the tax-effective strategies that are available, such as salary sacrificing or the Government's super co-contribution for example, is extremely important.

Simply by contributing pre-tax money to your super using a salary sacrifice strategy not only do you increase your super, but you reduce the amount of tax you pay and you could even drop down a tax bracket. By making an after tax contribution to super, if eligible, the Government's super contribution could add up to an extra \$1,000 to your super. You can either make a one-off larger contribution or regular smaller contributions.

Have you had more than one job? If so, chances are that you have more than one super fund. Multiple accounts mean multiple sets of fees and charges. Consolidating your money into one super fund account means you only pay one set of fees and charges.

As the saying goes, Don't put off until tomorrow what you can do today. A little bit extra in your super today could make a big difference to tomorrow.

To ensure you are making the most of your super, please speak to your Bridges financial planner about a strategy that suits your individual circumstances.

<sup>1</sup> Investor Daily article - IFSA calls for super in parental leave 15 March 2010.

<sup>2</sup> Sydney Morning Herald - Money 15 September 2010

*Don't put off until tomorrow  
what you can do today.*

# Investment market review

quarter ended 31 October 2010

Asset	Index	1 yr return	5 yr return pa	Comments
Australian shares	S&P/ASX 300 index	4.67%	5.36%	The Australian share market posted a strong return over the last quarter. Share prices improved across most sectors with commodities and resources sectors leading the rest. Commodity prices are near their historic highs buoyed by increasing demand from emerging market economies and the perception that commodities provide a hedge against rising inflation.
Listed property trusts	S&P/ASX 300 A-REIT (property) index	4.51%	-8.11%	The listed property sector finished the quarter in positive territory. Larger trusts with strong capital positions are becoming acquisitive. Stockland Group was successful in its bid to take over Aevum Group, a retirement living owner/operator.
International shares	MSCI World (AUD) index	3.94%	-3.12%	The returns on international shares were only mildly positive over the quarter. Major individual international markets have shown strong returns in their respective currencies. However, a strong appreciation of the Australian dollar largely offset the gains made in foreign currencies.
Fixed interest and cash	UBS Warburg Comp. Bond All Maturities index	7.41%	6.15%	The returns on the Australian fixed interest notes were moderately positive over the quarter. Increasing expectations of improving economic conditions and tightening monetary policy pushed up bond yields and fixed interest yields over the quarter.

## Stockwatch ResMed (RMD)

We expect solid revenue growth and market share gains through the launch of RMD's new masks and the S9 air flow generator platform. In particular we are positive on the stock's long term drivers as the obstructive sleep apnea (OSA) market is vastly underpenetrated and links to a number of large and costly co-morbidities including diabetes and high blood pressure, so the growth potential for the OSA market is substantial.

RMD has also implemented several cost saving initiatives that could mitigate the impact of the higher Australian dollar on its largely offshore earnings. RMD also has a strong balance sheet with approximately US\$370 million in net cash. However our positive views are not without risk, which include competitive pricing pressure and adverse currency movements.

# Estate planning corner

## Can anyone challenge your Will?

It is easy for a disgruntled family member to say I am going to challenge the Will. However, there are only a few limited ways in which a Will can be challenged. The most common way for a challenge to be made is under family provision legislation. This allows certain people to make a claim for provision out of your estate. Each State and Territory has its own legislation and there are significant differences between the States and Territories.

## Can you stop challenges being made?

Unfortunately, no, however you can take steps to minimise the likelihood of a claim being made. This can be achieved by consulting a professional adviser, qualified in the area of Wills and Estate Planning.

## Who can make a family provision claim?

Each State and Territory has its own definition of who is eligible to make a claim. All recognise that a spouse (married, de facto or same sex) or a child (of any age) is eligible to make a claim. Some States have broader definitions than others. For example, the definition is very broad in Victoria. There was a recent case where a neighbour was successful in a claim. In NSW there was a recent case where a son who lived in Victoria was able to make a claim in NSW against the estate of his mother who lived and died in Malta. He was able to make the claim because his mother owned real estate in NSW.

## What assets are subject to a claim?

Any asset that forms part of your estate is available to fund an order in favour of an eligible applicant. In NSW, the court has even broader powers in relation to assets which normally don't form an asset of your estate. These include jointly owned assets as well as superannuation. The court has power to deem such assets as non-otinal estate and use them to provide a benefit to a successful eligible person.

## If someone can make a claim, should you bother making a Will?

Yes, you should definitely make a Will. The courts respect and uphold the right of a person to make a Will, distributing their assets as they see fit. Just because a person is eligible to make a claim does not mean they will be successful. The courts generally will only make orders in favour of eligible applicants if the applicant can prove they have a genuine need, and that the deceased has failed to make proper provision for the applicant either during the deceased's lifetime, or by their Will. In some cases, the poor conduct of an eligible applicant may have been such as to entitle the Willmaker to disinherit the otherwise eligible applicant.

## What can you do to minimise the chances of a claim being made, or being successful?

An adviser qualified in the area of Wills and Estate Planning can assist in planning for the possibility of family provision claims. In some States or Territories this may involve a review of the way in which you have your asset ownership structured. Courts in all States and Territories are able to accept into evidence statements from the deceased. An Estate Planning Specialist can also assist in preparing a statement (or affidavit) whereby the Willmaker (after their death) can give their evidence to the court. This may include details of the provision which the Willmaker may already have made in favour of the potential claimant, and also details of the conduct or behaviour of the potential claimant which the Willmaker believes is sufficient to justify excluding the potential claimant from inheriting a part of the estate.

Have you had the experience of someone trying to challenge a Will? If you would like to find out more, or if you would like to make a Will or update an existing one, please speak to your Bridges financial planner for more information.

# Are you making the most of your Centrelink entitlements?

No doubt you are familiar with some of the Centrelink benefits available to you, however, a full understanding of what you are entitled to can, at times, be a complicated learning experience.

Benefits such as the Age Pension, Pensioner Concession Cards and Rent Assistance might sound familiar, but are you making the most of them? Did you know that bereavement assistance is available?

## A fairer pension

Have you noticed an increase in your Age Pension payments over the last six months?

During 2009, the Australian Bureau of Statistics developed the Pensioner and Beneficiary Living Cost Index (PBLCI). The PBLCI is for Pensioners what the Consumer Price Index is to consumers – it gauges the cost of living, specifically reflecting changes in the living costs of pensioners and other households receiving income support from the Government. Consequently, every quarter, social security pensions will be indexed by whichever is the greater: the increase in the CPI or the increase in the PBLCI.

Over time, the index will progressively improve to better reflect price changes experienced by pensioners and beneficiaries.

To make the Age Pension more sustainable to an ageing population, the Age Pension age for both men and women will gradually increase to 67. However, only people born after 30 June 1952 will be affected by this change.

If you already qualify for the Age Pension, you may also be entitled to some of the benefits outlined below:

## Pensioner Concession Card

This card entitles you to reduced cost medication under the Pharmaceutical Benefits Scheme (PBS). You may also be entitled to various concessions from the Australian Government such as:

- bulk billing for doctor's appointments (this is your doctor's decision)
- more refunds for medical expenses through the Medicare Safety Net
- assistance with hearing services through the Office of Hearing Services.

You may also be entitled to various concessions from State and Territory Governments and local councils which include:

- reductions on property and water rates
- reductions on energy bills
- a telephone allowance
- discounted mail redirection through Australia Post
- reduced fares on public transport
- reductions on motor vehicle registration
- free rail journeys.

Please note that Pensioner Concession Card concessions are different in each State and Territory and vary between local councils.

For a complete list of available concessions, you can obtain a copy of *A guide to Centrelink concession cards* booklet from any Centrelink office or visit [www.centrelink.gov.au](http://www.centrelink.gov.au)

## Our offices

Adelaide	08 8202 7766
Adelaide Norwood	08 8334 2450
Adelaide Police Credit Union	08 8208 5700
Albury	02 6041 2122
Albury HBS	02 6021 4513
Armidale	02 6771 2989
Bacchus Marsh	03 5367 3400
Bathurst	02 6331 5111
Bathurst Russell Street	02 6331 0411
Bega	02 6491 6421
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
Doncaster	03 9484 8311
Dubbo	02 6881 8177
Essendon	03 9379 1166
Geelong	03 5221 7557
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
Wagga Wagga	02 6931 9744
Whyalla	08 8645 8055
Wodonga	02 6024 1722
Wollongong	02 4226 1233
Wollongong Figtree	02 4227 3255
Head Office	02 9028 1000

## Are you making the most of your Centrelink entitlements?... *continued*

### Rent Assistance

Rent Assistance will give you that extra help if you are renting privately. However, if you are currently paying rent directly to State or Territory Housing Authorities, you are not eligible to claim Rent Assistance.

### Pension Loans Scheme

If you (or your partner) are of Age Pension age and cannot get a pension because of your income or assets (but not both), or if you only receive a part pension, you can access capital tied up in your assets under the Pension Loans Scheme.

The Pension Loans Scheme is a voluntary arrangement which provides support in the form of a loan, for a short time or for an indefinite period, which is paid in regular fortnightly instalments.

### Bereavement assistance

The trauma of losing a loved one can sometimes be compounded for a survivor by the uncertainty of their immediate financial future. Although most people do not feel inclined to deal with financial matters at this time, understanding what assistance is available can help to ease the stress.

Prompt notification about the death of a loved one enables Centrelink to assess your entitlement to bereavement assistance. A bereavement payment is usually paid as a fortnightly amount to help settle the financial affairs of the person who has died. It also helps the partner, or carer, to adjust to the change in financial circumstances as a result of that person's death. For some payments, such as Wife Pension, Carer Payment, Partner Allowance or Parenting Payment, the payment may continue for 14 weeks following the death, allowing you time to seek other income support if necessary.

When one member of a couple dies, the survivor's financial position can also be complicated by the inheritance of assets held in joint names as this can affect their total asset position.

It's important to consider carefully the implications of passing on assets to children and bypassing yourself. This can also significantly affect your asset position and may result in changed payment rates and is especially relevant if you inherit a valuable asset such as a house, share portfolio or antiques.

A Bridges financial planner can help you review your position and decide how to manage your new asset position. Not only will this put your mind at ease, but will also help ensure you are making the most of your Centrelink entitlements and benefits.

Source: Centrelink



Bridges ASX Participant AFSL No 240837

#### Part of Australian Wealth Management

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