Profile's Corner

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PROFILE
FINANCIAL SERVICES

PROFILE UPDATE

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

In April **Garry Ohlsen** (our founder and Managing Director) retired from active client work. Garry retains a strong association with Profile – he continues as a director and substantial owner of the firm, and will be involved in several important projects in the next year – but we are definitely missing Garry's day-to-day presence in the office! All of us here at Profile are proud to be a part of the firm Garry has built, and we are determined to continue on with the values and principles he has instilled – integrity, transparency, and client first. *Read Garry's letter to clients later in this edition.*

We are pleased to welcome a new staff member to the team – **Jiffry Riyaz** has joined us as an associate planner, assisting Phillip Win. Jiffry was most recently a financial planning assistant at Westpac Private Bank. Jiffry holds an Advanced Diploma in Financial Planning and is currently completing his Masters of Applied Finance.

The **Profile Portfolio Solutions** officially launched on 4 April this year. We are very pleased with the success of these implemented portfolios, with over 80 clients already having chosen to use them for active management of their investments. If you haven't already seen the portfolios, your financial planner will explain the changes in more detail, and whether they think you should consider the new portfolios as part of your investment strategy, at your next review. *In the meantime, you can find more information about the Profile Portfolio Solutions (including the PDS, latest unit prices, and monthly updates) on our website at: www.profileservices.com.au*

During July, we will be launching a **client satisfaction survey** for Profile clients. We are keen to hear what you like about our services – and where we can improve! We have engaged an independent market research firm (Woolcott Research) to run this survey, which is completely confidential. It should only take about 10 minutes to complete, either online or over the telephone. We would very much appreciate it if you could take some time to let us know your thoughts on our service. *We will be sending you some more information on this survey shortly.*

**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 "AUSSIE" DUTCH DISEASE

By Jai Parrab, Head of Investment Research

Period returns to 31 May 2011 (%)

ASSET CLASS*	1 MTH	3 MTHS	1 YR
Australian shares	-2.0	-1.7	+11.1
International shares	0.0	-3.6	-0.4
Fixed interest	+1.3	+2.5	+6.4
Cash	+0.4	+1.2	+5.0
Gold	-1.8	+8.8	+26.3

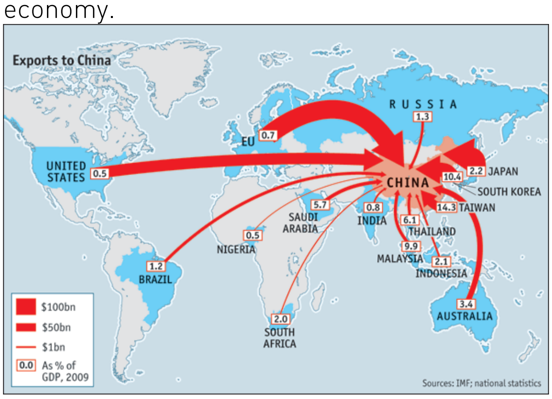
The old saying 'when America sneezes, the rest of the world catches a cold' remains relevant in today's investment world - but it needs to be updated. The new saying in my opinion should be 'when China sneezes, the rest of the world catches a cold… and Australia catches pneumonia!'

Global growth slows

Global economic growth has slowed sharply in late May / early June. After a modest post-recession bounce-back in 2010 and a promising start to 2011, consumers and businesses in most countries have now reduced their rates of spending. A series of reports in early June from purchasing managers—business executives who buy the raw materials and intermediate goods that keep industry running—showed a surprisingly consistent pull-back in economic conditions around the world. Although industry continued expanding almost everywhere, the rate of gain fell dramatically in the US and the euro zone, and by lesser amounts in China and a host of emerging markets.

China's growth

Short-term data aside, China's economic growth rates remain spectacular, and have been among the quickest in the world to rebound to pre-crisis levels. The country is key to the global recovery. However, its property price and construction booms increase the risk of a sharp correction to China's property market, with implications for the global economy.



(Source: The Economist, 2010)

China's property boom

There has been increasing attention paid to the risks associated with China's growth path as the country's importance to the global economy has risen. One area of concern is the property market. Property prices in certain cities and sections of the real-estate market have risen to excessive levels. In addition, the construction boom of the last two years has led to a large number of unoccupied apartments across the country, raising fears of a slump in construction. That being said, income growth is high relative to the increase in housing prices and enormous demand for housing is being created by urbanisation and the redevelopment of existing cities. And the gearing of most house buyers is low.

The Chinese property market has recovered following a sharp slump after the government took steps to clamp down on real-estate speculation in April, however concerns remain over the potential for a sharp correction to both prices and construction activity.

Mostly empty apartments: Kangbashi during the morning peak, 2010

(Source: Meiguoxing.com/blog)

China's GDP imbalance

Another major risk factor concerns the skewed structure of China's GDP, which relies heavily on investment at the expense of consumption. The government stimulus package of late 2008, with its focus on massive infrastructure investment, has arguably aggravated these imbalances further. Although the government is aware of the need to rebalance the economy towards a greater focus on private consumption, there has been little progress on major reforms to boost consumption. China's investment-to-GDP ratio now exceeds the ratios in many South East Asian countries before the 1997-98 Asian financial crisis *(Source: the Economist Global Forecasting service, 2011)*.

Is China overheating?

The danger of policy missteps leading to a crash in China appears considerable. Adding to concerns, recent data have revealed that liquidity pumped into the economy in 2010 was actually at a similar level to 2009, despite assumptions that the authorities would seek to tighten policy.

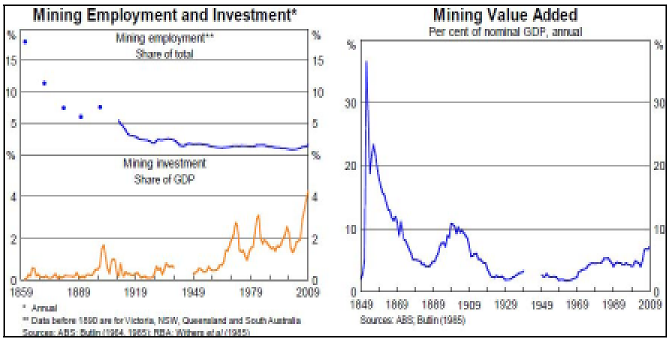
Adding to this, recent interest rate rises appear small in light of surging commodity prices. The continuation of very strong economic growth in the first quarter of 2011 (at 9.7% year on year), and a rise in inflation, have reinforced concerns that the Chinese economy is overheating.

The risks associated with a downturn would be great both within China and abroad. Internationally, the main impact would likely be on commodity markets. Chinese demand, and assumptions that it will continue to rise rapidly, underpin current prices for oil, metals and a number of other commodities. If China's GDP slowed, commodity exporters like Australia would be badly affected.

Mining booms and the Australian economy

The Australian economy is currently experiencing a surge in mining activity, one of a sequence of mining booms since the European settlement of Australia which have been a powerful force in shaping our economy. These include major booms such as the 1850s gold rush, the late 19th century mineral boom, the late 1970s/early 1980s energy boom, and the current episode, which is both a mineral and energy boom. But boomers beware…

Mining's share of Australia's economy – growing fast but still not approaching gold rush territory.



(Source: Reserve Bank of Australia)

What is "Dutch disease" - and does Australia have it?

The term 'Dutch disease' originates from a crisis in the Netherlands in the 1960s that resulted from discoveries of vast natural gas deposits in the North Sea. The newfound wealth caused the Dutch guilder to rise, making other industries' exports less competitive on the world market, increasing demand for imports, causing local wages to rise, and causing an economic crisis when other (non-natural resource) industries could no longer compete: when prices for natural gas fell, there were few economic alternatives left.

In economics, the term "Dutch disease" is now used generically to explain the apparent relationship between the increase in exploitation of natural resources and a related decline in a country's manufacturing sector resulting from currency appreciation and price volatility. The end result is that non-resource industries are often hurt by the increase in wealth generated by the resource-based industries.

How long the current surge in mining activity will continue is uncertain. Past booms do seem to have lasted more than fifteen years (Battellino, 2011) before resource depletion, or international or domestic developments acted to slow economic activity and bring the boom to an end. On this occasion, the growth potential of countries such as China and India suggests that the expansion in resource demand could continue for an extended period, though this will depend at least to some extent on the economic management skills of the authorities in these countries, not to mention our own!

Australian employment is strong (with the unemployment rate currently at only 4.9%), but this along with rising energy and food prices has squeezed inflation above its 2-3% target range to 3.3% year on year. And the currency appreciation element of "Dutch disease" is certainly apparent recently, with the AUD at historic highs since floating (it had remained above US1.05 for 75 days at time of writing). While growth in the mining sector is maintaining its momentum, including new mining and construction investment, other sectors are more sensitive to the Australian dollar, and along with rising interest rates, flattening house prices, and increasing costs of living, pain is certainly being felt by non-mining income consumers across the board.

Given a floating exchange rate, more flexible goods and labour markets, and somewhat sound monetary and fiscal policy frameworks (although I often debate this issue with myself), investors should have confidence that we can do better in managing this boom this time around, but the task will not be without its challenges for government and industry alike.

DRAWING EXTRA FROM YOUR INVESTMENTS IN RETIREMENT

By Gloria Barker

It can happen to anyone… you have your finances all organised and are travelling steadily when all of a sudden a substantial, unexpected expense occurs. Maybe the fridge or car breaks down, or a family member is in need of financial help. You know you need to get the money quickly but when you're a retiree drawing income from an allocated pension product, finding the best way to source the funds isn't always easy!

Depending on your personal situation, how the money is accessed- either as an additional pension payment, or as a lump sum withdrawal - can have both an immediate and long term effect on any Centrelink benefits you may receive.

If you are currently not eligible for the Age Pension, then in most cases, withdrawing the additional funds as an extra pension payment would often be the better option. This is because this type of withdrawal has no effect on future Age Pension entitlements in the event that you do become eligible later on.

However if you are currently receiving a full or part Age Pension, the right decision can be a little trickier.

Centrelink uses either the Assets Test or the Income Test to calculate how much you will receive – the test that results in the lower rate is the one that will apply. The following tables outline the assessment criteria:

Income test thresholds for pensions (from July 2011)

FAMILY SITUATION	FOR FULL PENSION / ALLOWANCE* (PF)	FOR PART PENSION / ALLOWANCE* (PF)
Single	Up to $150	Less than $1,608.60
Couple (combined)	Up to $264	Less than $2,462.80

Income over these amounts reduces your rate of pension by 50 cents in the dollar (single), or 25 cents in the dollar each (for couples).

Assets test limits for allowances and full pensions (from July 2011)

FAMILY SITUATION	FULL PENSION HOME-OWNERS	PART PENSION HOME-OWNERS – LESS THAN....	FULL PENSION NON-HOME-OWNERS	PART PENSION NON-HOME-OWNERS – LESS THAN....
Single	$186,750	$673,000	$321,750	$808,000
Couple (Combined)	$265,000	$998,000	$400,000	$1,133,000

Assets over these amounts reduce pension by $1.50 per fortnight for every $1,000 above the amount (single and couple combined)

Reference: www.centrelink.gov.au – Age Pension – Income and Assets

If you choose to take an additional pension payment, this amount will add to your Centrelink assessable income for that financial year. If your Centrelink payments are based on the income test, the extra funds will reduce the benefits you receive for the rest of the financial year. As a result, you may need to draw even more from your allocated pension to make up for the reduced benefits!

The other payment option is to take the additional funds as a commutation or lump sum payment - effectively a repayment of capital from your allocated pension.

This type of payment does not add to your assessable income for that financial year. However, it may affect Centrelink Age Pension benefits in the future. This is because when Centrelink calculates how much income from an allocated pension is assessable, it takes into account the original purchase price as well as other factors such as the individual's life expectancy and whether they have taken any commutations. To decide the most effective way to take the additional payment in this case, a series of calculations need to be done.

Calculation example

Bob is 66, single, owns his own home, and originally purchased an allocated pension with $250,000 from his superannuation. He has no other assets outside of super so his total assets are $250,000.

Bob nominates an income of $30,000 from the allocated pension to help meet his day to day expenses.

Income test or assets test?

Under the income test, the amount assessable by Centrelink will be:

Deductible amount

$$= \frac{\text{(Purchase price – total commutations)}}{\text{Life expectancy at commencement}}$$

$$= \frac{(\$250{,}000 - \$0)}{17.76} = \$14{,}076.58 \text{ per annum}$$

Assessable income = $30,000.00 - $14,076.58

= $15,923.42 for the year or $612.44 per fortnight.

This amount of assessable income would reduce Bob's pension payment by $231.22 per fortnight.

(Under the assets test, Bob's pension payments would reduce by only $94.88 per fortnight – so the income test applies.)

The full Age Pension (including pension supplement) for a single person is $729.30 per fortnight (from July 2011), so Bob's actual fortnightly Age Pension payment would be $498.08 pf.

Bob's total income would be $1,651.93 per fortnight ($1,153.85 from the allocated pension, plus $498.08 from the Age Pension).

Bob's car breaks down....

Extra pension payment - or commutation?

Bob's car has recently broken down and cannot be repaired. He needs to take an extra $30,000 from his allocated pension to buy a new car. Bob has two options – take the $30,000 as an additional pension payment, or as a commutation.

Option 1: additional pension payment

If Bob decides he wants to take the $30,000 as an additional pension payment the end result for the year would be:

Assessable income = $60,000 - $14,076.58 = $45,923.42 for the year or $1,766.29 per fortnight.

Bob's Age Pension payment would cease for that year as a result of the increased assessable income, as this takes Bob over the maximum assessable income. His total payments for the year would be **$60,000**.

Option 2 - commutation

If Bob decides instead to take the $30,000 as a commutation, the following would occur:

Deductible amount

$$= \frac{\text{(Purchase price – total commutations)}}{\text{Life expectancy at commencement}}$$

$$= \frac{(\$250{,}000 – \$30{,}000)}{17.76} = \$12{,}387.39 \text{ per annum}$$

The commutation has reduced Bob's deductible amount by $1,689 pa. This means that his assessable income will increase by this amount every year, for the life of the allocated pension. Bob's benefits would be reduced by $32.50 per fortnight, giving Bob an Age Pension of $465.58 per fortnight. His total payments for the year would be **$72,105.09** –$12,105.09 more than under the additional pension payment option. Although Bob's assessable income increases in future years, reducing his Age Pension payment, it would take more than 15 years for the initial benefit to be offset.

In this situation, it makes more sense for Bob to take the funds as a commutation. This strategy minimises the effects on his Age Pension and increases the longevity of his allocated pension.

As this example demonstrates, deciding on the best way to take extra payments from an allocated pension can be complex! As always, when financial decisions need to be made your Profile financial planner is available to help guide you on making the best decision for your particular situation.

GETTING TO KNOW THE TEAM AT PROFILE

Kurt Ohlsen, Financial Planner

Kurt first joined Profile in 1999, working part-time with the administration team while completing his university degree. On completing his degree, Kurt moved into corporate banking with the Commonwealth Bank, where he developed a strong knowledge of entity structures, as well as cashflow and debt structuring.

Two years in, however, he decided a change was in order – a pretty substantial change! Kurt moved to a million acre cattle station in the Kimberley (about 450kms up a dirt track north east from Broome) to muster cattle, while learning to love the red dust and sleeping under the stars. The work ethic, camaraderie and ingenuity in solving problems (if it can't be fixed with some fencing wire and a wrench, it can't be fixed!) learnt from station life is something that he hopes will stay with him for life.

In 2006 Kurt returned to Profile as an Associate Planner. He now works as a Financial Planner, and will shortly also be becoming a part-owner of the business.

Kurt's passion for planning is to bring the complexities, rules, strategies and jargon of the financial world back to the real world where people can use them. He has a particular interest in Self Managed Super Funds (SMSFs) and the range of beneficial strategies they can open up for clients. Kurt gets great satisfaction in doing work that requires a "think outside the square" approach. He loves getting to sit down with people and have a chat about where they have been, where they are now and where they want to be in life.... if only Profile had a campfire to sit around!

Kurt holds a Bachelor of Agricultural Economics (majoring in Corporate Finance, Economics and Agricultural Economics) and a Diploma in Financial Planning. He is a member of both the Financial Planning Association of Australia (FPA) and the Self-Managed Super Fund Professionals' Association of Australia (SPAA).

Away from work Kurt enjoys camping, diving, fishing, renovating his house and keeping his little dog "George" well exercised.

GARRY CALLS IT A DAY

Garry's letter to clients on his retirement

As I have shared with many of you over the past year, my time has come to retire. On the 26th of April I will retire as Managing Director of Profile after 34 years.

When I started in this industry, there was no such thing as financial planning. The closest thing to financial planning was a person who sold personal superannuation, or a life insurance savings plan. In those days, there was little flexibility and products were very expensive by today's standards.

How much has changed? I have seen a whole industry emerge, professional education standards enormously improved, and a massive load of legislation introduced by governments.

The good things I have seen come out of the last 35 years are a greater awareness as a nation of the need for us to start planning for the future much earlier in life, and seeing greater professional standards adopted and better legislation towards consumer safe-guards adopted.

What is not so pleasing is the government not putting in place tough enough penalties for the promoters of shonky investment schemes, whose activities leave the community financially a lot worse off. Also disappointing has been seeing successive governments using the nation's retirement savings vehicle (superannuation) as a political football. There is now over one trillion dollars in our superannuation funds, and we cannot afford to lose it!

Where to from here? For Profile, it will remain independently owned and it is my belief it is in great hands. The people that will now drive Profile, I believe, will continue to operate with the values that I believe in: honesty and integrity. They treat people the way they would like to be treated. They respect that we all have point of view, and they never stop trying to improve.

Phillip will take over as Managing Director, Sarah our CEO continues to do an outstanding job, and Jai continues to head investment research and asset management. My son Kurt will become an equity owner and continues in his role as a financial adviser.

Our new adviser Isabelle is doing a great job, as the rest of the team have been doing behind the scenes - headed by Kim our practice manager, who has an attitude of our clients come first and nothing is ever a problem. So I leave a great team in place who will make sure we continue to do the job I started. I would like to thank the Profile team, who are some of the hardest-working and most committed people I have ever worked with.

As a company, Profile must get bigger. It must do this to compete in a world that is changing rapidly, to keep costs under control, to open up doors with investment opportunities for our clients, and to be at the forefront of change that will put our clients ahead of the market.

I believe our most recent initiative, "Objectives-Based Investing", will once again show how Profile leads this industry by innovating with new ways of investing and exposing an industry that is using a flawed system. I am extremely proud to be the first investor in both the new Portfolios we have launched and as a client I am looking forward to experiencing good consistent returns with a focus on downside protection!

I have not dropped off the face of the earth! I am just starting to try a little bit of what many of you have talked to me about over the years. I remain a part owner, will continue to chair our advisory board for a few years, and will continue to have a great interest in Profile's development. One of the many projects I will be involved with in coming months is a recommendation I will be making to the Profile board to establish a Client Board of Advice. It is my belief that the best way to have transparency is to engage clients in giving constant feedback on the services we provide and the way we are delivering that to our clients. You can expect to hear more on this initiative in coming editions of our newsletter.

And of course I can always be contacted to have a coffee with old friends!

Now it is time for me to thank you, Profile's clients. Some of our older clients were here well before me. Our oldest clients go back a long time, some with over 50 years of dealing with myself and previously with my now-retired partner Frank Smith. I was talking to my son, Kurt, the other day before introducing one of our clients to him. I told Kurt that this lady is one of the nicest people he will ever meet. He said,"Dad, that is what you say about every client!" Well, how lucky can one be to have worked most of their career with so many lovely people. Thank you for the privilege of working with you.

Yours sincerely,

Garry

CLIENT PROFILE – ARTHUR BULLEN

By Phillip Win

In light of Garry's recent retirement, I thought it would be interesting to interview one of the longest-standing clients of Profile, Arthur Bullen. Arthur's story is inspirational and it has demonstrated to me the importance of having a life beyond work!

Arthur left school at the age of 14 and joined the Sydney Morning Herald (SMH) as a messenger boy at the age of 15, in the early 1950's. Arthur progressed through the ranks from administration to computers, to cashier - and then to the staff superannuation division. This is where Arthur met Frank Smith (the original co-founder of Profile with Garry Ohlsen). Frank was working with the AMP at the time, which had been invited to advise SMH on their staff superannuation scheme. Arthur (and his wife Audrey) became clients of Profile at this time.


The Sunday Herald

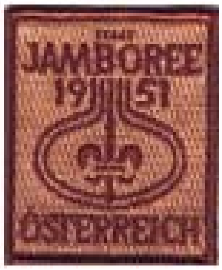
ND OF KOREAN WAR NEAR

Communist Radio Says Armistice Ready For Signing

Arthur had a passion to be a salesman and so he decided to leave the SMH in 1953 and he joined a firm called P Rowe Fabrics. Being the ambitious person that he is, Arthur quickly progressed to be the Sales Director. He had a large territory to cover and found himself at Port Stephens four times a year, Alice Springs and Darwin twice a year - and once a year he visited Papua New Guinea. Arthur has always had a very strong and customer-oriented work ethic – to Arthur, his customers were not just customers, but friends. Arthur retired from P Rowe Fabrics after a solid 40 years of service in 1993.

However Arthur has not allowed his so-called 'retirement' to get in the way of putting in a full day's work! He has been a committed volunteer throughout his working life, and continues to give extensively of his time and expertise in this very important sector.

Like many young boys, Arthur joined the Cubs when he was 8 years of age and has now been part of the Scout movement for 77 years! At the age of 25 he led the NSW section of the Australian contingent to a Jamboree in Austria. He has been the treasurer for two jamborees in New Zealand where $1.75M was transacted in 11 days. Arthur is now an Honorary Commissioner of the Scout movement due to his long-standing commitment to the organisation.



The other charitable organisations that Arthur has been involved in are:

- Girls and Boys Brigade (located at Surry Hills, Sydney) for 22 years;
- Woollahra Meals on Wheels for the past 18 years; and
- Rose Bay Probis for 14 years.

I am often told by my retiree clients that they sometimes wonder how they used to manage to fit work into their lives! Arthur is certainly no exception to the rule that retirees seem busier than ever. I asked Arthur for his top tips for retirees or those about to retire and not surprisingly his main tip is to keep busy! "Consider working for a charitable organization - but make sure that you're satisfied doing the work and don't just do it to feel good", he says.

I was very inspired by Arthur's passion for life and his commitment to helping others. Volunteers make a huge contribution to Australian society. More than 5 million of us volunteer each year, and the 700,000 not-for-profit organisations in Australia rely on volunteers to keep providing important services to the community. If you've thought about volunteering but aren't sure where to start, one good place to look is Volunteering Australia's website, at:
www.volunteeringaustralia.org

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