Profile's Corner

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PROFILE UPDATE

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

Last year was a watershed year for Profile, with two major events being the retirement of our founder, Garry Ohlsen, and also the launch of the Profile Portfolio Solutions. Two such large changes inevitably involved many conversations – internally and with our clients - about what sets us apart from our industry colleagues, and why clients would seek advice from our practice in preference to any other.

Along with Profile's "clients first" philosophy, another word that consistently gets raised in relation to Profile is "independence". Yes, we are independently owned (with no ownership ties to product providers) and independently licensed (so we decide ourselves what products and services are offered to clients). But we also have an independent voice. By this we mean that what you read in our newsletters, emails, market commentary and so on is written by us and represents our views – not the re-published views of others.

Many of our industry colleagues merely "re-badge" newsletter or economic commentary written by others, often large institutions. It's certainly a lot easier to do this, and often about this time (when deadlines are looming and the work is piling up), we think rather wistfully how much easier it would be to simply slap our brand onto something written by BT, CBA, Westpac, Macquarie, Perpetual, online blogs, research houses, stock broking firms etc – or maybe use one of the many newsletter production services out there that are constantly pitching to us (and that re-use the articles for many financial planning firms).

But we think it's important that you, our clients, know that what you're reading is tailored to you and represents the views of the planning firm you've hired to look after your affairs. We filter a vast amount of information and commentary to bring you what we hope is relevant, interesting, and unbiased information about financial matters. We'd welcome your feedback on the information we send you, so let us know if you have any suggestions on how we could make the material more useful to you!

For many months we've been working on *two more major projects* in Profile to ensure our internal systems are taking full advantage of the latest technologies. We want to make our back office as efficient as possible, so our team is freed up to spend more time directly with clients.

GENERAL ADVICE WARNING

**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 ex Aust (AUD) Index. Fixed interest: UBS Warburg Composite All Maturities Index. Cash: UBS Warburg bank bill Index. Gold: Spot Gold Bullion (USD).*

The first project is a complete business processes review. Since August last year, we have been identifying, mapping and improving all our processes, looking for ways we can reduce the time taken, while maintaining the highest quality in what we do. We are already using an online workflow management system, but we have found many opportunities to improve by reducing the number of handoffs, clarifying responsibilities and assigning clear accountabilities to every staff member at each step in the process.

We are also implementing barcoding as part of this project, which should help us to substantially reduce the time taken on this repetitive task. We were a little concerned that clients might think we are somehow depersonalising things by using barcodes – but nothing could be further from the truth! As you would be aware, we deal with a vast amount of documents every day in our practice. Currently each document is separately scanned, named and manually uploaded to each client's record in our system, then the original is shredded. This task takes many hours each day. Barcoding allows us to put all documents for a day through our scanner in one lot, using software which automatically names each file and attaches the file to the correct client record.

We had a training day for all staff on 3 February, at which the first set of processes was launched to staff - the final set will be launched in March. You should expect to start seeing some changes to your reviews from March of this year.

The second project is a complete refresh of the *IT platform* in Profile. Our current systems were put in place many years ago and while they've done good service, technology has moved rapidly and the time has come for us to upgrade. All our planners will be switching to much faster and lighter laptops. These will enable them to have full access to our systems while travelling and with clients. Security is very important and the laptops will be encrypted so that all data is protected. (Our staff based in the city and Parramatta offices will also upgrade, to much faster desktops.)

All our staff are upgrading to Windows 7 and Microsoft office 2010. We are also increasing the speed and capacity of our internet connections, and introducing redundancy so that if one provider goes down, we will have another connection that's unaffected. Finally we are replacing our server and firewalls, and increasing the scope of our daily internet backup. We are rolling out the new technology on 5 March.

This is a large project affecting many systems, and we want to make sure our clients are unaffected through the transition. We aim to respond to any email you send us within 24 hours – if you haven't heard back from us within this time, please contact us via telephone on (02) 9683 6422 to alert us to a possible problem.

INVESTMENT UPDATE

By Jai Parrab, Head of Investment Research

As we move into February after a strong January in markets, I thought this would be an opportune time to draw breath, and take a look what the prospects might be for markets during the remainder of 2012.

I don't claim my crystal ball is uniquely clearer or sharper than anyone else's! We can never tell for sure what is going to happen and when. But I do believe that at Profile we have a process and philosophy that helps us make good logic-based decisions, that over time will lead to better results than acting on emotion and news headlines.

This is particularly topical for 2012. While I've been very cautious and defensively positioned for a long time now, I am starting to see signs that some markets may have better prospects than they are being given credit for. That doesn't mean we leap in boots and all – but it does mean that I think opportunities are there for canny investors to be rewarded this year.

Period returns to 31 January 2012 (%)

ASSET CLASS*	1 MTH	3 MTHS	1 YR
Australian shares	+5.1	+0.1	-6.2
International shares ($A)	+0.4	+2.3	-9.1
Fixed interest	+0.1	+2.7	+10.5
Cash	+0.4	+1.2	+5.0
Gold ($US)	+11.1	+0.8	+30.0

A sense of perspective

The good thing about a holiday is it gives you a chance to get out from among the trees and see the forest. For the three trading days between Christmas and the New Year, I went camping with a group of friends down the Great Ocean Road to a site just outside a seaside town called Lorne. With me were a few people that work in foreign exchange markets, real estate and one in media. And while we still talked markets a bit, we weren't checking screens every five minutes as usual!

As many of you would probably know, I live and breathe economics and investment markets. So not having Bloomberg for three whole days was a very uncomfortable feeling for me – even though I knew our asset consultant Select was still constantly monitoring our portfolios! A few days may not sound like long enough to get a new perspective, but the contrast for me was dramatic and it's been a good reminder of how much being buried in news, data and constant chart changes can distract you from strategy and long-term themes, if you're not careful.

For those investors who continue to watch daily news headlines, early 2012 is unlikely to look much different to the latter half of 2011 – with high levels of volatility likely to continue. However, for those who are aware of the more recent economic developments, the outlook for 2012 and beyond starts to look a little bit better. I don't think that markets are going to bounce dramatically, but perhaps rather a return to "normalcy" – relative to the past few years at least – is on the cards.

Continuing structural and political headwinds

After thirty years of excess and binging on debt – some commentators may say it's closer to seventy years – the global economy without a doubt needed to readjust. Unfortunately the readjustment developed into a full blown financial and banking crisis that put the world economy on the brink of failure. Risk aversion and deleveraging, driven by fear and contagion, quickly spread from the housing sector, to the financial sector through derivatives and trading desks. Now the focus has shifted to the solvency and liquidity of major developed economies. Many of the governments which "bailed out" the banks are now themselves in financial trouble, and one can legitimately ask - who bails out the governments?

The answer, of course, is us! The citizens, consumers and investors of the worlds. There are some governments and economies which are indeed bankrupt and may not merit the support of global investors (unless they take their medicine, as painful as it may be). But other economies are being over-aggressively targeted due to fear mongering and scepticism. While their debt levels may be high relative to long-term sustainable levels, they are in fact fundamentally strong economies that produce economically viable goods and services. As an observation of market irrationality for example, the difference between debt as a percentage of GDP of France and Italy is at twenty-five year lows, and fiscal flows are improving faster in Italy than in France- but Italy is still paying 3.76% more than France to borrow money in the ten-year bond market.

Europe is certainly at risk of inflation and continued economic stagnation. The US' solution in similar situations – to keep printing money – looks attractive to many and Europe as whole would probably like to see similar action taken by the European Central Bank (ECB). Germany, however, remembers clearly the days of hyperinflation back in the 1920s.

So while printing money is probably the easiest way for everyone in Europe to alleviate some of the current stresses – albeit not without economic costs – Germany is very reluctant to support this.

It seems as if Germany is willing for the region to take some hefty short-term economic and financial pain. Perhaps to stave off higher inflation, but perhaps also because this approach would best maintain Germany's position as the one calling the shots across the broader region.

But Germany doesn't always get its way. For the first time in its 13-year existence, the European Central Bank recently chose a non-German to head its economics division. This could be interpreted as a reaction to Germany's official policy of not supporting the central bank's controversial buying up of bonds from distressed euro-zone economies.

Glass half full?

While I would certainly not dismiss the seriousness of continuing debt issues in southern Europe, there is a brighter side to look at. While markets seem to be largely disregarding it at present, some positive data is emerging from northern Europe, as well as the US and Asia.

The US –some signs of returning strength

In July-August 2011, leading into the US "debt ceiling" vote, media headlines focused on how dismal US economic growth was going to be, how their budget would fail and their bond market implode.

But here we are almost six months later, and the US is displaying positive economic signs, the bond market has held its ground, and the US share market has been one of the strongest performing markets over the period. The Dow Jones – an index of the top thirty publicly listed US companies – has in fact recovered most of its losses incurred since the 2011 sell-off began in late July.

These results seem to have flown straight in the face of commentary from the time. But they in fact accurately reflect underlying company fundamentals – the strong balance sheets and robust ongoing earnings growth that US companies have been displaying for some time. Reviewing US economics, unemployment has also tapered off somewhat, although at a very slow pace, consumers have significantly repaired their personal balance sheets by saving and reducing debt, and there are (modest) signs of recovery in the housing sector. So all in all, the US economy appears to be doing pretty well at present! This is not to dismiss the very real risks remaining on the horizon – simply to balance the overwhelmingly negative commentary we tend to read about US prospects.

The Asian powerhouse

Another factor supporting company earnings growth - including many companies based in Europe - is the continuing growth in emerging markets and Asia.

Emerging industrialized economies now account for about half of global output, and these financial and consumer markets are opening to even greater extent to foreign capital (both direct and portfolio investment). In my view, the economic power shift from West to East that was going to take over fifty years to complete, has been accelerated by the current crisis. This is certainly good news for Australia, as a major supplier of commodities to these emerging economies – although it's a painful shift for many developed Western nations.

The key risks for emerging economies appear to stem mostly from within their own populations, rather than from foreign investors. Their populations have become steadily more informed, and with that comes demands for equal political rights, reduced corruption and better standards of living (including improved housing affordability and lower food prices). These pressures may promote higher wages which could spur even greater demand for goods and services – the next stage of industrialization. This would also drive increasing inflation, as the largest low cost producer in the world – China – starts to export inflation into the developed world.

Investing in 2012

The three primary macro risks to watch for this year will come as no surprise. They are:

- weakness in developed market activity and risks to the emerging markets (eg inflation and excessive lending);
- negative feedback loops from deleveraging and the subsequent impact on emerging market growth; and
- continuing euro zone debt turmoil and the risk of sovereign stress spreading to other developed markets.

Since these risks are already entrenched in the mindset of most private and institutional investors, the next most important question I ask myself is: are they already priced in? Markets anticipate outcomes, and therefore we have already witnessed a significant – perhaps even well overdone – discounting of prices to reflect this uncertainty. I was once told by a very experienced investor that the more you have that particular "is it going to fall further" anxious feeling in your stomach when you buy, the better the decision is likely be in the long-term. Although he did add the caveat that even when you think that markets are cheap… they can still get a whole lot cheaper! This is one of the many short-term catch-22's in the world of investing.

So with all that in mind, how are we looking to generate returns on client capital over the medium to longer term, while being conscious of shorter term downside risks?

We always have a primary focus on valuations – that is, the price we are paying for assets. Right now, prices look pretty good, even for the best quality companies. Dividends are strong relative to cash rates, and appear very strong relative to bonds.

Our second most important focus is on quality, usually the flip-side of the 'value' coin – that is, are assets cheap for a good reason? We consider quality companies to be those with strong balance sheets, high free cash-flow, and the ability to sustain and grow earnings On occasion, we may see it as worthwhile to pay a premium for these investments as they offer greater protection for client capital, over chasing returns.

Finally, we are focusing on strategies which are paying high dividends or coupons, including Australian cash and opportunistic term deposits. This means that even if markets continue to trade sideways, in what could be a very volatile environment, there is a continuing cash-flow for investors.

Market and economic risk certainly continues to exist, but I believe that fear of the unknown is outstripping reality at present. It's very easy to paint a negative picture about the prospects for this year, and compare the current environment to the 1930s great depression, or the lost Japanese decade of the 1990s. But the easiest thing to do is not always the right or best. I've been very cautious for some time but better news is now starting to emerge, and it's not yet getting the airplay that it should. So while volatility is likely to continue for some time, better prospects are certainly there and there is potential for markets to start recognizing this. We are holding assets that are well-placed to benefit from this, while still delivering cashflow and managing downside risk in the interim.

I can't close an update like this without a quote from one of the world's most admired and emulated investors - Warren Buffet. This one seems particularly apt for markets at present:

"In the short run the market is a voting machine – reflecting a voter-registration test that requires only money, not intelligence or emotional stability – but in the long-run, the market is a weighing machine."

I think there are increasing reasons to hope that investors may start to "weigh" markets more accurately this year, and perhaps start to realize their "votes" may have been unduly negative.

I wish you all the best in 2012, and look forward to speaking with you through the year.

Feature – Changes to the government guarantee on bank deposits

By Scott Ungaro. Associate Financial Planner

Many clients will recall that on 12 October 2008, the Australian Government announced a guarantee of bank deposits, on up to $1 million per investor per institution. Essentially this meant that if a bank failed, the Australian government guaranteed that depositors would receive their money back up to this amount.

The guarantee was intended as a temporary measure to shore up confidence in Australian banks. This was needed because the nationalisation of Northern Rock bank in the UK in February 2008 had spooked investors, and banks were having trouble accessing funding. The guarantee gave a substantial confidence boost to investors and has been a big factor in the substantial increases in bank deposits – particularly term deposits – that has ensued.

However, late last year the government announced some changes that have recently come into effect. From 1 February 2012, the amount the guarantee applies to has reduced to $250,000 per investor per institution.

What about my current term deposit?

For our clients who have established term deposits over $250,000 in the last three years, the investments remain protected up to $1 million until maturity, or 31 December 2012, whichever comes first.

How does this affect me in the future?

If you wish to contribute over $250,000 to term deposits in the future, your financial planner may consider splitting the investment across two or more institutions in order to maximize the application of the government guarantee for you.

If you have any questions at all about your term deposits and the application of the guarantee, please contact your Profile financial planner.

For more information please see the following link for Q&A from the government on the guarantee:

http://www.guaranteescheme.gov.au/qa/deposits.html

Client Profile – Neil Wilson

By Kurt Ohlsen

During my time at Profile, I have been fortunate enough to work with some very successful people as clients. Neil Wilson is one of these, and he demonstrates many of the traits that I have observed to be common to people who have experienced much success in their careers.

He is truly passionate about his work, his company and his industry - and he backs that passion with hard work and strategic thinking. This is just as well, since his chosen field of engineering has faced many challenges since its heyday in the 1970's in this country when Neil first started out.

Engineering started early for Neil – one of his earliest memories is attending an engineering exhibition (at the age of eight) with his dad, Bob Wilson.

Following Neil's schooling at Bankstown Boys High, he entered the family engineering tradition, quickly obtaining a cadetship as a training engineer for Monier Roof Tiles. This was to be a great learning ground in the research and development area – one which Neil has been involved in throughout his career. For the next six years, this full time job was complemented with part-time university study – after which he was awarded honours in his Mechanical Engineering degree.

During this time Neil also found time to meet and marry Karyn. They began married life in a caravan, which was parked in his parents' back yard until the completion of his degree!

When Neil completed his cadetship, he joined Romar Engineering.

Romar's roots began back in 1965, when Romar bought land and built it's own factory. It is now a 56 employee company, having always remained in the same area of Western Sydney. It's a forward-looking business, and Neil has worked on many leading-edge projects including industrial robots, medical implants and research & development on injection moulding of liquid silicones, along the way winning many awards - including the "Excellence in Innovation" award in the 2007 Western Sydney Industry Awards.

Neil has not only faced the challenge of being in an industry that has been hit by low-cost imports, he has also experienced all the challenges that come with being part of a business succession plan and working with family members. This is a challenge that I have also experienced, and it's one that is common to many businesses and many of Profile's clients. Fortunately Neil and I both had dads that made what can be a difficult transition a lot easier!

Neil and I have often spoken about our shared business succession experiences, and I asked him why he thought it had worked well at Romar. Neil says, "Before I joined Romar, my dad sent me out into the world to learn a few things first, so I felt I had something to bring to the business right from the start. When I did join, I worked my way up from a junior engineer operating the machines on the floor, so I knew the business from the ground up and people felt I had done my time. " Neil then progressed to managing the factory floor and eventually even swapping roles with his dad; letting Bob get back to where he loved working, while allowing Neil to learn the management aspects of the business with a great mentor close by. Neil says, "Dad and I were always partners 50/50, and he always supported me when I wanted to take the business in a new direction. We were great mates and great partners - in life and in business - you can't ask for more than that."

Neil says of his success, "In business you've got to be a good entrepreneur, technician and manager. I've been lucky enough at Romar, having many great people (including those around me now) – for us to achieve this together!"

While Neil is still firmly at the helm of Romar, as always he is forward looking and starting to consider the succession plan for himself. With two wonderful daughters that have forged their own careers in the childcare and legal professions, Neil is having to consider alternative options to those which his father had many years ago.

Neil sees his own future retirement as a daunting prospect, having worked 10-12 hours a day since 18 years of age! He is planning to continue to use his impressive skill set, perhaps in a voluntary role, to promote the engineering industry.

Of Romar, Neil says "Dad gave it life; I've given it a future".

Neil Wilson, with Laura Donovan of Profile, at the Romar factory in Sefton NSW

GETTING TO KNOW THE TEAM AT PROFILE:

Aine Love

Aine joined Profile in a part time capacity in August 2009. She originally comes from Galway (west of Ireland), and once she finished college, she moved to London with friends, where she lived for 13 years. The latter nine of those years were spent working for the financial information provider Bloomberg LP.

During that time Aine had a variety of roles, culminating in a sales/account management role covering Ireland as well as some large broker and banking firms in London.

Aine met her husband Vaughan in London. They have a shared passion for travel, and visited 19 countries together in Europe, Africa, Asia Pacific the US and Canada from London before a total change of scenery was in order. They discussed moving to Ireland or New Zealand (where Vaughan is from) but eventually agreed on Australia (Ireland's economic problems, and New Zealand's natural disasters, played a role in their decision!)

They moved here in March 2003, and - despite the fact that (much to our founder Garry's delight) Aine's name is pronounced very much like that classic Aussie phrase, "Onya, luv!" - they are very happy with their choice!

Aine initially managed a team of sales/account managers in a telco until March 2006, when she took leave to have her eldest child Dylan. Dylan was followed 14 months later by her youngest child Aidan.

Aine spent three years at home in the new role of "mother", but then felt the need to get back to an office environment again (even if only for a few hours a week!) Profile had the perfect opportunity and hours to enable Aine to join the Profile family while still looking after her own.

Aine is now in a permanent part time position as marketing co-coordinator based in Profile's city office. Her focus is on expanding our brand and offering amongst dental professionals, as well as organizing client seminars. Aine also co-ordinates other marketing initiatives to help Profile continue to grow. She says, "Having worked for a variety of companies, both in London and Sydney, I'm enjoying working for a company that genuinely cares about its clients and its staff."

When not at work, Aine enjoys her two active boys, but also loves to read, cook, catch up with friends, camp - and the odd weekend away without the kids!

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