

PortfolioWatch

www.bridgesweb.com.au

Quarterly newsletter for PortfolioWatch clients

Autumn 2010

2010 – Opportunities and risks

As we settle into the new year, the outlook could not be more different to that of 2009.

Globally, markets staged a strong rebound in 2009 with most economic indicators pointing in the right direction.

Economies and markets were a major beneficiary of globally coordinated stimulus packages, deleveraging was undertaken at the corporate level and maintenance of low interest rates supported growth assets as global economic growth rebounded.

In the US, the S&P 500 rose 25.2%, the Australian S&P/ASX 300 rose 37.6% and China rallied 79.9%.

Australia was a beneficiary of growth in the Chinese economy which was fuelled by strong bank lending, rebounding exports and capital expenditure ensuring our vast natural resources remained in demand.

So what does this year have in store?

The US is expected to ease its stimulus contributions during the year as the worst of the crisis has now passed. High deficits will need to be wound back at some point as failure to do so could see government debt levels continue to rise beyond current expectations.

US GDP numbers are expected to be very strong for the December 2009 quarter, the best since the third quarter of 2003. However, this is likely to be reflective of the stimulus and massive inventory rebuild that has taken place and does not appear sustainable.

In early 2010 the Chinese Government was putting the breaks on bank lending in order to curtail inflation and asset prices, particularly the Chinese property market. In effect, this is a withdrawal of stimulus designed to slow (but still maintain healthy) growth in 2010.

Contents

2010 – Opportunities and risks	1
Welcome to 2010	2
Who gets your super?	3
Thinking of helping out your family? Stockwatch	4
Can you afford to be sick?	5
Climate change and your investments	6
Investment market review (for quarter ended 31 January 2010)	7
A little light reading	8



Welcome to 2010

While January for most of us has been a time to relax and enjoy a well deserved summer break, for the economists, it's been a time to review and evaluate the state of the Australian economy with the RBA keeping interest rates on hold in their first meeting of the year.

At Bridges, we are optimistic about the year ahead with low levels of unemployment, improved consumer confidence, strong growth in our major export partners and a strong outlook for business investment.

The start of the year is a great time to review your financial strategy. If your personal or financial circumstances have recently changed, it may be time to ensure your financial strategy is current and appropriate.

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

Michael Carter

Chief Executive Officer

Confidence returns ... *continued*

We expect that global economic activity may slow as stimulus measures are removed, however the timing is far from clear. While we expect some economies may slow, mainly the developed world, it is likely the emerging markets will not slow to the same extent.

Last year has seen growth assets recover as positive catalysts emerged, however, these are less obvious in the year ahead.

In our view, the US consumer will remain under pressure for some time and US interest rates will remain low. The US housing market will remain a drag on the economy while emerging bad real estate loans will result in further capital requirements from the banking sector.

While we remain cautiously optimistic, we do not rule out the possibility of downward earnings revisions in the 2nd half of this year.

Australian outlook

Our 'long term' view that Australia is a beneficiary of its trade with China and Asia remains in tact, although we can expect slower growth rates for China in 2010. The Australian economy has proven resilient and relative to major OECD countries we expect this will continue to be the case.

While increasing interest rates may be a headwind for growth, low levels of unemployment, high consumer confidence, strong growth in our major export partners and a strong outlook for business investment lead us to be cautiously optimistic on the domestic economy. But again we note our caution on the extent of the earnings recovery.

Risks

Major risks for 2010 revolve around the potential for a faltering global economy as stimulus packages will begin to be withdrawn and the potential for weaker industrial activity.

On a more positive note we do not expect a substantial rise in official interest rates for this year.

Summary

While we might be a little more cautious on the outlook for the global economy, the year also brings many positives.

Globally, we are now past the worst of the Global Financial Crisis (GFC) with Emerging markets expected to display relatively strong growth in the longer term.

We are also positive on the outlook for Australia. While increasing domestic interest rates may be a headwind for growth, low levels of unemployment, high consumer confidence, strong growth in our major export partners, support our positive view.

Who gets your super?

Who decides what happens to your superannuation savings when you die? In many cases, the ultimate decision may be made by the trustee of your superannuation fund. However, there are ways in which you can have greater control over your superannuation savings.

Binding death benefit nominations

The most certain way to direct payment of your superannuation upon your death benefit is by making a binding death benefit nomination. The nominated beneficiaries must be a dependant (spouse or child) or a legal personal representative (the executor or administrator of a deceased estate).

If the nomination has been legally signed and witnessed and is still current at the date of death, then the trustees of the superannuation fund must pay the death benefit to the nominated beneficiaries.

Valid binding superannuation nominations are unlikely to be overturned by a court, so they provide greater certainty. However, binding death benefit nominations are only valid for three years, so it is important to ensure that they are regularly reviewed.

Trustee's discretion

Even when binding nominations are available, many members don't make use of them and in these cases, even if a member has nominated preferred beneficiaries, it is the trustee that decides who the death benefit will be paid to.

The trustee is under a legal obligation to pay a death benefit to the member's dependants and in most cases benefits will be paid in a way that is consistent with the wishes of the deceased member. However, it is possible the trustee may recognise a wider range of dependants than the member would have liked, such as an ex spouse.

Which option?

Given the choice, most people prefer to make a binding nomination as it provides greater certainty. If the benefit is paid to an estate, flexibility can be provided through the terms of the Will. For example, the superannuation proceeds can be used to set up a testamentary trust, which may provide some tax advantages to beneficiaries. In some cases, the member's preferred beneficiary may not meet the legal definition of a dependant (this may apply to parents). In the absence of any dependants and a legal personal representative, the trustee may exercise their discretion and pay the benefit to a non-dependant, but making a binding death benefit nomination in this case would provide more certainty.

Superannuation pensions

The situation is a little different if the member has already retired and is drawing a superannuation pension. With pensions, it is common to nominate a surviving spouse as a reversionary beneficiary. This means the pension payments will continue to be paid to the nominee, either until their death or until the funds run out. If the reversionary beneficiary dies, any remaining balance is then paid out as a lump sum death benefit according to the type of nomination they have made.

As there are increasing levels of wealth being held via superannuation, the nomination of beneficiaries should be made in the context of a comprehensive estate plan. This includes taking into account the way superannuation death benefits are taxed when paid to different types of beneficiary.

...binding death benefit nominations are only valid for three years, so it is important to ensure that they are regularly reviewed.

Thinking of helping out your family?

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.

While some people may be keen to help out family members by transferring assets or rendering financial assistance, it is important to seek financial advice beforehand as there could be potential impacts on social security payments.

While the government acknowledges that people are free to gift to their families, friends or charities, it also expects recipients of social security to make the best possible use of their own resources to support themselves. The government does not want to have significant gifts subsidised by the social security system.

Under the 'gifting' or deprivation rules within social security law, a person may gift up to \$10,000 per financial year but not more than \$30,000 over any five year rolling period. These limits apply to a single (un-partnered) person or to both members of a couple taken together. Any gift or combination of gifts that is in excess of these limits are assessed under the assets test and under the Centrelink deeming rates for the income test for five years from the date of the gift.

Here are some examples:

- Tina receives Newstart Allowance from Centrelink. She does not get the full rate of Newstart Allowance because she has casual earnings. Tina is a single mum

and wishes to gift \$15,000 to her child. As this gift would be \$5,000 over the limit, this amount is added to her assessable assets for the next five years under the assets test. Under the income test, the amount of \$5,000 is deemed for five years.

- Tony and Maria gifted their home to one of their children before moving into a self-care unit in a retirement village. Knowing that their home was considered to be an exempt asset by Centrelink they assumed it was safe to gift it. It was only when their pensions were severely reduced, following the gift that they decided to visit a financial planner.

Another area where gifting could apply is where a parent stands guarantor for a loan taken out by one of their children. Being a guarantor alone does not invoke the deprivation rules, however, if a guarantor is called upon to repay the loan, that repayment is treated as a gift by Centrelink. The pensioner in this case suffers by having to repay the loan and receive a reduced pension.

If you would like to know more about gifting and how it could affect your Centrelink/Social Security entitlement, we recommend you speak with your Bridges financial planner.

Stockwatch Grain Corp (GNC)

Grain Corp operates throughout the grain supply chain providing handling, storage, marketing, logistics and agronomic services to the Australian grain industry. Through the acquisition of United Malt Holdings (UMH), the company is set to become No. 4 player in malted barley globally.

The company's origins began with the formation of the NSW Grain Handling authority in 1917. Following deregulation of the domestic grain industry in 1989 it incorporated and listed on the ASX. The company has since grown through a series of M&A moves and currently handles around 60% of east coast grain through its supply chain.

The long term outlook on agriculture is positive as the world's growing population needs to be fed. The Grain Corp business has solid assets including a near monopoly on east coast bulk grain port terminals and the overall east coast grain market. The UMH (malting) acquisition transforms Grain Corp into an international vertically integrated grain player with a greater stability in earnings and adds a further platform for growth. However, as with all agricultural stocks, weather remains a key risk for this company.

Can you afford to be sick?

Your greatest asset is your ability to earn an income. Everything you do depends on this. If you're unable to work as a result of an illness or injury, what would happen?

For most of us who are balancing mortgage payments, credit card debt and every day living expenses, a sudden loss of income, combined with mounting medical bills would be catastrophic to us and our loved ones.

In the event you were temporarily unable to work due to an illness or accident, income protection insurance may pay you 75 per cent of your income up to the age of 65, providing you with the ability to maintain a reasonable standard of living if you are unable to earn an income. In addition, income protection insurance is a tax-deductible expense.

Why do you need it?

You insure your house, car and other valuable possessions, why not your and your families' lifestyle?

Consider how much you earn, multiply that by how many years until you reach 65 and then factor in inflation and pay increases. It doesn't take a mathematician to work out that some people may be risking literally hundreds and thousands of dollars if they were to suffer a long term medical condition without some form of income protection.

Income protection insurance is not a replacement for workers' compensation, sick leave or private health insurance it is a long-term solution that should be tailored to work together with these and other insurances.

Facts

- 1 in 3 people of working age will suffer an accident or a serious illness that will keep them off work for more than 3 months.
- Nearly 50% of people who are disabled for 3 months are still disabled after 6 months.
- If someone is disabled for 3 months, the average time they are off work is 4.2 years.

Source: IFSA Under insurance key facts study – August 2005

It could happen to anyone!

Bill was a 40-year-old carpenter who broke his leg in five places when he fell off a trampoline playing with his son. His financial circumstances were:

1. Rent \$1200 per month
2. Maintenance to his ex-wife \$600 per month
3. Children's school fees \$600 per month (paid annually and due shortly)
4. General living expenses (food, bills etc) \$800 per month
5. Car repayments \$280 per month

Due to the severity of the break, Bill was off work for ten months. The accident cost him \$42,000 in lost income and \$6,000 of his savings. He borrowed from his ageing father to cover shortfalls such as school fees and rent. After his recovery, Bill found it difficult to work as a carpenter because his injury didn't allow him to climb ladders or balance well on roofs.

If Bill had income protection insurance, with the appropriate conditions and terms, he would have been able to recuperate without the stress of huge financial pressures. Additionally, he may have received ongoing partial income while he retrained for another career.

Consider your own circumstances in the event of misfortune and ask yourself honestly – how would my situation unfold? Why not discuss your current protection and possible strategies with your Bridges financial planner.

Climate change and your investments

Whether you're an active participant in the climate change debate or not, there is no doubt that climate has a great impact not only on the environment but also on the global economy.

The effect of the rapid climate change on the global economy may result in many industries being forced to make expensive modifications to business practices. At the same time, changes in consumer demands and sources of economic value will provide opportunities for those who are in the position to take advantage of them.

For both professional and individual investors it is crucial to recognise the various impacts of climate change on the companies or funds that they may potentially invest in. Here are some examples.

Energy sources and the price of coal

Coal is currently a cheap way to generate electricity, but many will argue that this won't be the case once the 'real' cost is taken into account (the environmental impact of burning coal). With moves at various levels towards a carbon-trading system, the opportunities for companies specialising in wind, solar and geothermal energy may improve. And if consumers see their electricity bills rising, they may be more inclined to seek energy efficient appliances for their household or business.

Impact of drought on the agricultural sector

The drought that has affected many parts of Australia over recent years has led to a considerable re-think on the topic of water availability and pricing. Water scarcity can lead to lower crop yields and higher prices for agricultural output. As a result, farmers are looking for technologies that enhance their yields or enable better water usage and recycling.

Rising sea levels

Increasing global temperatures and the subsequent rise in sea levels may have a devastating impact on the lifestyles of coastal communities. As a result we could see new demands for infrastructure that is suitable for the new environment that some of these communities may face. In addition, the effects of such changes on fisheries and various ecosystems may lead to increased opportunities in farming and technologies that enable these ecosystems to adapt.

Extreme weather and the effect on insurers

Insurance companies aim to be adequately compensated (via premiums paid by policyholders) for the risks they are taking. In response to increased frequency of floods and storms, we are likely to see developments in policy design as the insurers seek to clarify events covered and events excluded. And in response to higher premiums, we may see opportunities for improved building standards and materials as consumers seek to better weather-proof their possessions.

One thing that won't change along with the climate are the fundamentals of good investment decisions. These changes will result in many winners and many losers and a careful investor will be seeking to choose the right place to invest.

“One thing that won't change along with the climate are the fundamentals of good investment decisions.”

Investment market review

quarter ended 31 January 2010

Asset	Index	1 yr return	5 yr return pa	Comments
Australian shares	S&P/ASX 300 Accumulation index	35.67	6.62	The Australian share market posted only a modest gain over the last quarter compared to the double-digit rallies of the previous two quarters. Capital raising activity did not match the hectic pace of the preceding few quarters. Materials sector continued strong gains while the energy and property trusts were the laggards.
Listed property trusts	S&P/ASX 300 A-REIT (property) Accumulation index	17.59	-8.17	The property sector underperformed the broader Australian market over the quarter. The outlook statements from most Trust' Managers have improved with most Trusts paying distributions in December, in line with guidance. The property value write-downs during the quarter were only modest hinting at bottoming out of the valuations this cycle. Capital raisings have largely abated. Corporate buyers of quality commercial property assets seem to have come out of the hiding with some very large transactions taking place recently.
International shares	MSCI World Accumulation index (AUD)	-3.78	-2.84	International shares charted modest gains over the quarter. However these gains were marginally offset by a stronger Australian Dollar against foreign currencies. Global share prices have become increasingly volatile with renewed uncertainty of the speed of recovery of major economies.
Fixed interest and cash	UBS Warburg Comp. Bond All Maturities index	1.66	5.98	Fixed Interest securities have continued to post positive returns albeit at a slower rate compared to the previous quarters. Credit spreads remain well above their long term average, still providing a convincing risk/return proposition. The running yield on fixed interest securities remains higher than the current cash rate, keeping them relatively attractive.

Our offices

Adelaide	08 8202 7766
Adelaide – Norwood	08 8334 2450
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
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
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

A little light reading

The GFC has awaked a renewed interest in our finances. Having a better understanding of markets allows us to have greater control and ability to make more informed decisions when it comes to our financial future. However, when it comes to reading up on all things financial, where do you start?

Wandering through the many isles in a bookstore, deciding which book to choose can be frustrating and confusing at the best of times.

Below is a list of some books to help you get things started.

Think and behave like an investor

The following books should help you think like an investor, encouraging you to think and focus on what is under the hood, the business and the people who run it.

- **The super analysts**, by Andrew Leeming. The author interviews successful investors (not academics) discussing their approach to investing and analysis of common stocks and some specific industries.
- **The business of value investing: six essential elements to buying companies like Warren Buffet**, by Sham Gad is an excellent introductory book to value investing.

Behavioural Investing

The right temperament is crucial when it comes to investing. Being a critical thinker and knowing how to value stocks is important, but it's all a waste if you let your emotions get the better of you. The following books will help you recognise the shortcomings of your hard-wiring and help you develop strategies to deal with it.

- **Psychology of investing**, by John R. Nofsinger, is short and to the point.
- **Why smart people make big money mistakes and how to correct them**, by Gary Besky and Thomas Gilovich. This is a fun and easy read, looking at how your emotions impact decisions involving money.

Economics

- **The age of turbulence**, by Alan Greenspan, provides lessons on macroeconomics and history, giving a perspective on American politics from an insider who worked under the last eight US presidents.

Stock market history

- **Stocks for the long run**, by Jeremy Siegel, provides a very good overview of the performance of different asset classes over the last two centuries.
- **Fooled by randomness**, by Nassim Taleb, addresses risk and rare events. This book turns the way we are taught to look at risk upside down. Nassim rebels against the current establishment of finance that measures the risk with elegant formulas that receive Nobel prizes but lack common sense.

Happy reading.



Bridges ASX Participant AFSL No 240837

Part of Australian Wealth Management

Important note – This is general advice only. It is not possible, when preparing Portfolio Watch, to take into account individual clients' investment objectives, circumstances and needs. Before acting on any information or advice contained, expressly or implicitly, in Portfolio Watch you should consult an Authorised Representative of Bridges Financial Services Pty Limited (Bridges). No part of Portfolio Watch may be reproduced without the written consent of Bridges in each case. Bridges, its directors, employees or any associate are not liable for any loss or damage arising as a result of any reliance placed on the contents of Portfolio Watch. To the extent permitted by law all such liability is excluded. Investors will need to contact their financial planner regarding financial products outlined in this newsletter. Funds and pensions named in Portfolio Watch are issued by Questor Financial Services Limited. AFSL No 240829. You should obtain and consider the Product Disclosure Statement available from Bridges before investing in any product.