PROFILE'S CORNER

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**Asset class returns referred to in this publication are based on the following indices: Australian shares: S&P/ASX 300 Accumulation Index. International shares: MSCI World (AUD) TR Index. Fixed interest: UBS Warburg Composite All Maturities Index. Cash: UBS Warburg bank bill Index. Gold: Spot Gold Bullion (USD).*

PROFILE UPDATE

Welcome to Volume 22 of our quarterly client newsletter. In this section, I provide an update on what's happening at Profile.

By Sarah Abood, CEO

Profile's new LinkedIn page

As we continue our focus on digital initiatives, Profile has recently launched a dedicated LinkedIn page. LinkedIn is the premier business social media site, and it's a great opportunity for Profile to communicate with existing clients, connect with potential new clients, and find great new talent for our team.

If you have a LinkedIn account, we encourage you to connect with Profile: you can find us at:

https://www.linkedin.com/company/profile-financial-services

To connect with Profile, just click on the "Follow" button towards the top right of the page.

We'd love to hear your feedback on the page.

City office update – moving again…

We've recently been advised by Transport NSW that 55 Hunter St– home of our new city office – is unfortunately going to be demolished for stage two of the Sydney Metro project. This news has been a bit of a blow, particularly as we have only recently completed our move and brand new fitout! However we don't plan to lie in front of the bulldozers and we will be moving again, most likely towards the end of this year or the beginning of next.

We will turn a negative into a positive. The fitout of 55 Hunter St gave us a lot of experience that we will put to good use in setting up our new home. We will keep you posted as more information is available.

People update

We have made a couple of staffing changes recently:

Firstly our Associate Hannah Williams has decided to make a career change and has taken on a Business Analyst role at Deloitte. Replacing Hannah, **Kristine Pham** has recently joined Profile. Kristine was most recently at Zurich, with previous roles including law clerk and project co-ordinator. Kristine holds a BComm from UNSW. She will be working closely with Scott and Laura while Grant makes the switch to supporting Kurt.

Our receptionist Jan Salmon has recently left Profile, and **Sharon Cruickshank** has been promoted to Team Assistant. Sharon will be moving to full time and taking over Jan's responsibilities as well as providing general administrative support to the management team. Congratulations Sharon on your well-deserved promotion!

Finally we have recently hired an additional Client Support Officer, to help ensure our service standards do not drop as our client numbers steadily increase. **Lucia Quiroz** has had many years of experience in a similar role, as well as formal qualifications in event management. Lucia will be supporting Scott and Laura.

Client satisfaction survey now complete

A big thankyou to all our clients who took part in our recent Client Satisfaction Survey. We had a record participation rate of 37% which is very important to ensure the results are robust. Congratulations to Tom and Nerida Cooper who were the lucky winners of our travel voucher prize.

We are very pleased with the results this year! Profile overall scored 8.9 out of 10, and both our senior planners Phil and Kurt re-qualified as 'most trusted advisers' (with the requisite number of clients scoring them at 9 or 10 out of 10).

We are reviewing the results and will share changes we make in our business as a result of the feedback.

Client seminar

In November last year we welcomed 94 clients to our annual client education seminar, at a new venue of The Epping Club. We've had positive feedback from attendees on both the new venue and our key topic, which was travel – an area of great interest to many of our clients! If you didn't get a chance to come along to the seminar, I urge you to take a moment to read a summary of the event later in this edition which includes a link to some travel tips from our guest speaker Dave Staughton, capturing many of the points he covered.

ECONOMIC UPDATE

The new BBQ stopper

By Phillip Win, Senior Financial Planner

Property prices – these seem to be the eternal topic of conversation at most Sydney dinner parties and BBQs. Except for now. Friends seem to be talking more about the possible next movements of the sharemarket, the iron ore price and the Australian dollar!

In the article below, Bart Dowling (Investment Strategist, Select Asset Management), captures the current state of play.

When considering the state of the sharemarket, it is important to recall Profile's recommendation that clients are able to sustain up to three years of cash flow drawings in their Foundation bucket. The fastest way to destroy wealth is being forced to sell assets at compromised prices to fund cash flow needs. This is not the case for Profile clients, with most having close to two or more years of cash flow in their Foundation bucket to let them ride through the current market volatility and take advantage of opportunities as they arise.

Period returns to 31st January 2016 (%)

ASSET CLASS	1 MTH	3 MTH	1 YR
Australian Shares	-5.5	-3.5	-5.9
International Shares($A)	-3.1	-7.2	4.7
Fixed Interest	1.2	0.7	2.2
Cash	0.2	0.6	2.3
Gold ($US)	5.4	-2.1	-12.9

2016: TANTRUMS AND TRANSITIONS

By Dr Bart Dowling, Select Asset Management

What a start to 2016! Most equity markets have recorded their worst-ever start to a calendar year. It seems market participants have found just about any reason to see the glass as 'half empty' rather than 'half full'. It raises the question: what has changed by way of fundamentals? To which the answer is, not much.

What changes have there been? Some softer economic indicators out of the US, China devaluing the yuan in response to a slowing domestic economy and depleting foreign exchange reserves, and the on-going decline in energy prices. Most of this was already known before the market sell-off. Ironically, the ongoing decline in energy prices has historically been a good thing for the global economy/ global markets (at least over the medium / longer term). However, the market for some reason wants to look at this information as a 'glass half empty' rather than a 'glass half full' phenomenon.

So what to make of all the market mayhem? In short, transitions are difficult.

1. China is undergoing a transition from investment-driven economic growth to consumption-driven GDP growth.

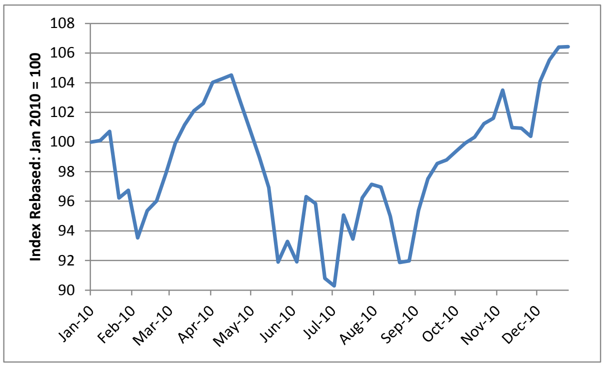
2. The US is undergoing a transition from externally-driven economic growth to internally-driven economic growth - thanks to a rising US dollar affecting demand for US-manufactured exports.

3. Global markets too are undergoing their own form of transition as they are gradually weaned off cheap and easy (central bank provided) money.

Anyone with kids knows that when teaching them to walk on their own there are always the inevitable tantrums (and demands to be carried). Global markets are presently having their own form of tantrum and it will be interesting to see if central bankers cave in to their demands and provide even more support than they currently are. Let's hope they don't, as it only makes the necessary adjustment process all the more difficult further down the track.

Still, perhaps the tantrums are somehow justified and we are in danger of a re-run of the infamous 2010 global GDP 'growth fade'? When this occurred, many a developed economy slipped back into recession just when they thought they were climbing out of their GFC inspired lows. Such an outcome would be disastrous for global financial markets as 2010 proved to be a very difficult (and volatile) year for investing overall – although by year-end markets were generally stronger.

Chart 1: Performance of MSCI World (Measured in Local Currency Terms) over 2010



What is heartening at the present time (and is giving us confidence to look at this moment as a glass 'half full' opportunity) is that there are some major differences between now and the start of 2010. For starters, US unemployment was 9.8% at the start of 2010; it is now at 4.9%. Secondly, corporate and household balance sheets are much more robust now than they were in the immediate post-GFC period. Finally, banks were still failing at a rapid rate in 2010 – 157 in the US alone.

This doesn't mean we can be complacent. The markets appear to be doing their very best to breach the defences of an erstwhile relatively sound fundamental backdrop, and turn this slight pause in global economic growth (Gross Domestic Product, or GDP) into something far more sinister.

Indeed, we are in danger of markets setting off a self-fulfilling dynamic, where global market sell-downs impinge on investor/ consumer confidence to such an extent that the global economic growth pause gets prolonged. When this occurs, otherwise healthy balance sheets start to come under stress. This prompts an additional market sell-off, eroding confidence, and so the cycle perpetuates itself.

The traditional circuit-breaker in such situations is central bank action. But given the statements above, they are loathe to intervene at this juncture simply because it creates a much more difficult weaning process later on.

It is for this reason that while our base-case scenario is a 'glass half full' outlook and that markets will be higher at the end of 2016 than they are today, we are also cognisant that the global sell-off might inflict considerable damage to the real economy at some point and delay the upturn. Subsequently, we are maintaining a close watch on our defensive line up in the immediate period and stand ready to bolster the defences if we feel the need arises.

UP, UP AND AWAY SAFELY

By Michael Kidd, Head of Operations

Travel can be one of the best times for you, your friends and family, but it can also be one of the worst. A sense of freedom, seeing new things, meeting new people, can all come from expanding your mind overseas, but those same things can also expose you to risks like bad food and lost luggage, right through to kidnapping and worse.

Late last year Profile again hosted one of its popular client information sessions, this time on safety while travelling. Dave Staughton, one of our guest speakers and a widely travelled business coach, spoke to a receptive audience about the basics of travelling - then touched on some of the obscure facets of international travel.

The basics:

- ensure your passport has at least six months validity when entering another country
- arrange necessary travel visas
- have comprehensive travel insurance
- update your vaccinations depending on the intended destination

In his entertaining way, Dave shared many stories to demonstrate the importance of fully planning your trip, including some things you may not have considered!

The new basics:

- Alert your bank that you will be out of the country
- Check which airport at which you are arriving, and not just which city. Many airports now have two or more airports and you need to know how you will get from that airport to your destination
- Black suitcases are a common cause of confusion. Ensure you can identify your bag.
- Got dual citizenship? Check that it will not lead to difficulties entering your destination country.

Not following the basics (and the *new* basics!) can lead to expensive, frustrating or painful experiences when you are beyond the comfort of Australian infrastructure and services.

Dave emphasised there are many small things we can do to maximise the chances of having an enjoyable, hassle-free break. For a full list check out a summary of these tips here. (Or you can find this on our website via the following link: http://www.profileservices.com.au/wp-content/uploads/2015/11/TRAVEL-TIPS-HANDOUT.pdf) You may thank Dave one day!

LOOK TO INCOME BEFORE ASSETS

By Scott Ungaro, Financial Planner

It's interesting the way one change can make significant waves among the community, while another change can sink beneath the waves with barely a ripple. This has seemed to occur with the Federal Government's May 2015 'reforms' to age pension entitlements.

Most people seem to be fixated on the tightening of the assets test that comes into effect 1 January 2017, rather than the changes to the income test that began 1 January 2016. What most people have failed to realise is that the impact of the income test changes is in many cases greater than the alterations to the assets test.

What are the changes to the income test?

The government has introduced measures to cap the proportion of income that can be excluded from any income test at 10%. This means that anyone who has been receiving defined benefit income of over $83,130 per year may no longer be eligible to receive an age pension entitlement.

For example, a couple with a defined benefit income stream of $100,000 a year with a 50% deductible amount could previously exclude $50,000 from the income test. Only the remaining

$50,000 was assessed as income under the test, which resulted in the couple receiving a part pension of around $12,400 per year in addition to their defined benefit pension.

Under the new measures, however, $90,000 is now assessed under the income test, which results in the couple no longer being eligible for the age pension.

The government estimates that this change affects 35% of income support recipients with payments from defined benefit pension accounts.

The impact of the changes to the income test

For those pensioners meeting their living expenses using a mix of their defined benefit income and age pension entitlements, the immediate impact is going to be felt - hard. The table below shows some examples of the effect the new income test calculation has over the previous income test calculation.

Defined Benefit Income	Pre-2016 Age Pension	1 January 2016 Age Pension	Lost Income
20,000	32,726	28,726	-4,000
40,000	27,726	19,726	-8,000
60,000	22,726	10,726	-12,000
80,000	17,726	1,726	-16,000

*Based on a couple

As you can see from the "Lost Income" column, the lost entitlement can be the equivalent of an overseas holiday or more each year! Most couples will need to make changes to their spending due to these changes.

What about over the long term?

Since defined benefit pensions and age pension entitlements are both adjusted for inflation each year, unless the government makes a change or reverses their decision there is little chance of entitlements improving for income-tested pensioners. As such, the 15-year effect of a couple with $50,000 of defined benefit income is $150,000 of lost age pension entitlements:

Year	Defined Benefit Income	Pre-2016 Age Pension	January 2016 Age Pension
1	50,000	25,172	15,172
5	50,000	25,172	15,172
10	50,000	25,172	15,172
15	50,000	25,172	15,172
Total Age Pension		377,580	227,580
		Lost Age Pension	-150,000

*Does not include inflation based increases

What about the changes to the assets test?

Currently, a couple could have a $10 million waterfront home and, assuming they had financial assets of around $500,000, the government would pay them income support of approximately $25,000 a year. Some argue that the couple could downsize to perhaps a $5 million home, and live on the $5 million rather than receive social security benefits.

Similar to the income tested pensioners, the May 2015 federal budget announcement proposed changes to asset tested pensioners. From 1 January 2017, new asset free thresholds are established and a tightening of the pension cut out amounts come in to effect.

Most people are aware of the government's budgetary problems and the need to reduce expenditure. The changes have clearly had a dramatic impact on income tested pensioners (see above), but what about those on the asset test? The table below shows the year one impact of the proposed 1 January 2017 changes to the asset test:

Asset Test - Based on a couple			
Financial Assets	Current Age Pension	1 January 2017 Age Pension	Change in Income
200,000	33,982	33,982	0
400,000	29,556	32,032	2,477
600,000	21,756	16,432	-5,324
800,000	13,956	832	-13,124
1,000,000	6,156	0	-6,156

*Based on a couple

However, due to the gradual decrease of asset bases in retirement, eventually most of the lost entitlement will be recovered. In fact the table below shows that the total lifetime lost age pension entitlement (assuming a couple with an average asset base of $800,000 and drawing $50,000 per year) is $37,379, far less than that lost to the changes to the income test:

	Current rules			New rules		
Year	Asset Base	Normal Income	Current Age Pension	Asset Base	Normal + Replacement Income	1 January 2017 Age Pension
1	800,000	50,000	13,956	800,000	63,124	832
5	600,000	50,000	23,242	561,897	53,837	19,404
10	350,000	50,000	33,002	311,641	49,020	33,982
15	100,000	50,000	33,982	62,621	50,000	33,982
	Total Age Pension		409,525		Total Age Pension	372,147
					Lost Age Pension	- 37,379

It is difficult to compare pensioners on the income test and the asset test, because of the many possible scenarios. However, looking just at the lost age pension entitlement over the next 15 years, it's our view that pensioners and their advisers would do well to concentrate on the income test first, and then the assets test.

CLIENT PROFILE – CHRIS WOLF

By Aine Love, Marketing Manager

Profile client Chris Wolf was born in 1942 in Dusseldorf, Germany, winning a scholarship to finish his high school years in Missouri, USA – the first time he had left his home shores, but definitely not the last! Chris then returned to his homeland of Germany to complete a 3 year course in International Travel.

Wanting to venture to far flung countries, Chris decided Australia sounded idyllic and in 1969 he was influenced by a friend already living in Australia to move to Melbourne. For many years Chris put his international ties to good use, working in the international freight industry and taking leadership courses at the same time. This was soon followed by a move to Sydney remaining in the freight industry with Hermann Ludwig and Rohlig & Co, both based in Hamburg, Germany. He and his airfreight manager and friend wanted to set up their own company in sea and airfreight, with relevant agents worldwide. The company was founded in 1975 under the name of "Cargo Care International Pty. Ltd.", but changed its name to "Multifreight P/L" 3 years later, in order to be more competitive.

In 1993 Chris met his partner, who managed a Telstra office in North Sydney at the time. They decided to move to the Gold Coast where Chris embarked on his third career change: a duty volunteer for the Currumbin Wildlife Sanctuary (CWS). He remained with the Wildlife Sanctuary for 16 years, ultimately representing CWS at volunteer conferences annually in Perth, Melbourne, Adelaide and Sydney.

"My love of travel, animals and adventure still continues to play a major part of my life," Chris says. He remains a member of Adelaide Zoo, Animals Asia and Animals Australia sponsoring, donating and supporting projects such as the Moon Bear rescues in China and Vietnam.

Animals and travel have always gone together for Chris. Chris has been on three major trips with volunteers and staff from Adelaide Zoo. The first of these trips was to the Orangutan rehabilitation centre in Sabah (East Malaysia), and the second trip included Mauritius and Madagascar.

Probably the most eventful was his third and most recent trip last October covering Bangkok, Tanzania and Rwanda. He and his friend were asked along as volunteers by Adelaide Zoo and they had quite a few adventures and saw some amazing animals in four national parks, including the Serengeti.

In the northern part of the Serengeti they were staying in huge tents, and were surprised one afternoon when they returned from the wildebeest migration having watched hundreds of them crossing the Mura River. The weather had changed for the worse and 200km/h gale force winds with heavy rain had destroyed most of the campsite. Thankfully they were able to retrieve all their belongings and were delighted to be relocated to a nearby even more luxurious campsite where they were spoilt by Irish linen bedding, silk wallpapers, Royal Doulton bathrooms and a magnificent dining room.

After Tanzania they flew to Rwanda and found it to be a wonderful country and people, despite everything they had been through.

"Who would believe after the terrible genocide the country has suffered, that it has morphed into an idyllic paradise where the key ingredient is wonderful open optimistic people?" Chris says.

The highlight for Chris was trekking through the mountains and visiting a troop of 16 gorillas. He was lucky enough to see two magnificent silverbacks, three beautiful baby gorillas and a very special two-month month old baby gorilla discovering his new world of wonder!

Chris was introduced to Profile by a very close friend who was on the board of directors. On the death of his partner three years ago Chris was finding it difficult to manage his many investments so he turned to Profile. He says Profile helped him streamline his various investments and he is very pleased with the results: "My retirement has been made more secure, with a lot less hassle through Profile's guidance".

GETTING TO KNOW THE TEAM AT PROFILE

Grant Watson, Associate Financial Planner

Grant's arrival at Profile has been via a path less travelled. Originally from New Zealand, he completed a Bachelor of Commerce, majoring in Economics and Management, followed by a Graduate Diploma in Political Science, from Canterbury University.

As not many do, he went from political science to buying a fencing business, growing it into a successful operation. After three years he thought it was time for his OE (overseas experience), selling his share of the business and going travelling through Asia for three months and then basing himself in London.

Three years seems to be an important period of time for Grant, with London being home for that amount of time while he worked for a branding and merchandise agency. After spending as much time as possible exploring Europe he made the move to Sydney. Perhaps unusually, it was here that he met his English girlfriend (now fiancée), with whom he started a corporate catering and events management company.

With management accounting and cash flow management a constant thread through his career, and a desire to help people improve their financial futures, Grant completed his Diploma of Financial Planning and knocked on Profile's door.

Working as an Associate Planner with Kurt, Grant is relishing the new role and will be starting his Advanced Diploma in Financial Planning in January with the aim of soon achieving CFP accreditation. Outside of work Grant enjoys running, surfing, kayaking and riding his motorbike, but this may all take a back seat as his wedding planning begins in earnest.

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