



Personal Wealth



Autumn 2009

A Quarterly Newsletter for

Lifespan Clients

Credit Crisis Impacts the Real Economy

For a year or so we have been in the twilight zone waiting to see how the financial crisis will impact the real economy. For most of this period the crisis had been largely confined to the financial sector as well as equity and credit markets. After a year of falling equity markets and the loss of confidence in credit markets, the impact of the financial crisis is finally being felt in the real economy. The last 3 months or so has seen the negative impact spill over to almost all sectors of the economy. The impact has resulted in the usual indicators of a slowing economy: falling company profits and stock prices, rising loan defaults, rising unemployment etc.

Essentially the global economy fell off a cliff following the collapse of the Lehman Brothers Investment bank in September 2008. There is no longer any doubt that the major economies such as the USA, UK and Japan are in recession. The current forecast for world GDP growth in 2009 has been downgraded to 0.5% by the International Monetary Fund but this is probably optimistic. Practically all the developed countries are tipped to be in recession with only some emerging economies such as China forecast to grow this year. However even China which has been an engine of world growth has been deeply impacted. Growth in 2009 is forecast to be only about 6% from a recent high of over 11%. Governments and central

banks have responded to the slowdown with massive fiscal and monetary stimulus programs, i.e. spending programs and cutting interest rates.

US short term rates are close to zero while short term interest rates have been cut by 4% in Australia since September. This represents a huge stimulus that is yet to work its way through the economy. It is generally thought that it takes about 9 months for the positive effects of interest rate cuts to be felt

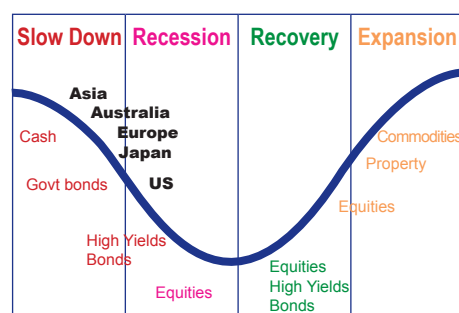
The diagram shows where Australia is in the economic cycle and the asset classes that historically have the best performance at various points in the cycle. While our equity markets have fallen with the rest of the world, we are one of the last countries to experience a slowdown. Cash was the best performing asset earlier in 2008 while government bonds are the best performing assets right now. A look at the returns in the table on the next page shows that fixed interest is the best performing asset class over the last 5 years with listed property the worst. However we would not expect fixed interest to return 15% over the next year unless the world economy took a dramatic turn for the worse.

Given the amount of stimulus being pumped into the system it is just a matter of time before economic activity picks up

again and equity markets pull out of their slump. The problem is, it is very difficult to know when the economy will turn. History suggests that equity markets resume their upward trajectory about 6 months before the economy turns up. The two longest recessions in the US since 1960 were both 16 months (1973 and 1981). The current US recession dates from December 2007 and so is already 14 months.

We expect negative headlines and rising unemployment in the short term. However unemployment is a lagging indicator, it tends to keep rising after the economy has started to recover so it is not a good predictor of the economy. More useful forward indicators are the various manufacturing indices in the US, the direction of US house prices and commodity prices.

Preferred asset class and the economic cycle



Source: Schroders

STOP PRESS Pension drawdown relief for retirees

Due to the significant downturn in financial markets, the Government has announced that the minimum drawdown for pensions will be reduced by 50% for the 2008-09 financial year. This will cover superannuation income streams such as account based pensions, allocated pensions, term allocated pensions and Transition to Retirement pensions. If this applies to you, please contact your Lifespan Financial Planner.



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Equities

Australian equities are trading at about 10 times 2009 estimated earnings which is very cheap historically. However these estimates are uncertain and have been gradually revised down. We expect 2009 earnings to be at least 10% below those for 2008. The estimated dividend yield at over 6% also is also very attractive compared to a 10 year bond yield of just over 4%. Again we expect some dividend cuts to occur but it is rare to have the dividend yield above that of the ten year bond.

One of the major headwinds for equities at the moment is the amount of capital raising that is going on. Companies are raising new equity at a discount to the market to repair balance sheets and as a replacement for existing debt that cannot be rolled over. It is estimated that about a quarter of the total earnings downgrade to per share earnings has come from this increasing share count.

While equity markets had a shocking 2008 it should be pointed out that years like the last one tend to be the exception.

Some interesting statistics:

Source: The Australian

- > In 79% of years since 1875 the Australian equity market has had positive returns
- > The equity market has only been down 6 times in successive calendar years, the total average loss being 24%
- > 2008 is only the 4th time since 1875 that the market was down more than 20%
- > These years were 1930 (great depression), 1973 (first oil shock), 1974 (Whitlam Government.)
- > On two of these occasions - 1930 and 1974, the market was up strongly the following year
- > Since 1875
 - the average return of the Australian equities market has been 10.3% p.a.
 - over this period inflation averaged 3.9%
 - the 'real' return of the equities market has been 6.2% p.a.

Property

We remain cautious on listed property as the listed sector is still in the process of raising new equity capital as they seek to lower gearing. We still have a preference

for listed property to direct property as there is more transparency in the price of listed property. We are not that confident in the stated values of direct property.

Investment Returns to January 31 2009 (%)

Asset Class	1 Month	3 Month	1 Year	3 Years	5 Years
Australia Shares	-4.88	-11.02	-34.32	-6.56	6.00
Global Shares	0.27	-8.53	-17.26	-6.90	0.83
Listed Property	-9.71	-19.00	-51.73	-19.78	-5.46
Fixed Interest	1.41	5.71	15.16	7.49	7.12

Source: van Eyk

We think you should continue to be cautious and not try to pick the bottom of what is a nasty bear market. While we view the current market action as an opportunity we do not think it is necessary to take large bets. However you should stick to your long term plan and resist the urge to cash out your portfolio. We think the best approach for new monies is to dollar cost average into the market over a period of time.

Caution Needed in Fixed Interest

As the Australian economy has slowed the cash rate has been cut by 4% to the current level of 3.25%. Many market observers expect it to fall further to about 2% to 2.5% by mid year. While cash is secure the current level of return is obviously low. With a slowing economy and a flight to safety there has also been a large bond rally with the yield on Australian 10 year Commonwealth bonds falling to a low of 3.84% and currently trading at about 4.2%. Fixed interest (i.e. bonds) returned over 15% in the year to January 31 and is in fact the best performing major asset class over 5 years at 7.1% p.a.

As long as the economy deteriorates, investors seeking security will bid up the price of bonds. However as prospects for the economy improve interest rates will start to rise and there will be capital losses on fixed interest funds. Our view is that we think government bonds are expensive on a long term basis unless the economy is

about to enter a deflationary spiral.

To some extent we think investors have to decide how much risk they are prepared to take in fixed interest, i.e. chase returns or protect capital. As a general principle we would have lower allocations to high quality bond funds and hold higher weightings in cash, and diversified fixed interest funds. With diversified funds the manager is free to rotate between the different fixed interest sub sectors in order to take advantage of opportunities. If investors are in need of yield then a moderate allocation to mortgage funds which yield about 6% may be appropriate. However a very important point is that the mortgage funds have limited

liquidity and should not be treated as cash. You need to read the PDS for each of them to determine if they are suitable for you.

Current Interest Rates

Cash	3.25%
90 Bank Bills	3.07%
3 Year Gov Bonds	3.12%
10 Year Gov Bonds	4.26%





Redundancy Rules and Strategies

Due to the forecast slowing of the Australian economy it is widely expected that some Australians will be made redundant over the coming months. Redundancy can be a traumatic experience therefore, it is important that you seek expert financial advice to ensure you use your redundancy payment to your best advantage. For instance, should you use it to extinguish debt, top up your superannuation or just take time out to ponder your future?

The rules in relation to redundancy are complex particularly if the transitional rules apply. To ensure the best outcome it is crucial that you seek the advice of a financial adviser who will be able to:

- > assist with the complex paper work you will receive;
- > formulate a strategy to effectively use your payment, taking into account your personal situation;
- > assist with debt management;
- > provide advice in relation to your accumulated superannuation benefits;
- > assist with your insurance needs if the cover held through your employer superannuation ceases upon redundancy;

You need to be aware that different parts of a redundancy are subject to different tax treatments.

A portion of a genuine redundancy payment will be received tax free and must be taken in cash. The maximum tax free amount receivable for the 2008/09 financial year is \$7,350 plus \$3,676 for each completed year of service. For example, if an individual is made redundant after 5 years and 7 months of employment the maximum tax free amount will be \$25,730 [\$7,350 + (\$3,676 x 5)].

Any additional amount received is classed as an Employer Termination Payment

(ETP). The options and the tax treatment of the ETP component of the redundancy is dependent upon whether the ETP payment amount, or method of calculation, was specified in your employment contract or Australian WorkPlace Agreement as of 9th May 2006.

Individuals who satisfy this condition (also known as a "transitional rule") and who

are made redundant between 01/07/07 and 30/06/12 may be able to roll over all or a portion of the ETP component to their superannuation. You need to be aware that any amount rolled over will be subject to the 15% contributions tax and any amount rolled over in excess of \$1.0 million will also count towards the individual's concessional cap. Therefore penalty tax rates will apply if the cap is exceeded.

Under the transitional rule, ETP amounts taken in cash will be taxed as follows:

Over preservation age*: (over 55)	
Amount up to \$145,000	Taxed at 15% + Medicare Levy
Amount above \$145,000 and up to \$1 million	Taxed at 30% + Medicare Levy
Amount above \$1.0M	Taxed at 45% + Medicare Levy
Below preservation age: (under 55)	
First \$1.0 million	Taxed at 30% + Medicare Levy
Amount above \$1.0M	Taxed at 45% + Medicare Levy

* Also applies to anyone who reaches their preservation age during the income year in which the payment is made.

Those who do not satisfy the transitional rule must take the ETP payment in cash which will be taxed as follows:

Over preservation age*: (over 55)	
Amount up to \$145,000	Taxed at 15% + Medicare Levy
Amount above to \$145,000	Taxed at 45% + Medicare Levy
Below preservation age: (under 55)	
Amount up to \$145,000	Taxed at 30% + Medicare Levy
Amount above to \$145,000	Taxed at 45% + Medicare Levy

In the event of a genuine redundancy unused leave payments are also subject to concessional tax rates as outlined below:

Unused annual leave and leave loading	Included in assessable income and taxed at a maximum rate of 30% plus Medicare levy
Unused long service leave accrued before 16/8/78	5% is included in assessable income and taxed at the individual's marginal tax rate plus Medicare levy
Unused long service leave accrued after 15/8/78	Included in assessable income and taxed at a maximum rate of 30% plus Medicare levy

As demonstrated above the rules in relation to redundancy are complex particularly if the transitional rules apply, so seeing your financial planner is the best first step.



How to convert your \$900 Tax Bonus into \$2250

As part of the Government's 'Nation Building and Jobs Plan', Australian taxpayers will be provided with \$12.7 billion in tax-free cash bonuses. The amount you are entitled to receive will depend on your 2007 / 08 taxable income as detailed in the table below.

Taxable income 2007 / 2008 income year	Tax - free cash bonus
Up to \$80,000	\$900
\$80,001 - \$90,000	\$600
\$90,001 - \$100,000	\$250

To be eligible, taxpayers must have lodged their income tax return by 30 June 2009.

These cash bonuses will be distributed to eligible tax payers starting in April 09. The main purpose of the tax bonus is to stimulate the Australian economy and to stop it from sliding into recession.

Alternatively, you could also use it to stimulate your super by making a personal contribution of \$900 and turn it into \$2,250. Here's how:

If you earn under \$30,342 and contributed the \$900 into your super, the government would co-contribute \$1,350 into your fund. That's a total contribution of \$2,250.

Let's take it one step further, assuming a post tax 5% growth rate in super, in ten

years you would have \$3,665.

Talk to your Lifespan Financial Adviser for further information on how to stimulate your super.



Take control of your mortgage

For most Australians their home mortgage is the largest financial commitment ever undertaken. The prime objective is to pay it off as soon as possible, particularly as the interest is not tax deductible.

These days there are so many options attached to a mortgage that selecting the one suited to your personal circumstances should be the first consideration. Will you benefit from extra features such as a redraw facility, mortgage offset account, or a line of credit? Or should you go for a basic "no-frills" loan and make additional payments whenever you can?

Here are some key tips to help you make the right decisions and take control of your mortgage:

> Shop around for the best possible interest rate - this is the single largest cost. If you want special features, look for a low interest loan that offers what

you want. Paying a higher rate for a loan with features you do not fully use may end up costing you more in the long run.

> Make extra payments whenever you can and consider fortnightly or weekly instead of monthly repayments. This is particularly important in the first few years of your loan when your payments are attributed mostly to the interest portion.

> Be aware of termination or break fees for exiting your loan early.

> Take into account fees and costs associated with a new loan: application fees, stamp duty, valuation and legal fees.

> If you're thinking of refinancing – consider the extra costs involved and make sure you'll be better off.

> Steer clear of pushy sales people or loan minimisation 'experts' who try to pressure you into switching loans or who use other aggressive sales tactics. Always work with a professional who has your best interests in mind.

Selecting the right mortgage and payment method may make thousands of dollars difference to your wealth in future years. So, carefully assess your needs and seek professional advice when you commence your search for the right home mortgage. It will save you time and more importantly, money.

Lifespan advisers work closely with our sister company, Quay Finance Pty Ltd, who have a very broad range of finance accreditations to ensure you get the best loan.

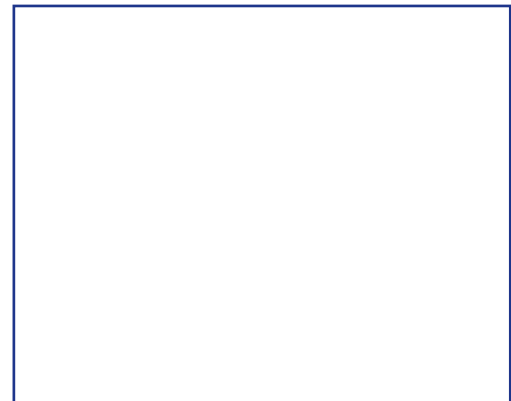


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