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127 Brunker Road
ADAMSTOWN NSW 2289
PO BOX 356
ADAMSTOWN NSW 2289
4965 3966
F 4969 3766
hunter@fiducianfs.com.au

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What's New?

We've now settled into our new Adamstown premises and starting to get everything back in order. The Adamstown premises allow us more flexibility with much more operating space including a boardroom from which we intend to conduct presentations in the future. Most of the renovations are complete and we will be inviting clients to an official launch of the new offices shortly.

A snapshot of Adamstown's reception area.

As part of the operation of the new office we have hired a new staff member to cover the reception duties. Josh commenced with us in April and will stay until August as he is between HSC and University and returning to his home in sunny Queensland. At that point we expect a replacement to be ready to step in and take over. Josh has learned a lot already and is now particularly proficient in making a nice coffee (thanks Sue for your help!). Oh yeah, Ann, we have filtered water now!

You will also have noticed the new format of the newsletter that has the intention of making the publication easier to read and just giving it a general overhaul. We're always happy to incorporate your feedback into the publication so feel free to let us know your thoughts.

What's Different?

Investment markets were obviously not kind to any investors over the March Quarter and with statements recently released from Fiducian Investment Service, a deep breath was needed as the depth of the recent market turmoil was realised in black and white. The good news is that markets have made some positive progress through April and early May. It is important that investors don't make knee jerk reactions when their investments turn on them. As your Advisers we have taken into account the fact that investments such as shares and property don't always behave as well as we would like. This is why we continue to use measures such as diversification to manage the risk within the portfolios. Having a good level of diversification will ensure that the opportunity remains for the investments to recover with the market.

A further point to note is the level of income derived from the portfolios. This will be more apparent after the end of the financial year when the Investment Service Annual Taxation Statements are issued. It is very likely that there will be a reasonable level of taxable income earned by the funds, even though the account balances may be lower. This comes back to the basic principles of share investment where it is not just the share you are holding changing in value (share price), but there are dividends payable as well. Also whilst the Australian Share-Market was at all time highs in November 2007 the underlying managers had made sales of shares that had reached price targets, therefore causing the realisation of capital gains within the portfolios. It may seem incorrect that the fund you see in-front of you has contributed to your taxable income because the balance is lower, but may actually be the case.

Budget 2008 – The 'Robin Hood' Budget

The new Rudd Labor Government has introduced changes in its recent Federal Budget package that have a range of ramifications across the board. There was the expectation of tax cuts following last year's election promises with the main changes being the extension of the 15% marginal bracket to $34,000 from $30,000 from 1 July 2008. In addition the Low Income Tax Offset has been increased to $1,200 also from 1 July 2008 with further increases pencilled in for future financial years.

Other changes include increased thresholds for the Medicare Levy Surcharge, Child Care Tax Offset and introduction of the Education Tax Refund for recipients of Family Tax Benefit Part A or Youth Allowance.

Centrelink recipients of Age Pension, Carer Payment and Carer Allowance are to receive Lump Sum Payments by 30 June and Telephone Allowance, Utilities Allowance and Seniors Concession Allowances have all been increased. The Telephone Allowance increase requires an Internet Connection to be in place. Also, Salary Sacrifice will now be included as Centrelink Assessable Income which is closing a loop-hole that existed.

Overall there were no great surprises with many of the announcements released or alluded to in the days and weeks prior to the Budget. The Government has previously noted that it will review the current Superannuation arrangements and we wait with great anticipation to find out when this will take place and what changes are likely to be implemented! We will endeavour to keep you informed of developments as they take place.

How Are Investment Markets Going?

The global economy continues to feel the impact of slower growth in the US. According to the International Monetary Fund (IMF), a softer US economy could slow global growth in 2008 to a forecast 3.7% (purchasing power parity basis) or around 2.50% at current market exchange rates (April 2008 forecast). While this would be far from a global recession, it nevertheless would represent a significant drop in growth from the pace of recent years when real growth rates have been close to 5% per annum. The major issue for the US continues to be a recessed housing sector and it appears likely that housing could remain a drag on activity for some time to come. Falling average house prices could affect total household spending, with rapidly rising energy costs also imposing a steadily heavier burden on consumers. On the positive side, the US central bank (the 'Fed') has been dosing the economy with some pretty strong medicine, above all in the form of large reductions in interest rates (from 5.25% to 2.25% in only a few months), which in time could be expected to stimulate economic activity. Elsewhere, most other advanced economies have also been slowing, with Japan forecast to expand by only 1.3% this year, Europe by 1.5% (the Euro zone) and the UK by a modest 1.6% (Consensus Forecasts). On the other hand, the outlook for the larger developing economies, above all China and India, remains much brighter, with these economies forecast by the IMF to grow by around 9% and 8% respectively this year. The Australian economy has been one of the better performing developed economies, with GDP growth of around 4% in the December quarter (year-on-year), although this growth has been heavily dependent on a booming resources sector. The domestic economy is likely to soon slow under the weight of hefty interest rate hikes introduced by the Reserve Bank in an attempt to stem rising inflationary pressures.

Major share markets have performed poorly over recent months, reflecting investor concerns about the global economic outlook. However, most markets have been able to climb above lows set in late January this year. With central banks, above all the all-important US 'Fed', trying to increase liquidity in the financial system with the aim of sustaining bank lending, it could be that much of the negative news may have already been priced into markets. Furthermore, most markets, including the domestic share market, appear attractive in valuation terms. With investment in so-called 'safe havens', notably cash funds, at record levels, the potential for markets to move higher continues to rise.

Market declines this year (from 1 January to 25 April) have included the Dow Jones Industrials index down 3%, the broader S&P500 down 5%, the tech laden Nasdaq down 8% (all US), the UK, German and Japanese markets down respectively 6%, 14% and 9%, while the Australian market was down 12%.

Major global bond markets have been volatile in recent months, reflecting investor uncertainty about the likely severity of the global slowdown. US Treasury bond yields (rates) fell from 4.3% at end December to a low of 3.3% in March and then recovered ground to 3.8% by 25 April. Australian bond yields have been higher, while a high (2.5%) differential between US and Australian yields has been supporting the $A. Fiducian's diversified funds are currently close to benchmark in domestic and international shares but remain underweight in property. Fixed interest exposure remains weighted towards the short end of the spectrum (favouring cash over bonds).

Something You Should Know

Over 90% of Australians have their Superannuation invested in the default fund from their Superannuation provider. In most funds this type of allocation, although likely well diversified, lacks the punch required to forge out the returns required to increase the account balance to a point where these funds can actually support the members' retirement income requirements.

At Fiducian we conduct analysis both on our clients attitude towards the various investment assets available and their financial goals and objectives. This then allows us to appropriately choose the mix of assets that has a high probability of achieving those stated objectives.

Sure, you may pay slightly more than an Industry Superannuation fund, but in most cases, the tailored asset allocation appropriate to your individual needs has proven to perform better in the longer term, negating the fee difference.

Just imagine the difference just 2% per annum can make over 20 years. Analysis shows that a $100,000 investment returning 10% per annum versus a $100,000 investment returning 8% per annum over a 20 year period results in over $200,000 difference! At a conservative rate that can make a difference of $12,000 per annum of retirement income.

Maybe it's time to check what your Super is doing and consider talking to Fiducian to ensure it is invested with you and your future in mind.

Final Say

Our next publication is scheduled for release in September 2008. Keep an eye out for it in the mail or on the website noted below.

Until then, let's hope that more positivity returns to the investment markets.

The best is yet to be. *(Robert Browning)*

Wishing you all the best until next time,

Shane Pinkerton Adv Dip FS (FP) JP
Executive Financial Adviser
Authorised Representative (ARN 237602)
Fiducian Financial Services Pty Ltd
AFSL 231103

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