Profile's Corner

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PROFILE
FINANCIAL SERVICES

GENERAL ADVICE WARNING

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Profile update

Welcome to the fourth issue of our quarterly client newsletter. In this section, we give you a quick update on what's happening at Profile.

As our firm is growing and industry changes are gathering pace, there have been a number of changes to our team here at Profile. Our priority as always is to ensure our clients are receiving the best and most up-to-date advice available in the market. Of course we will also discuss any changes that affect you personally at upcoming meetings.
Gloria Barker has been promoted from Client Service Officer to Associate Financial Planner, working with Phillip Win.
Replacing Gloria, we have appointed Eliesa Collins as the new Client Service Officer, also working with Phillip Win.
Our very experienced administrator Anita Snehi has been promoted to Senior Client Service Officer.
Farisha Khan has been promoted from junior to full Paraplanner, and has also just completed her Bachelor of Business Accounting degree.
We have appointed Aine Love as Marketing Associate, working from our city office.
Kurt Ohlsen has been promoted from Associate to Financial Planner.
Sadly Tim Ching is leaving Profile. We are very disappointed to lose Tim, but we wish him all the best in his future career.
Finally we have appointed a new Financial Planner, Isabelle Zhang, who started with Profile on 26 July 2010.
Read more about Isabelle later in this newsletter.

We have introduced a new matching gifts program for staff. If a Profile staff member chooses to support a particular registered charity, Profile will match their donation dollar for dollar. Some chosen charities so far include the Credit Union Foundation's International Projects Fund (Cambodia Challenge 2010) and CanToo (which provides professional training in running and swimming in return for fundraising for Cure Cancer Australia).
Do you have a charitable cause you would like to promote to Profile staff? If so, contact us to discuss the details.

For some time now we have been investigating ways we can more quickly and efficiently implement investment advice and needed changes to client portfolios. This is particularly important when market conditions change rapidly – which has certainly been the case in recent times! We are currently running focus groups with small groups of clients to get feedback on our ideas, and we will be sending more detailed information about the project to all clients in coming months.
In the meantime, if you would like to find out more about this project, please give us a call.

Investment update – When will the economic winter end?

Jai Parrab

Period returns to 31 July 2010

Asset class*	1 mth	3 mths	1 Yr
Australian shares	+4.5	-6.0	+10.0
International shares	+0.7	-2.8	+0.5
Fixed interest	+0.3	+3.3	+7.8
Cash	+0.4	+1.2	+4.0
Gold	-4.9	+0.2	+23.8

Being born in Canada, I always find it somewhat amusing talking about winter in August - but here I am, and fortunately economic fundamentals apply equally in the northern hemisphere as they do in the south. With winter still engulfing Australia – both the weather and some would say the economy – perhaps this is an opportune moment to reflect on the world's economic weather forecast. Are we still in the depths of winter, or are we starting to see the first shoots of spring?

It's (still) all about debt

During the latter stage of his life, British economist John Maynard Keynes said…"If I owe you a pound, I have a problem; but if I owe you a million, the problem is yours." Mr Keynes died in 1946, and yet the message still rings loud and clear today. The world has experienced the rise and fall of debt induced bubbles before, but over the last 25 years, humanity has taken it to a whole new level. From the significant increase in credit card usage over the 1980s, to the growing popularity of reverse mortgages in the 1990s, we have constantly found new ways to borrow money in order to satisfy the fundamental economic problem of unlimited wants and needs, but scarce resources.

FACT BOX

According to Encyclopedia Britannica, while credit cards originated in the United States during the 1920s, references to credit cards have been made as far back as 1890 in Europe. The general-purpose credit card as we know it today began in 1966, with the franchise of the BankAmericard brand (later known as Visa) to banks nationwide and the formation of a national credit card system called the InterBank Card Association. According to data from the Reserve Bank of Australia, in January 1985 Australians had A$2,504 million in outstanding credit card balances. By May 2010, this number had grown to A$47,430 million (over $2,200 for every Australian), an increase of almost 1900% (or 75% average growth per annum).

Since the mid-1980s we have seen a marked increase in the trend of global economic growth. The first upwards shift lasted until around 2003. Then growth went into fifth gear - until the weight of the debt supporting it became overwhelming.

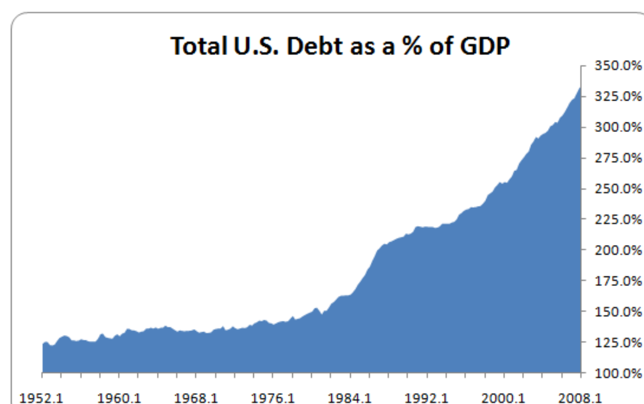
Some debt fuels growth – too much holds it back

The chart below shows total debt in the US as a proportion of GDP. Total debt takes into account all three levels of debt in an economy: private debt (consumers), corporate debt (companies) and public debt (the government). GDP (Gross Domestic Product) measures the total value of goods and services produced domestically.

Although the chart does not represent the whole world, it is certainly indicative of what was taking place in most 'advanced' economies in the leadup to 2008.
The over-use of debt was an obvious input into the exceptional growth we saw in world economies and investment markets before the GFC.

Looking ahead, it seems that reality is catching up to investment markets. Mohammed El-Erian, the CEO of PIMCO, has described the current economic landscape as the 'new normal'. He predicts, "For the next 3–5 years, we expect a world of muted growth, in the context of a continuing shift away from the G3 and toward the systemically important emerging economies, led by China. It is a world where the public sector overstays as a provider of goods that belong in the private sector."

If he is right, this is a world in which advanced economies must take a breather, entering a period of austerity and debt repayment. With budget cutting and falls in private spending, developed economies face a tough slog. This will be reflected in investment markets where the exceptional growth we saw in company earnings over the period leading up to the crisis, cannot be counted on to deliver again.



Tentative shoots of spring?
As can be seen in the map below, we can expect pockets of growth in regions where debt has been well managed, and the foundations have been set for growth. However, given the ongoing world reliance on advanced economies in the current economic climate, investors will need to review their overall investment outlook. While the world economy takes a breather, consumers will need to follow suit. We need to learn that while there are scare resources, economies can only function sustainably if we can control our needs and wants.

We are fortunate to live in such an amazing country where the banking system has maintained its financial integrity, the government budget looks on solid grounding and private employment is holding up. The stars have lined up well for us, but we cannot get too complacent. We are part of a larger world, the troubles of which inevitably affect Australia.

The weather forecast
It's been a long cold winter in economic terms, and despite some early signs of a thaw in a few places, it looks like the cold weather will be with us for some time yet. At Profile we concur with PIMCO's view, and believe that we cannot expect another stellar decade of investment returns. There will continue to be tough times ahead, and therefore managing investment portfolios will be as important as managing our own personal living standards. We cannot rely on ever-increasing rates of growth in corporate earnings to drive broad sharemarket growth. Investments which can buck the trends can still be found, but they require diligent and rigorous research and a willingness to say 'no' to opportunities which may have made the grade in more benign times.

On a side note, and for anyone who was watching the world cup and cheering on the Socceroos, what a tournament of underdogs fighting hard, and champions bowing out. All I can say is… bring on Rio in 2014!

**Asset class returns quoted are based on the following indices: Australian shares: S&P/ASX300 Accumulation Index. International shares: MSCI ex-Aust (AUD) Index. Fixed interest: UBS composite bond 0+ Yr Index. Cash: UBS Warburg Bank Bill Index. Gold: Spot Gold Bullion (USD)*

Superannuation update:

The Cooper Review into superannuation delivers its final report

The Cooper Review's final report into the Superannuation sector has now been released. However we are still a long way from knowing the final shape of changes to the superannuation system. The government has not yet released its response to the report, and further significant industry consultation and then legislative change from the government will be needed to give effect to any changes. With the federal election result still uncertain of time of print, it is unlikely that any major changes will be implemented in the immediate future. We will continue to stay on top of the issue and keep clients updated as the proposals come closer to being implemented.

The Cooper review proposes separating super fund members into three categories based on increasing levels of engagement with and interest in their super: "MySuper" members who have no to low involvement, "Choice" members who exercise some choice in their super (eg, changing their investment default), and "SMSF" members who are very actively involved with their super, being responsible for the administration and investment decisions. According to the latest ATO statistics, over 806,464 Australians were members of Self-Managed Superannuation Funds (SMSFs) as at the end of March 2010. SMSFs are a key and growing area of the superannuation industry and several of the Cooper review's proposals affect this sector

Some of the underlying proposals include:

- A new MySuper product: this would be a low cost, basic product with a single default investment strategy, for superannuation members who do not make an active investment choice.
- Commission to be banned on insurance taken out through superannuation
- Banning the holding of collectable and personal use assets within SMSFs (such as paintings, jewellery, antiques, stamps wine and coins), with a transition period of five years. The ALP has indicated that it would not adopt this recommendation, although some changes such as stricter storage requirements and annual valuations would be likely.

- No more "in-house" assets would be allowed in SMSFs (such as investments, leases or loans with related parties such as fund and family members, and trusts controlled by them). At present, an SMSF can hold up to 5% of its total assets in these assets. Funds would have five years to dispose of existing in-house assets. However business real property and existing pre 1999 unit trusts would have an indefinite exemption and therefore be allowed to continue within SMSFs.

  This is a big positive, as holding business premises within an SMSF is a common and often beneficial strategy for business owners. The business pays the SMSF a commercial rent, which is then concessionally taxed within the fund. This strategy also protects the business premises from creditors if the owners have personal financial difficulties in the future.

  In a related announcement, business real property may be able to be transferred to an SMSF with no stamp duty payable, so long as certain conditions are met (including no change in beneficial ownership).

Pension draw down relief extended for self-funded retirees

The relief allowing account-based pensioners to draw down a lower than-normal rate was due to expire 1 July 2010, when "normal" higher pension drawdown rates were due to apply again. However Prime Minister Julia Gillard recently announced that the relief will continue to be granted for a further 12 months. This is good news as it allows clients to preserve their capital in situations, especially during a market downturn, where they do not need to sell down assets to fund their retirement. This arrangement is not applicable to defined benefit pensions. We have already contacted our Profile Partnering System clients who are directly affected by this change. If you have any questions or concerns, please give us a call.

YOUR AGE	PREVIOUS 'NORMAL' MINIMUM PAYMENT (% OF ACCOUNT BALANCE)	CURRENT MINIMUM PAYMENT (% OF ACCOUNT BALANCE)
55-64	4%	2%
65-74	5%	2.5%
75-79	6%	3%
80-84	7%	3.5%
85-89	9%	4.5%
90-94	11%	5.511%
95 AND OVER	14%	7%

Client case study — disability trusts

Sadly one of the issues we are often consulted about as financial planners is how to assist parents and grandparents who want to ensure a disabled relative is taken care of financially. This concern often applies both now, and in the future - when the parent or grandparent may no longer be around to personally ensure all is going as it should.

A common question is "I'm really worried about what will happen to my son if something happened to me and my wife. Who will care for him? What kind of support will he have? The government will help provide for him - right?". These concerns are echoed by all parents. However, when the child is disabled, the concern is even greater.

Most parents will ensure that they have sufficient assets and/or insurance cover, so that if something were to happen to them, enough money will be there to ensure their children will be looked after. But disabled children require care now and when their parents are gone, no matter how old they are. Who should hold the assets? Who is entrusted with the all-powerful role of trustee? Can the child receive government help, like the Disability Pension?

The usual recommendation would be to set up a standard trust, with the child as the beneficiary. Then the parents could put whatever assets they choose into the trust - now, or later through their will - and they would have achieved the first step towards helping their disabled child financially. But now there's a better way.

Special Disability Trusts (SDTs)

Back in September 2006 the government first allowed families to create a Special Disability Trust (SDT). An SDT is a trust that is created solely to provide financial support to a principal beneficiary who meets the government's definition of a severe disability. SDTs were intended to give incentives to family members to fund the future care and accommodation needs of a person with a severe disability.

However until recently not many people had set up an SDT. This is partly because, in ensuring that the trust was set up solely to meet the needs of the beneficiary, the government put in place some very stringent rules that must be followed.

However, following an inquiry into SDTs, in the 2010-11 Federal Budget the government announced some positive changes that make SDTs easier to use. They include:

- More reasonable tax treatment of unexpended income from the Trust
- Capital gains tax exemption for the beneficiary's main residence, if it is an asset of the trust,
- Allowance for the trust's funds to be used to pay for a wider scope of expenses for the beneficiary, from 1 January 2011. For example, the trust can spend up to $10,000 in a financial year on discretionary items not related to the care and accommodation needs of the trust's beneficiary.

There are several differences between a normal trust and an SDT. For starters, an SDT can only provide for the accommodation and care needs of the principal beneficiary. There can only be one beneficiary of an SDT. The government has set up several additional rules that must be included in the trust deed. Also, the SDT must have either an independent trustee, or more than one trustee.

Centrelink implications

You can gift assets to an SDT at any time you like, but there are, as always, implications. Here are the advantages:

- If the beneficiary receives a Disability Pension from Centrelink, then the trust's assets up to $563,250 (excluding the beneficiary's main residence), are not counted towards the assets test.

  For example, suppose the beneficiary has $600,000 in the SDT, plus their main residence (owned by the trust) and assets outside the trust of $50,000. In this case $563,250 would be disregarded and $86,750 would treated as assessable assets for Disability Pension eligibility.

- Income from the assets of a special disability trust is <u>not</u> counted towards the income test for the Disability Pension.

- Immediate family members who receive Centrelink benefits (or who are up to five years away from claiming the Age Pension) can gift up to $500,000 in total to an SDT and it will not count towards their assets test. However, this concession can only be used once.

While limitations remain, a key benefit of an SDT is that it allows disabled people to have access to the Disability Pension and all the benefits that go along with it.

Next steps

A client we recently saw who is in this sad situation will be going ahead and setting up an SDT for his son. First, we are ensuring that there is sufficient insurance to leave his son with a lump sum should something happen to our client or his wife. For the next step, we have referred our client to see a specialist solicitor, who will help him and his wife change their wills to ensure an SDT is set up for their son upon their death. We are assisting with instructions to the solicitor, to ensure our client's financial strategy is fully understood and implemented in the wills.

An SDT is not for everyone. There are many factors which need to be considered, and many different ways to set these trusts up. As for all your major financial decisions please speak first with your Financial Planner to ensure your strategy fits with all your financial needs.

The first certainty of life

It's a common saying that there are only two certainties in life - death and taxes. We will be covering the first in this article (which will also help with the second)!

Most of us would not wish to be told by a government department that does not know us (or our family) how our estate should be distributed. However, this is what happens to many people as there are laws that govern how your estate will be distributed in the event that you die intestate (that is, without a valid will). You may already have either experienced this yourself, or know somebody close to you who has had to not only deal with the loss of a loved one, but also with a government department which can make everything so much worse. To avoid this situation, a thorough financial plan ***must*** include provisions for what you wish to do with your wealth after you don't need it any more. Morbid as it may sound, it is a reality.

The pitfalls of "give" wills

We sometimes hear from clients that making a will is easy – I give mine to you, and you give yours to me. However these deceptively simple "give" wills can inadvertently disinherit your children! We are aware of a recent case of spouses with "give wills" where the wife died first, leaving everything to her husband. Unfortunately the husband's business went bankrupt shortly afterwards, and all the wife's assets were forfeit as well as the husband's – no assets remained, from either spouse, for the children. It is possible to avoid situations like this with proper estate planning advice.

Contract wills

There is another type of will that you can implement that effectively "contracts" both you and your spouse to do whatever you both agree to do in the event of your deaths. It can only be changed if you both agree – whereas a "normal" will can be changed by the testator (person writing the will) at any time. These "contract" wills provide certainty to both parties. They remove the ability for a subsequent relationship to overturn the original wishes of the deceased. We all work hard to build our wealth and we generally desire our blood relatives to benefit from our hard work. A contract will can facilitate this intention.

Powers of attorney and guardianship

The implementation of a valid will is only part of an effective estate plan. Your plan should also include provisions that cover events such as your physical or mental incapacity. This ensures that financial and lifestyle decisions can continue to be made by someone with your best interests at heart.

The document required to ensure financial decisions can be made on your behalf is an *Enduring* Power of Attorney. The document to make lifestyle and healthcare decisions is an *Enduring* Guardianship. You need both documents, as well as a valid will, before your estate planning can be considered complete. The benefit of having *enduring* documents is that they continue to be effective in the event that you lose mental capacity (ie if you are in a coma).

You can obtain a general Power of Attorney template from your newsagent, but these are commonly only used to grant *temporary* authority for a person that you trust to, say, pay bills for you while you are away.

It is vital that the person you appoint as your enduring attorney or guardian be someone that you trust absolutely. Remember, they can act as if they were you. We have all heard of stories where people have abused this privilege and sold houses, committed people to nursing homes and so on. Do not take this decision lightly!

The importance of planning

Estate planning is an often-forgotten poor cousin to wealth and security but is a vital part of any comprehensive financial plan. A good plan protects us in situations where we cannot make decisions for ourselves. And for those of us lucky enough to have loved ones, we owe them a responsibility to ensure they are looked after and given all possible support to help them in their own lives when we are no longer around. It can be tough to talk and think about – but, like insurance, it's one of those things that as responsible adults we must just get around to, and get done!

As financial planners, we work very closely with our clients' chosen solicitors to ensure that their wishes are properly reflected in their estate plan. We also have a panel of solicitors who specialise in this area, for clients whose lawyer does not deal in estate planning matters. There are also significant tax planning strategies that can be incorporated into your estate plan to ensure that funds are distributed to the right people in a tax-efficient way. Don't wait until it may be too late! If you haven't already discussed these issues with your planner, please contact us now.

"*And now I am dying beyond my means.*"
(Oscar Wilde, sipping champagne on his deathbed.)

"*I should have drunk more champagne.*"
(Last words of John Maynard Keynes, famous economist.)

"Crito, we owe a cock to Asclepius. Will you remember to pay the debt?" (Socrates, after drinking the cup of hemlock.)

"Last words are for fools who haven't said enough already." (Last words of Karl Marx, father of communism.)

"*So little done, so much to do.*"
(Epitaph of Cecil Rhodes, founder of Rhodesia and the De Beers diamond company.)

Getting to know our team at Profile- Isabelle Zhang Financial Planner

Profile has recently appointed a new Financial Planner to our team, having spent several months looking for the right person.

Isabelle Zhang, originally from Melbourne, started her career in finance as a property investment adviser for The Aldy Group. "I loved my time in property and I am still very interested in the sector", says Isabelle. "I currently own two properties in Melbourne, and like many people in my generation my parents gave me a leg up, supporting me with my first purchase." However after several years Isabelle was finding that property alone was too narrow a career focus, and she began looking for a role which would complement her broader investment interests. Moving to Sydney with husband Jonathan, Isabelle shifted to the broader financial planning space, initially with a private planning firm which focused on professionals and their families who were looking to build their wealth and security.

After several years Isabelle moved to a bigger brand with AMP. "Although I enjoyed my time there", says Isabelle, "I found the environment at AMP was very different to what I had become used to at a private firm. Although the model works well for a lot of people, I felt uncomfortable with the product and commission focus, and started looking to move to an independently owned firm. When I started talking with Profile, I was impressed with their ownership structure and their long-term relationships with clients, as well as their broader strategic focus on clients' financial needs."

Isabelle is a fully qualified Financial Planner, having been awarded the Diploma of Financial Planning through Kaplan, and is currently completing the advanced diploma. She is also completing the last two subjects of her Master of Business Administration through Swinburne Institute of Technology.

We are very pleased to welcome Isabelle to the Profile team. Although, as all staff have been warned, she is a bit of a pool shark – having played snooker for many years. She was also her school team captain at table tennis, and the winner of a state championship. Isabelle also speaks fluent Mandarin, as well as the Shanghai dialect. She lives in Padstow with husband Jonathan.

PROFILE FINANCIAL SERVICES PTY LTD
Level 8, 261 George Street, Sydney NSW 2000
63 Sorrell Street , North Parramatta NSW 2151
PO Box 2500, North Parramatta NSW 1750
T: +61 2 9683 6422 F: +61 2 9683 4658

admin@profileservices.com.au
www.profileservices.com.au