

Chifley Financial Services – June quarter 2009

Welcome

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Are we seeing green shoots?

By Michael Block, GM
Investments Chifley



Over the past three months share markets in Australia and overseas have recovered from their lows, the \$A has steadily risen and the demand for growth assets has increased.

The most common phrase associated with this situation is "green shoots" suggesting that there is hope for an early recovery in 2009/2010 and that there are signs of regrowth. The term may even suggest that any downturn will not be as severe as first anticipated.

We are pleased with the rise in prices and the renewed optimism but urge caution about expecting the high growth of 2002 to 2007 to re-emerge.

Perhaps this is a case of investors not seeing the forest for the green shoots.

Our view is that the share market was unrealistically high in 2007 because company earnings were at peak levels and share prices anticipated further high growth.

It was no surprise that prices would return to more realistic levels at some point but it was a huge surprise just how savage and quick the falls in equity prices were, taking more than 50% off Australian stock prices.

We believe that just as prices were unrealistically high in 2007, they also became unrealistically low in 2009, well below long-term averages and driven by an anticipation that the economy would be even worse than initially expected.

With that in mind, it seems to me that the recent buoyancy is more likely to be the market correcting the panic of 2008/2009 and returning prices to a more normal level than a new bull market.

Let's not lose sight of the big picture, the forest, if you will.

Once this cycle of correcting an overshoot on the downside is finished, further gains depend on real economic growth.

We believe that the path ahead is volatile and uncertain and that we would not expect the markets to reach their 2007 peaks any time soon, especially if the economy grows at a more modest pace.

On that basis we would not expect share prices to continue rising at a fast pace.

It is too early to say what might happen in the longer term. The unusual market volatility of the last year or so may continue for some time to come and much will depend on developments in the world economy. While I welcome the market rally and the return of investor confidence I couldn't say, to maintain the botanical analogy, that we are out of the woods just yet.

Online annual reports

Please note that in the future, we will no longer automatically post our annual report out to you in a printed form unless you specifically request us to do so. Instead, our annual report will be available on our website and in our September statement mailing we will remind you of this change and give you more detail on where and when you can view it online.



This will save the unnecessary printing and postage costs involved in sending out printed annual reports to members who may not be interested in receiving them by mail and will allow us to use the savings elsewhere to provide better services for you.

It also has considerable environmental benefits. We will need to use far less paper and our carbon footprint will be smaller because of the energy savings from a reduced amount of printing, collating, transport and postage activity. In addition, fewer annual reports will end up as landfill or fodder for recycling.

Printed annual reports will still be available for any member who requests one and if you would like one sent out to you please call Member Services on **1800 067 059**. Your request will be recorded and an annual report sent out to you when they are printed towards the end of this calendar year.

Give your home loan a "health check"

Mortgage rates have come off strongly since October last year when the Reserve Bank of Australia started slashing the official cash rate to lessen the impact of the economic downturn on home owners.

Whether we've seen the last of interest rate cuts is unknown, but some industry experts believe that fixed rates have reached their low point and will start to rise.

So what should you do if you are considering downsizing, a sea change or taking out a mortgage on your home?

Everyone's situation is different, but with market conditions changing, perhaps now is the time to conduct a "health check" on your home loan and we can help you with this.

As one of our valued members, you are able to secure one of the most competitive home loans in the market from Chifley Home Loans.

Chifley Home Loans offers you low interest rates, a choice of loans to suit your circumstances and a simple process that takes all the hard work out of getting and maintaining your home loan.

Remember that obtaining the best possible mortgage rate is vital to ensuring your long-term financial future. Every unnecessary cent paid on your home loan is money down the drain, which could have been better invested to help you boost your retirement nest egg.

So don't delay! Give your home loan a "health check" by calling Chifley Home Loans on **1800 800 002** today.

Some of our Home Loan features include:

- > **Application fee - \$0**
- > **Monthly account keeping fee - \$0**
- > **Free redraw facility - yes**
- > **Split loan fee - \$0**
- > **Electronic redraw fee - \$0**

The 2009 Federal Budget and you

Federal Treasurer Wayne Swan announced some changes in the May Federal Budget that may affect your retirement. Here is a summary of the changes you may need to know about:



Transition to retirement strategies and the new contribution caps

Transition to retirement strategies still remain attractive despite some changes announced in the Budget.

The cap on concessional or before tax contributions has been halved from 1 July 2009. For those aged below 50, the cap on concessional contributions will be reduced from \$50,000 to \$25,000 a year (indexed) from the 2009/10 financial year. The transitional concessional contributions cap for those aged 50 and over - or who turn 50 before the end of the 2011-12 financial year - will also be reduced from \$100,000 to \$50,000 a year (not indexed).

The annual cap on non-concessional or after tax contributions, however, will remain at \$150,000 in the 2009/10 financial year. After that, it will be fixed as six times the level of the (indexed) concessional contributions cap.

Nonetheless, a transition to retirement pension remains a tax effective strategy. However, you may want to discuss how the changes affect your strategy and how you can maximise your position with a financial planner. If you would like to speak to a planner please call 1800 800 002.

50% minimum pension drawdown relief extended from 1 July 2009

To assist pensioners hurting from the global financial crisis, the Government has extended its 50% reduction in the minimum drawdown requirement for account-based pensions to apply in the 2009/10 financial year.

The move, first introduced in February 2009, is aimed at providing relief to those who have to sell investments assets just to meet the minimum draw down requirement and are thus forced to realise losses on their investments in depressed markets when they don't need to.

Remember that the Government's announcement 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 draw down amount may affect your Age Pension entitlement.

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

A boost for pensioners

The Government has given you a boost if you rely on the Age Pension. From 20 September 2009, the single basic pension rate will be increased by \$30 per week. Single pensioners on the full rate of pension will also receive a new pension supplement of \$2.49. Pensioner couples on a full rate of pension will receive a combined increase of \$10.14 per week.

This means that single pensioners on the full pension rate will receive an extra \$1689 a year, while pensioner couples will get an extra \$527 a year.

A new Pension Supplement for seniors

From September 2009, the existing allowances and supplements will be replaced with a new Pension Supplement which incorporates and replaces the Utilities Allowance, Pharmaceutical Allowance, GST pension supplement and Telephone Allowance. The Pension Supplement will incorporate the higher rate of Telephone Allowance for all pensioners, regardless of whether they have internet connections or not.

The single rate of the Seniors Supplement will be topped up with an extra \$129 a year, to bring it to two thirds of the rate paid to couples. It will be paid fortnightly and from July 2010, pensioners will be able to choose to receive some of their supplement quarterly, reducing the amount provided fortnightly.

According to CentreLink, this change is designed to allow pensioners the flexibility to have some of the supplement paid when major household bills are due.



Age pension age to increase to age 67

The age threshold for the Age Pension and the Commonwealth Seniors Health Card will increase to 67 years of age from July 2023. The qualifying age will begin to increase from July 2017, by six months every two years.

Commonwealth Seniors Health Card (CSHC) – income test

The Government will adjust the definition of income used in determining whether you are eligible for the Commonwealth Seniors Health Card. Its assessment will exclude gross tax-free superannuation pension income, but will continue to include any income that is salary sacrificed to superannuation in the income.

The main changes are that the income threshold for the 30% tax rate will increase from \$34,000 to \$35,000 and the 40% tax rate will fall to 38%.

Increase in pension taper rate from 20 September 2009

From 20 September 2009, the income test taper will rise from 40 to 50 cents in the dollar for a single pensioner and from 20 to 25 cents in the dollar for each member of a couple with income above the income free thresholds.

To counter the above steps and encourage Australians to delay retirement, the Government will introduce a new Work Bonus scheme for people of pension age. It will exclude half of the first \$500 earned each fortnight from the income test.

This new scheme will replace the current Pension bonus scheme, which will be closed to new entrants from 20 September 2009. Existing members of the scheme and those who join before the cut off date will continue to receive their entitlements under the existing rules.

If you need further information about how the Budget affects you or your investment strategy, please call **1800 800 002** to make contact with a financial planner.

Fair Go Member Benefit Loyalty program

Save up to 60% on accommodation.

With more choice than ever, the Departure Lounge is ready to send you on your next holiday or short break.

You can search and book discounted accommodation at Peppers, Mantra and BreakFree properties throughout Australia and New Zealand.

These rates are exclusive to members and can be booked up to 12 months in advance. Plus if you can't find a suitable special, you can still book the best available accommodation rate at any of our hotels, apartments, resorts and retreats.

For more information and bookings, visit www.departurelounge.com.au. Your password is: memberb

What's on in NSW?

Mudgee Wine & Food Fair @ Balmoral Beach

When: 9 August **Where:** The Reserve, Balmoral Beach.
What: Live music, famous Mudgee produce and good food combine for a great day out by the sea.
Find out more: Phone **02 6372 3151**.

Sydney Design 09

When: 1 - 16 August **Where:** Powerhouse Museum, Ultimo.
What: Find out what design means to you. Highlights this year include a series of special night openings to ignite the spirit of modernism and an international market that brings designers from around the globe to discuss and sell their wares.
Find out more: Visit **www.sydneydesign.com.au**

Bangalow Music Festival 2009

When: 14 - 16 August **Where:** A&I Hall, Station Street, Bangalow.
What: World-class musicians, captivating chamber repertoire, delicious food.
Find out more: Visit **www.southernxsoloists.com**

Tweed Valley Banana Festival and Harvest Week

When: 14 - 23 August **Where:** Church Lane, Murwillumbah.
What: A street parade of over 100 floats kicks off the festival which celebrates the unique features, culture and produce of the Tweed Valley.
Phone: **07 5536 6737** or visit **www.bananafestival.org**

Newcastle Jazz Festival

When: 28 - 30 August **Where:** Newcastle City Hall, King Street
What: Jazz and blues with over 100 musicians.
Find out more: Phone **02 4942 2906** or visit **www.newcastlejazz.com.au**

Parkes Show

When: 31 August - 2 September **Where:** Parkes Showground.
What: Includes horses, wood chopping, trotting, sheep and cattle judging, farming and motor display, sideshow alley, Miss Show Girl Contest and a fireworks display.
Find out more: Phone **02 6862 2580** or visit **www.agshowsnsw.org.au**

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 create an estate plan to protect your assets in the event of your death? **We can help you.**

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

Seminars

2009 Pre-retirement Seminar Schedule

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.

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.

Date	Location	Day / Night	
11 Aug	Wollongong	Night	Please note: Evening sessions run from 5.30 pm-9.00 pm.
19 Aug	Liverpool	Night	
9 Sep	Tumut	Day	
15 Sep	Campbelltown	Night	
16 Sep	Albury	Night	
22 Sep	Lithgow	Night	
7 Oct	Parkes	Night	
14 Oct	Penrith	Night	
20 Oct	Eden	Night	
20 Oct	Lismore	Night	

To view further seminars throughout the year go to **http://www.futureplussuper.com.au/seminars/seminars.asp**

What's happened in investment markets?

In the second quarter of 2009 the domestic economy saw an improvement in sentiment with some positive news coming out of China and Australia avoiding a technical recession (defined as two consecutive quarters of negative GDP). The majority of economists predicted a GDP figure for the quarter of -0.2%, whereas the actual figure came out as positive 0.4%. This was largely driven by the economic stimulus package, which took full effect during April and May. The result of this was an increase in optimism among investors who had stockpiled cash during the recent equity bear market (a market in which prices decline sharply against a background of widespread pessimism) and were now more confident about looking for opportunities for growth.

Elsewhere, other developed countries did not fare as well. US and UK interest rates are at historic lows as central banks attempt to do anything they can to boost these economies. The UK has even been put on watch by ratings agent S&P, putting its AAA credit rating at risk of a downgrade. A downgrade would be a disastrous outcome for the UK government as it might discourage foreign investment and increase the risk of defaulting on debt. Meanwhile, unemployment in the US and UK has continued to rise, coming in at 9.4% and 7.2% respectively, indicating that a prolonged recovery may be some way off. Australian unemployment is currently at 5.7% with most economists expecting it to rise in July.

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 recorded a very impressive three-month return in excess of 11% for the period ending 30 June 2009. It gave investors some glimmer of hope after the marked volatility over the past 18 months. This quarter was actually the first three-month period since October 2007 to produce three consecutive months of positive returns. Investors slowly returned to the market as stocks were trading at very low and attractive levels, whilst institutional investors and fund managers were able to reinvest high levels of cash that had been held back during the bear market.

International Equities

Like the domestic market, international share markets rallied strongly during the quarter. The benchmark for world share markets, MSCI World Ex Australia index, performed up over 16% on a hedged basis. This was the third best 3-month return in a decade. Confidence appears to be returning among global investors but there is still a long way to go to recoup the losses of the past 18 months. Volatility still remains high compared with historic levels, indicating that a full recovery may take some time.

Listed Property

Listed Property investments bounced back during the second quarter of 2009, with the index returning over 15% during the three months. This is in stark contrast to the full financial year return which saw the asset class down over 42%. There is still a lot of fear surrounding Listed Property Trusts despite this recent resurgence as companies continue to hold high levels of debt.

Cash and Fixed Income

The Reserve Bank of Australia cut interest rates by a further 0.25% to a 49-year low of 3% in April with further monetary policy action aimed at stimulating a struggling economy. The general consensus is that rates will remain static for some time as inflation is at the lower end of the target range (2.5%-3.5%).

Credit rebounded strongly during the quarter, much in the same vein as equities. The Barclays Capital Global Credit Index was up 7.7% for the three months to 30 June recouping many of the losses of the past year and pushing the sector into positive territory for the financial year.

June saw Australian government bond prices fall by 2.5% to produce the worst 3 month period since the UBSA Government Bond index began in November 2002. This was driven by rising yields and an expectation of future increases in the rate of inflation. Despite this, the sector was among the best performing for the financial year as investors looked towards stable and liquid assets whilst share markets were falling.

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*Bookings are essential.
Phone 1800 800 002
to make an appointment.

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