

Financial Planning NEWS



Chifley
Financial Services



Chifley Financial Services – June quarter 2010

Welcome

In this issue of Financial Planning NEWS you will find information on:

- > **The markets and you**
- > **The 2010 Federal Budget**
- > **Our financial planning review service**
- > **The latest from Fair Go**
- > **Health and lifestyle tips**

The markets and you

Michael Block, General Manager – Investments



May 2010 was a particularly bad month for shares with stocks around the world losing value. This has caused many people to think whether its time to get out of shares or hang on, particularly if they are close to retirement or scared of further losses.

There are many investment myths. For example, there is an old adage in the share market which says “sell in May and go away”. It is based on the idea that May to November (roughly the European and American summer) is not a good time for shares. However, this saying has no basis in fact as the May to November period is neither particularly good nor particularly bad for shares.

But there are some facts that we can rely on and they have been a good guide for a very long time.

The way that I like to look at it is that shares have for centuries followed a fairly stable upwards trend and for the most part it makes sense to have some in your portfolio and hold them for the long term. This trend is evident in the attached diagram showing Australian share prices from 1980 to 2010.

If we look back (admittedly it's always easier with hindsight) it shows us that shares were above their long-term trend in 1987 and for those who could, it may have made sense to take a little risk off the table and reduce exposure to shares.

Similarly in 2007 the graph shows that shares were a very long way above their long-term trend and greatly overvalued. Like 1987 the lead-up to 2007 was a good time to sell and a bad time to buy.

After the so-called global financial crisis in 2007 share prices fell below their long-term trend suggesting it was a good time to add to your shareholdings.

Continued over the page...

We can help you with more than just your pension

- > Looking for advice about investing?
We can help you.
- > Are your family members looking for a flexible home loan?
We can help you.
- > Looking to maximise Centrelink and other government benefits?
We can help you.

Call **1800 800 002** for more information.

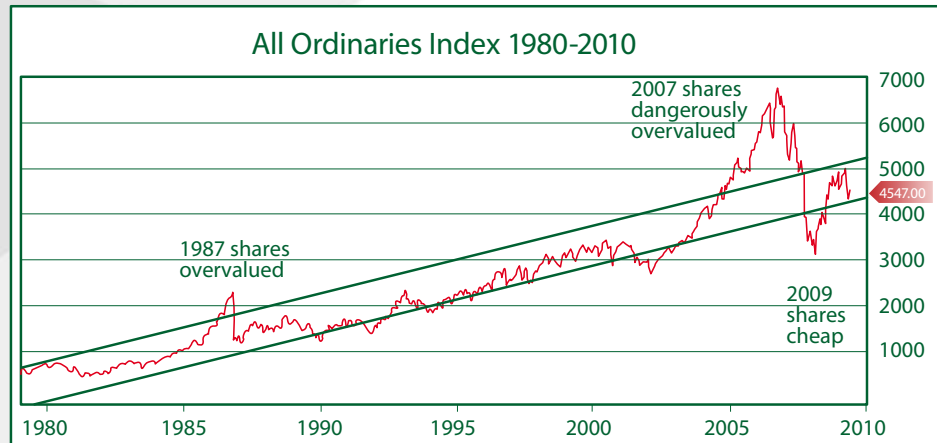
So where are we now?

Right now, share prices are within their long-term trend indicating that holding shares should result in an acceptable return over the long term.

A general rule of investing is that you buy when prices are low and sell when prices are high. If we accept this advice now is a time to do nothing and just hold your long-term allocation in shares. This is because shares are not cheap enough to suggest adding to portfolios and only just above their average long-term price which does not indicate the sort of danger that would make one run away from the markets.

Of course, this trend is a long-term trend and does not suggest that we won't see some more volatility in the next little while with so much uncertainty in the world.

I must emphasise this is advice from a funds management perspective and does not constitute personal advice as it does not take into account your personal objectives, financial situation or needs. Prior to making any investment decision you should consult your financial planner.



Today shares are fair value and in the middle of their long-term trend.

If you would like to discuss any of the topics raised by Michael Block with a financial planner please call 1800 800 002.

Get into shape



Feeling unfit? Well, there's no better time to start getting into shape than right now.

Physical activity is important because it makes you look and feel better, gives you more energy, enables you to sleep better and relax - and it's social and fun. It also helps to control your weight, blood pressure, cholesterol, diabetes and arthritis and it reduces the risk of heart disease, stroke and some cancers.

It is recommended that you should do at least 30 minutes of moderate intensity physical activity on most, preferably all, days to keep your heart, lungs, muscles and bones in good working order. If you can't do 30 minutes now, start with 10 minutes once or twice a day. After two weeks, make it 15 minutes twice a day and you will have reached your goal of 30 minutes a day.

You don't have to puff and pant or work up a sweat, but it is okay if you do. To get started, try a brisk walk, working in the garden or going for a swim. Also consider joining a Tai Chi or yoga class to improve your balance and help prevent falls.

Make a specific time each day to do these exercises, or fit them in whenever you can. If you can, also try to reduce the time you spend sitting for long periods.

For more on how to become more physically active, you can order the Choose Health: Be Active: A physical activity guide for older Australians, published by the Department of Health and Ageing and the Department of Veterans' Affairs. Just call 1800 500 853 for a free copy.

The 2010 Federal Budget and you

Wayne Swan in the May Federal budget announced a number of measures which concern people who are approaching or who are already in retirement. The following is a summary of the changes that might affect you:

\$50,000 Concessional contributions cap to continue beyond 2012

The Government has proposed to allow individuals age 50 and over with superannuation balances less than \$500,000, to make Concessional contributions of up to \$50,000 per annum (indexed) after 1 July 2012. This will allow people to top up their super as they approach retirement as long as their account balance is under the threshold.

Super Guarantee for people over 70

Australians who continue working between the age of 70 and 75 will be eligible for the compulsory Superannuation Guarantee contributions (currently 9%) for the first time. At the moment people in this age bracket are limited to voluntary salary sacrifice contributions and/or personal post-tax contributions. This measure will take effect from 1 July 2013 and is aimed at providing an incentive for older people to remain in the workforce.

Co-contributions – Matching level frozen at \$1,000

Measures announced in the federal budget 2009-10 reduced the maximum co-contribution payable on eligible Non-Concessional contributions to \$1,000 from the previous maximum of \$1,500 and the maximum was going to revert to \$1,500 in 2014-15. However, the Government has decided to make the current maximum level of \$1,000 permanent.

Furthermore, the Government has indicated it will freeze, for the next two financial years, indexation of the income levels at which Co-contribution payments start to reduce (\$31,920) and where it cuts out completely (\$61,920). In other words, the rules that applied in the last financial year (2009 -10) will apply for the next two financial years (2010 -11 and 2011-2012).

Reduction in personal income tax rates

The Government has upheld its commitment to honour the previous Government's tax commitments. In the financial year 2010-11:

- ▶ The 30 per cent threshold will increase from \$35,001 to \$37,001; and
- ▶ The second top marginal tax rate will be cut from 38 to 37 per cent. The table below provides a comparison between the previous and new tax rates.

Current rates from 1 July 2009		Effective rates from 1 July 2010	
Taxable income (\$)	Rate (%)	Taxable income (\$)	Rate (%)
0-6,000	0	0-6,000	0
6,001-35,000	15	6,001-37,000	15
35,001-80,000	30	37,001-80,000	30
80,001-180,000	38	80,001-180,000	37
180,001+	45	180,001+	45

Note: excludes 1.5% Medicare Levy

50 per cent tax discount for interest income

Commencing 1 July 2011, Government has proposed to provide a 50% tax discount on up to \$1,000 of interest earned by individuals. This will include interest earned from bank accounts, term deposits, bonds and annuity products. The discount will be available for interest earned directly, or indirectly such as through a trust or managed investment schemes.

This may increase eligibility for some social security entitlements as it can reduce ATI (Adjusted Taxable Income). If you are unsure you should contact Centrelink or your financial planner for assistance.

Amendments to Senior Australian Tax Offset (SATO) and Low Income Tax Offset (LITO)

Workers and senior Australians will benefit from an increase in tax offsets in 2010-11:

- ▶ The low income tax offset increases from \$1,350 to \$1,500 so workers eligible for the full benefit will not pay any income tax on the first \$16,000 of personal income.
- ▶ Senior Australians who are eligible for the low income tax offset and the senior Australian tax offset will pay no tax on income up to \$30,685 for singles and \$53,360 for the combined income of couples.

Fair Go

Departure Lounge
– Resorts
Accommodation



Winter is here, so why not head north to warm up with a Departure Lounge winter escape. With more choice than ever, Departure Lounge is ready to send you on your next holiday or short break.

Members can save up to 55% with some fantastic winter specials at a range of Peppers, Mantra and BreakFree properties.

For couple escapes or family holidays, there is something for everyone!

Visit <http://www.chifleysuper.com.au/fairgo/departurelounge.asp> for more information and current special offers.

Thinking of
helping your
children enter
the property
market?



Entering the NSW property market has always been a challenge for first home buyers but with rising prices and interest rates it's more difficult than ever. If you were thinking of helping your children or member of your family to enter the market one way to make it easier is to make sure you've got the best mortgage rate possible. There's no sense in paying unnecessarily high rates or fees.

So why not take advantage of a Chifley Home Loan offered by Select Credit Union? It is rated 5 Star by CANNEX, the independent financial services monitoring agency. This means this mortgage loan offers "superior value", giving you the reassurance that you are making the best possible choice!

Products awarded 5 stars by CANNEX are the best 5% of similar products available in Australia. So when you consider that there are literally hundreds of similar products around, the awards give you the reassurance of knowing that with your Chifley Home Loan you are considering a competitive solution.

There are no mortgage application fees and no monthly account keeping fees. You can make extra and lump sum repayments without any restrictions which allows you to use any extra funds to reduce interest and pay out your loan faster*.

For more information on these or any of our competitive loans, either call us on **1800 800 002** or visit our website www.chifley.com

*Limitations apply to Fixed Rate products. Terms and conditions apply. The credit provider is Select Credit Union Ltd. Fees, charges and all loan details will be disclosed in the loan contract. Some charges such as valuation fees and costs charged by the lender's solicitors are payable. These charges are non-refundable should they be incurred and the loan is not proceeded with. An early repayment fee may be payable. Chifley Financial Services Limited (ABN 75 053 704 706, AFSL 231148) provides services through an agreement with Select Credit Union Ltd (ABN 20 058 538 140, AFSL 238257). Chifley receives a commission at the rate of 0.20% per annum on the value of the loans referred by them. Chifley Financial Services does not guarantee the obligations of Select Credit Union Ltd.

50% minimum pension drawdown relief extended

The Government waited until the last moment and on 30 June 2010 announced that the 50% reduction of the minimum drawdown requirement for account-based pensions will be extended to the 2010/11 financial year.

This measure, first introduced in February 2009, is aimed at those who wish to preserve their pension benefit so that they are in a better position to recover losses as markets recover over time.

The age-based rates that will apply from 1 July 2010 are:

Age on 1 July 2010	Minimum drawdown (as % of account balance on 30 June 2010)
Under 65	2%
65 to 74	2.5%
75 to 79	3%
80 to 84	3.5%
85 to 89	4.5%
90 to 94	5.5%
95 or older	7%

Remember that the relief measure only applies to the minimum amount, so you are still able to draw down higher pension payments if you need to. It is also possible that a change in your pension drawdown amount may affect your Age Pension entitlement so you should check with your planner if you're unsure about your situation.

To reduce your pension drawdown or to find out more about the changes, please call **1800 800 002**.

When did you last review your financial plan?



While the most recent Federal budget contained fewer changes to super than many expected it is still a reminder of how important it is to review your financial plan so that it remains appropriate for changing circumstances.

We recommend that you review your plan at least once a year and we know how difficult it can be to do this on your own. For this reason you should consult one of our Review Planners who can help you either in person or over the phone at no additional cost.

It could be that your financial goals have remained while the world around you has been changing or it could be that your goals have changed too. In either case you should review your settings to make sure you are maximising your benefits and entitlements.

To speak to a review planner just call **1800 800 002**.

Seminars

If you haven't retired yet, or your partner is planning to retire, why not attend a free pre-retirement planning seminar? Also, if you have family or friends that you think may benefit, please feel free to invite them along too.

To view our full calendar of forthcoming seminars, visit www.futureplussuper.com.au/seminars/seminarcalendar.asp

To attend one of our free financial seminars near you, call **1800 800 002**. Alternatively you can book a seat by emailing: enquiries@chifley.com. It couldn't be simpler.

What's happened in investment markets?

June quarter 2010

The main focus of economic news turned to Europe during the quarter with several countries including Greece, Spain, Portugal, Ireland and Italy facing doubts about whether they would be able to meet their debt obligations. Greece, in particular, had its debt rating cut to below investment grade as the risk of a default increased. This sparked a big sell-down in global share markets as concerns emerged about which companies had exposure to the debt of these nations and what effect it would have on the wider European economy.

Domestically, the overriding feature of the Australian economy seemed to be stability. Unemployment has levelled out at a rate of 5.2% by the end of June and the rate of inflation is within the Reserve Bank's target range. One worrying area of the economy is the rate of property price increases with numbers indicating a year-on-year increase of 20%. This has been one of the reasons the RBA has been inclined to raise interest rates. With a pull-back in the first home buyers grant and other housing initiatives, this rapid increase in prices is unlikely to continue, but how the housing market performs without artificial stimulus is something to watch out for.

In the US, there are still structural issues that need to be addressed before investors can start to believe in a sustained economic recovery. The level of household debt is still at very high levels and with unemployment remaining in the 9.5-10% range it is difficult to see this improving any time soon.

The market commentary below is provided to give an indication of the various factors affecting the investment performance of individual asset classes. It is based only on the gross performance of the relevant market index and no allowance is made for taxes or fees as they apply in your superannuation investment. It is provided merely as an indication of relative performance between asset classes and should not be used as a measure for judging the performance of your investment strategy.

Australian Equities

The Australian share market benchmark, the S&P/ASX200 Accumulation Index, returned -11.1% for the quarter. The market really struggled after a good start to the quarter with a 6.5% return in April. From there, though, it was all downhill with mainly macroeconomic news driving the market down as concerns emerged about the debt situation in some European states and its ramifications.

International Equities

International shares, like the domestic market, performed poorly after a positive start with the benchmark for global shares, the MSCI World ex-Australia Index, returning -11.8% on a currency hedged basis. The currency impact was significant in the quarter with the Australian Dollar falling against most of the major currencies, with the exception of the Euro. It is difficult to see where the markets will go from here but they are sure to be volatile for the next few months.

Listed property

Australian Listed Property finished the quarter down with the S&P/ASX200 A-REIT Accumulation index returning -1.3%. This was a considerably better performance than shares in general as the property fundamentals limited the downside. Previously, listed property companies had received significant sell-downs due to their high levels of debt but, after significant capital raisings, investors were able to focus on the underlying property valuations, which have remained relatively stable and provided some growth.

Cash and Fixed Interest

There were a further two interest rate rises in the quarter with the Reserve Bank of Australia raising rates by 0.25% in April and May amidst concerns that the economy may be growing at too fast a rate following the general recovery. Rates are now at a level considered to be 'normal' as the stimulatory Government spending measures of last year have been progressively removed or wound back. There is scope for further rate rises but this is likely to be at a much slower pace than we have seen so far.

Short-term money markets produced decent returns with the UBS Bank Bill Index finishing up 3.6% for the quarter. Bond markets also produced significant returns over the quarter (particularly when compared with shares) with the UBS Australian Government Bond Index returning 4.1% as investors sought quality investments as a replacement for shares. Globally, government bond prices increased with the benchmark S&P/Citigroup World Government Bond Index (Hedged) returning 3.5% as the 'flight-to-quality' extended to global bond markets.

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