

PortfolioWatch

www.bridges.com.au

Quarterly newsletter for PortfolioWatch clients

Summer 2011

World growth may surprise

A softening global economic outlook, together with issues surrounding public debt levels in the US and Europe, have seen a reversal of the recent global stock market gains. And the Australian share market was no exception to this trend.

While the correction in the Australian dollar may offer some relief to Australian exporters, it has had an adverse impact on investors' international share holdings. Lower confidence in global growth prospects, as well as China's tight economic policy, are signs of slowing economic growth. Within the commodity market, corrections are starting to be seen against the strong gains of recent years with the benchmark ASX200 Resources index underperforming for a third straight quarter and retreating 19.7 per cent over the three months to September 2011 – the first such losing streak since June 1998.

The Australian share market is currently pricing in quite a pessimistic scenario for earnings growth which is not too dissimilar to the way shares were priced during the global financial crisis (GFC) in late 2008 and early 2009. We believe this is too much of a negative outlook; pricing reflects a global recession but our expectations are for slower growth. During the GFC, the globe was gripped by a credit crisis. Today, by comparison, the US economy is soft, but growing, and in line with expectations the Chinese economy has decelerated modestly. Europe, indeed, has sovereign debt problems, however, the last few weeks have seen signs that leadership in that region has at least started to recognise the challenges and is beginning to deal with a stressed banking system.

Growth in Europe will be difficult to achieve, but that has become the consensus view and markets tend to price-in consensus views quite accurately. Challenges for the world remain and, to deal with excessive levels of public debt, a long period of deleveraging will be necessary. Many western world countries are caught in a long-term cycle of low growth and high unemployment. Most of the world, however, is not in that position. In fact, the emerging world continues its rapid development. Even the US is making headway, although mainly in the private sector. Despite media headlines to the contrary, world growth has not fallen off a cliff. We expect global growth of around 3.8 per cent in 2012, down from expectations of 4.5 per cent earlier this year. Most of this is expected to come from the emerging world as developed world growth is modest by comparison, with Europe contributing almost nothing. The US is growing consistently, albeit at a slow pace.

Contents

World growth may surprise	1
Search for safer alternatives	2
Is gold a safe option?	3
When can you access your super?	4
Centrelink payment increases	5
Who do you trust to execute your Will?	6
Investment market overview	7
Stockwatch	7
Is online shopping a risk to Australian retailers?	8



Search for safer alternatives

Continued concerns around public debt levels in the US and Europe, means investors still remain hesitant, which is reflected in the markets globally.

In response to continued uncertainty, many commentators are recommending gold as a safer alternative for investors. In this edition we discover the properties of gold and find out more about this precious commodity.

There is also a great deal of media attention about the loss of sales from Australian retailers to online retailers. In our article on the back page, we analyse some of the statistics and take a closer look at this trend.

In answer to some of the more frequently asked questions that we receive, we provide some insights into 'when you can take your super' and 'how to appoint an executor of your Will'.

If you, or anyone you know, have concerns about their financial situation we're ready to help. We are always pleased to receive referrals from our clients; in fact it's the biggest compliment we receive.

Michael Carter
Chief Executive Officer

World growth may surprise... *continued*

A recent private survey of retail sales noted growth both in the recent months and over the rolling twelve month period. The current rate of US employment growth, while nowhere near enough to effect material reduction in the high unemployment rate, it does illustrate that private sector employers are engaging with the labour market and selectively increasing their human resource. Both the manufacturing and services sector indices remain above 50, signalling ongoing expansion. The US corporate balance sheet is relatively strong compared to history, however, we believe that market forecasts for US earnings growth of 12 per cent is unrealistic in the expected slow economic environment.

Earnings growth forecasts for listed Australian companies have been falling for most of this year, and particularly since July 2011. However, the median analyst forecast of growth rate for non-resources companies in 2012 is still 8 per cent. If the global economy continues to weaken there will be further revisions to this forecast although the share market is actually pricing in zero earnings growth.

Between August 2008 and June 2009, the median downgrade to analysts' 2010 earnings estimates (excluding resources) was 28 per cent and Australia avoided recession in that episode. We do not expect similar downgrades or a significant round of dilutive capital raisings. Australian corporate balance sheets are generally strong.

We saw markets softening this quarter as the issues surrounding public debt levels in the US and Europe continue. However, we believe the markets have priced in an overly pessimistic view which means there are opportunities for investors.

Is gold a safe option?

Gold and other precious metals, such as silver or palladium, are commodities. And, like most commodities, the price of gold is driven by supply and demand as well as speculation (the buying and selling of gold to make a profit). Gold, however, is not consumed, unlike agricultural commodities such as corn or cocoa, industrial metals like lead or copper, or energy commodities including oil or gas.

In comparison to what has already been mined, the current production of gold is significantly less which means the stock of gold available remains relatively constant; it's simply the ownership that shifts from one party to another.

China is the world's largest gold producer followed by South Africa, Australia and the US. Therefore, when the price of gold rises, Australia benefits.

The demand for gold comes from two main sources:

- ▶ **Industrial demand** stems predominantly from jewellery and electrical parts. Jewellery accounts for approximately two thirds of annual gold demand and India is the largest consumer of gold for this purpose.
- ▶ **Investment demand** is derived from the holding of gold as a reserve asset.

Why invest in gold?

From an investment point of view, gold is widely perceived to be a conservative asset and an alternative to holding currency. It tends to perform well in periods of economic or political uncertainty, such as the global financial crisis, and is also widely perceived to hold its value well when inflation is a concern.

Gold can be bought and sold in physical form, but you can also get exposure through exchange traded funds (ETFs) or direct equity investments in gold-producing firms such as Newcrest (NCM).

While gold is considered to be a conservative asset, like all asset classes, gold can go through periods of over and under valuation and can be subject to speculative activity. Before investing in gold or any other asset we recommend you speak to your financial planner.

Gold spot price



Source: IRESS

“The price of gold is driven by supply and demand as well as speculation.”

When can you access your super?

In recent years there have been a number of scams relating to illegal early access to super which you may have heard about in the news. The Government has taken action against promoters of such schemes and continues to warn people of the penalties that apply.

Depending on your circumstances, however, there are times when you can legally gain access to your super early. In this article we look at the rules governing those times.

The purpose of super is to provide money for your retirement or to your beneficiaries upon your death. For this reason, the Government has put in place a framework to ensure that superannuation generally cannot be accessed prior to retirement or death (this framework is referred to as the 'preservation' system).

Preservation components

Depending on the type of contributions and when they were made, your super benefit will fall under one or more of the following 'preservation' categories (not to be confused with taxation components):

- Preserved benefits – these include all contributions since 1 July 1999.
- Restricted non-preserved benefits.
- Unrestricted non-preserved benefits – these benefits can be accessed at any time.

Accessing your benefits

To be able to access your preserved and restricted non-preserved benefits, you must first meet a condition of release (and this applies to all permanent residents of Australia, even those who are permanently heading overseas). We have listed some of the conditions of release below:

- Death
- Age 65
- Retirement after reaching age 60
- Retirement after reaching preservation age (which depends on the year you were born)
- Permanent incapacity
- Terminal medical condition
- Severe financial hardship
- Compassionate grounds
- Transition to retirement (after reaching preservation age)

While the first two conditions are self-explanatory, there are specific criteria attached to each of the remaining conditions that must be met, a couple of which we will discuss.

1 Retirement after reaching preservation age

Depending on the year you were born, your preservation age is between 55 and 60.

Preservation age

Date of birth	Preservation age
Before 1 July 1960	55 years
1 July 1960 – 30 June 1961	56 years
1 July 1961 – 30 June 1962	57 years
1 July 1962 – 30 June 1963	58 years
1 July 1963 – 30 June 1964	59 years
After 30 June 1964	60 years

The definition of retirement here includes the satisfaction of both of the following conditions:

- You have ceased gainful employment (and this may have occurred before you reached your preservation age).
- The trustee of your super fund is reasonably satisfied that you do not intend to become gainfully employed for ten hours or more per week.

It's important to note, however, that even if you reach your preservation age and reduce your working hours, with the same employer, from 30 hours per week to 8 hours per week for example, the retirement condition has not been satisfied. This is because, even though you are working less than 10 hours, you are still working for the same employer and therefore, have not satisfied the first condition; the cessation of gainful employment.

If you are seeking access to your super on the grounds of retirement, the trustee will usually require the execution of a statutory declaration. Your financial planner can help you arrange this.

2 Severe financial hardship

Access to superannuation can be granted on the grounds of severe financial hardship and is dependent on your age.

If you have **not** reached your preservation age plus 39 weeks, you must provide the trustee with written evidence, and the trustee must be satisfied, that:

- you are unable to meet reasonable and immediate family living expenses, and
- you have received a relevant Commonwealth income support payment for a continuous period of 26 weeks from a Commonwealth department or agency (ie Centrelink, Department of Veterans' Affairs or a Commonwealth Community Development Employment Projects (CDEP) organisation).

A single gross lump sum benefit between \$1,000 and \$10,000 will be paid. If your benefit is less than \$1,000, a lesser amount can be taken.

If you have reached your preservation age plus 39 weeks, benefits may be released on the grounds of severe financial hardship if:

- you have received a relevant income support payment provided by a Commonwealth department or agency for a cumulative period of at least 39 weeks or more after reaching your preservation age, and
- you are not gainfully employed on the date of the application.

There is no restriction on the amount of your benefit payable.

How much tax do you pay if you take your super early?

It depends on your age. If you are under age 60, you may still be required to pay tax, even though you satisfy a condition of release.

Remember that the penalties for illegally accessing your super early are high so we recommend you speak to your financial planner before making any decisions.

Centrelink payment increases

From 20 September 2011, the maximum rates of pension payments increased in line with increases in the cost of living. This means a single pensioner may receive up to \$748.80 per fortnight while a member of a couple may receive up to \$564.50 per fortnight.

Transitional pension rates have also increased, but by a lesser amount. Individuals receiving an allowance, such as Newstart Allowance or Widows Allowance, may also be entitled to a higher payment from 20 September 2011.

*There are times when
you can legally access
your super.*

Who do you trust to execute your Will?

Over your lifetime, you will accumulate a collection of assets – your family home, car, jewellery as well as investments and superannuation. But have you ever thought about who these will pass to once you've gone?

Having an estate plan in place gives you peace of mind. You can relax, knowing that, in the event of your death, your affairs will be managed the way you want. Appointing an executor is an essential part of the estate planning process.

Why you need an executor

An executor is responsible for the administration of your estate until the distribution of your assets to your beneficiaries is complete. In your Will you must nominate an executor. You can choose one or more personal executors, such as family members or friends, or a professional executor. Your individual needs and circumstances will determine which is best for you and your family.

By appointing a competent and trustworthy executor you can be sure that your assets are distributed to your beneficiaries, exactly as you have expressed in your Will, in a timely fashion. Without an executor, your estate will be frozen while your affairs are sorted out which means delays in the distribution of your estate.

Who can be an executor?

Having a personal acquaintance take on the responsibility of administering your estate is often the most obvious option. A personal executor can be the right choice if you have a stable family with strong relationships and less complex affairs. Many people choose their partner, but it is common to name more than one personal executor to share in the administration of your estate. It's also a good idea to specify a second option.

Before you appoint an executor, it's a good idea to discuss it with them first. Being an executor can be an overwhelming, time consuming and onerous task, especially if the person you nominate hasn't done it before, does not have the appropriate skills, or is dealing with their own grief. An executor also needs to be able to carry out your wishes without being influenced by other parties.

Appointing a professional executor

Instead of nominating a personal executor, you could appoint a professional trustee company.

A professional trustee may be the right solution for you if:

- you do not have a family member or a friend you can trust and rely on
- all your trusted family members reside overseas
- you do not wish to burden your family or friends
- you have complex family arrangements such as a second marriage and step children or a family dispute
- your Will contains ongoing trusts
- you have a relative with a disability requiring specialist services.

A professional executor will:

- confirm your Will is legally valid
- retrieve your Will from safe storage
- protect your assets pending distribution
- advise beneficiaries of their entitlements and make payments
- prepare a statement of your assets and liabilities
- arrange the sale of assets to pay off debt
- create any trusts you have requested
- lodge your final personal tax and estate tax returns
- keep proper financial accounts and records.

A professional trustee company, such as Australian Executor Trustees, will also consult with any courts, government bodies, organisations and individuals as required.

Investment market review

Quarter ended 31 October 2011

Asset	Index	1 yr return %	5 yr return % pa	Comments
Australian shares	S&P/ASX 300 Accumulation index	-3.87	-0.298	The Australian share market retreated over the quarter due to ongoing investor nervousness about the sovereign debt crisis in Europe while mostly ignoring the modest uptick in some economic indicators in the US. Expectations of an official rate cut in Australia supported the recovery in bank stocks relative to the broader market.
Listed property trusts	S&P/ASX 300 A-REIT Accumulation index (property)	-2.38	-10.09	The listed property sector ended the past quarter with a positive return while still in the red over the past twelve months. Property trusts have been outperforming the broader market in recent months as investors were attracted by a sustainable dividend income and lower gearing levels.
International shares	MSCI World Accumulation index (USD)	-0.40	-2.89	The biggest issue over the quarter was continued concerns over the work-out of the European debt issues and what spill-over effects would be felt in the US and Asia. This has seen US and European banks come under considerable selling pressure. The slowdown in China has also affected investor sentiment. Despite these issues the overall valuations available in markets are certainly not onerous.
Fixed interest	UBS Warburg Comp. Bond All Maturities index	8.45	6.96	Bond returns have been strong in recent months reflecting the risk aversion trade by investors. We currently see high quality investment grade government bonds as expensive and over bought and see better opportunities in quality corporate bonds (credit).
Cash	UBS Bank Bill index (interest rate earned on short term to maturity of approx 45 days)	5.04	5.54	The RBA left the official cash rate at 4.75 per cent over the quarter (but delivered 25 basis point rate cut after the quarter ended). The market had been pricing in substantial cuts in the coming months although this seems to have abated somewhat.

Stock Watch – Ansell Limited

Ansell Limited (ANN) is a global provider in protection solutions, with operations in the Americas, Europe and Asia. ANN designs, develops, manufactures and markets a wide range of surgical, examination, industrial and household gloves, protective clothing and condoms. ANN's operations consist of four business units including medical, industrial, new verticals and sexual wellness. Industrials comprises 56 per cent of earnings with medical 27 per cent, new verticals 2 per cent, and sexual wellness 15 per cent making up the remainder.

With recent market volatility and an uncertain outlook for both the US and European economies, ANN's industrial exposure is a key risk for this story. Nevertheless, ANN's enviable earnings result (up 15 per cent in 2011) and conservative double-digit growth guidance will support it in the current environment. We are encouraged by the ongoing strength of volumes to date, increased investment in selling, general and administrative expenses, rationalisation of underperforming stock, restructuring benefits, share buyback, acquisition potential and ANN's success at mitigating raw material cost increases, all of which support our BUY recommendation.

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
Baulkham Hills	02 9634 5337
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
Coffs Harbour	02 6651 2000
Darwin	08 8981 7722
Doncaster	03 9848 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
Morwell	03 5133 7744
Newcastle East	02 4032 4400
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

Is online shopping a risk to Australian retailers?

Online spending is increasingly seen as a threat to Australian retailers. In this article we take a closer look at the trends in online sales and the risk this could pose to Australian retailers.

Opportunity for Australian retailers

Let's first look at the statistics. In Australia, online retail sales only represent 3 per cent of total retail sales while retailers listed on the Australian share market only have 0.4 per cent of their aggregate sales online. In comparison, however, their unlisted rivals are at 5.5 per cent, illustrating how nimble the private retailers have been to embrace an online presence. Over time, however, it is anticipated that listed retailers will significantly step-up their online offers.

What are online shoppers buying?

Generally, the largest online retail purchases are apparel, footwear and fashion accessories, while other popular items include groceries, electronics and health and beauty products.

Although apparel makes up a large portion of total online sales, it only represents 10 per cent of the total apparel spend in Australia. Among the ASX listed companies, the most established online retailers are JB Hi-Fi and Premier Investments. Online discount clearance outlets are also faring particularly well in Australia, something that needs to be addressed by brand owners as well as retailers.

Competing online

A key determinant of success is free delivery, a feature many retailers are beginning to embrace. However, with distribution representing between 7 and 27 per cent of sales, this presents a big hurdle for online profitability. Big retailers, however, can use their scale to compete well on prices.

Threat from offshore websites

One of the big issues in the media is sales leakage to offshore retailers. For goods under \$1,000, offshore retailers are able to bypass import duties and goods and services tax which puts Australian retailers at a price disadvantage; by some estimates, up to 10 per cent price in electronics and nearer to 15 per cent in clothing.

Retail sales from domestic websites represent \$7.5 billion, or 3 per cent of total retail spending, while offshore websites contribute an additional \$3.5-\$4.5 billion.

Relative to the US dollar, a high Australian dollar has seen domestic retailers dominate web traffic, accounting for over 80 per cent of electronics traffic and 75 per cent of apparel traffic. With offshore websites detracting only 0.4-0.6 per cent from sales, the risks of offshore websites on listed retailers are overplayed.

As for the threat to shopping centres, in recent years these have become more of a centre for leisure, entertainment, eating out and other public amenities which cannot easily be replicated online.

While there is no hiding from the fact that consumers are increasingly shopping online, it needs to be taken in the broader context; online sales currently comprise a relatively small market share of total retail sales. Much of the online retail activity is on Australian websites with an increasing presence by the big Australian retailers.



Bridges Financial Services Pty Ltd (Bridges). ABN 60 003 474 977. ASX Participant. AFSL No 240837.

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. Questor Financial Services Limited (AFSL 240829) is the Trustee and Responsible Entity of The Portfolio Service. You should obtain and consider the Product Disclosure Statement available from Bridges before investing in any product. Bridges®, the Bridges logo® and PortfolioWatch® are registered trademarks of Bridges Financial Services Pty Limited.

Part of the IOOF group