LIFE Strategies TODAY

March 2012

Market Update

In January the market rallied 5.2%, the best start to the year since 1994 when it rallied 6.3%. In that year, however, it ended 12% lower. But that was after two very strong years. The strong start to this year follows on two weak years. That is not to say that we are in for a good year in 2012, but at least there is some momentum in the market.

Whilst we have had a good start to the year, better than many markets, overseas markets have risen more since the end of September and over the last 12 months. The FTSE Index (UK) for example, fell 2% over the last 12 months, and rose 14.5% since the end of September.

The Dow Jones Index rose 6% over the year, and has risen 18.7% since September. Indeed it is up 102% since the low in March 2009 to the end of February 2012 compared to the Australian market which is up less than 40% from this same low point.

The All Ordinaries Index fell 10.9% over the year and could only manage a rise of 7.8% since September.

Why our market lags so much is puzzling when the country is in such a strong position compared to most industrialised countries. I believe there are several factors that are working against our share market.

Productivity growth has been faster in the US than in Australia and the strong Australian dollar has cut into Australian corporate earnings from overseas whereas the US dollar has depreciated boosting earnings from overseas for US companies.

One of the reasons cited for our high dollar is that interest rates remain high. The US zero interest rate policy (ZIRP) is having a tremendous effect on its markets. I am not advocating that, but I think interest rates still remain too high. I think the RBA did the right thing easing late last year and pausing in the last couple of months – but there is mounting evidence that the economy is slowing and rates should be eased at least 0.50% over the next couple of months.

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On the resources front, China still has a huge impact on the fortunes of our mining and associated companies. By associated companies I mean those that are involved in the mining industry but not actually digging up the ore. Companies like Monadelphous, Worley, Campbell Brothers, and Orica. These companies supply mining services, and have been some of the best performing shares on the stock exchange.

The Chinese government recently cut its gross domestic product growth target to below 8 per cent for this year. It is the first reduction in that estimate in eight years - a recognition that the country's rate of growth is not sustainable. I expect China to stimulate its economy by lowering interest rates after a cycle of tightening last year.

Companies

The reporting season was mixed – the best that can be said is that in many cases earnings were not as bad as predicted. Analysts had far too many optimistic predictions which were downgraded progressively last year to more realistic levels.

Resource based companies generally met or exceeded targets (BHP was a notable exception), whilst retailers were predictably weak. However, the bad news had been built into prices. When JB HiFi, for example, announced a 9% fall in profits its share price rose (although it has since fallen to a 3 year low).

Profit figures are backward looking indicators – what is more important are expectations going forward. Analysts' forecasts drive share prices, and they have been hosed down dramatically for the next 12 months. This time last year our experts were expecting an average of 13% profit growth – the forecast is now for 3% growth for the next 12 months.

There have been fixed interest type issues since the start of the year. Origin, Woolworths, Tabcorp and Colonial have made subordinated debt issues, priced at between 3% and 3.75% over the 90 day bank bill rate. ANZ is issuing a subordinated note and Westpac is issuing a converting preference share which will pay 3.25% above the 180 day bank bill. It is important to note that these yields include the franking credit. The Westpac note equates to a yield of about 5.43% plus the franking credit. The yield at the current price on Westpac shares is 7.6% plus the franking credit.

Depressed share prices mean higher yields – one of the most attractive things about our share market at the moment. The list of stocks below shows the yield now at the price at the time of writing. Most of the shares are fully franked, a huge benefit for self managed super funds, particularly for those in pension phase when the franking credit is returned to you as a tax refund.

Company	Code	Price	Dividend	Yield	Franking	Total Yield
Monadelphous Group Limited	MND	$22.77	$1.05	4.61%	100%	6.59%
Commonwealth Bank of Australia	CBA	$47.91	$3.25	6.78%	100%	9.69%
National Australia Bank Limited	NAB	$23.42	$1.72	7.34%	100%	10.49%
Westpac Banking Corporation	WBC	$20.52	$1.56	7.60%	100%	10.86%
Telstra Corporation Limited	TLS	$3.25	$0.28	8.63%	100%	12.33%
Wesfarmers Limited	WES	$28.43	$1.55	5.45%	100%	7.79%
Woolworths Limited	WOW	$25.13	$1.24	4.93%	100%	7.05%
AGL Energy Limited	AGK	$13.97	$0.60	4.29%	100%	6.14%
Tatts Group Limited	TTS	$2.34	$0.22	9.40%	100%	13.43%
UGL Limited	UGL	$12.24	$0.72	5.88%	100%	8.40%
Stockland	SGP	$3.10	$0.24	7.71%	0%	11.01%

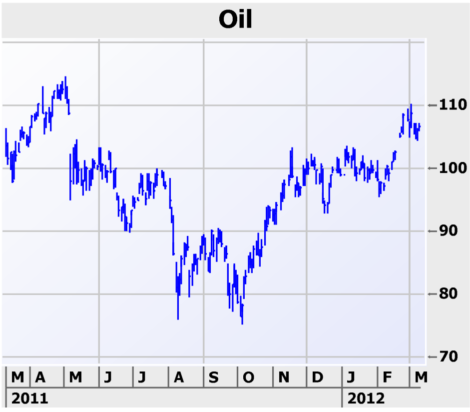
The average dividend yield on this portfolio would be 6.6% plus the franking credit, which would take it up to 9.43%. This is a better yield (income return) than cash, term deposits or fixed interest, but of course we need to be comfortable with the total return from all investments not just the yield.

Commodities

The last month or so has seen increased volatility in many commodities, and until very recently a recovery from the weakness we saw late last year. Gold fell to almost $1500 /oz in December 2011. It recovered to $1800/oz but has recently fallen below $1700/oz. Warren Buffet doesn't like gold because it doesn't do anything. He is the world's most successful investor so he should not be ignored. But he has never like gold and since the late 1990's it has risen by over 6 fold.

Copper bottomed at $3000/t in 2009 – it bounced to a record high of $10,000/t 2 years later and has since fallen back to $8,500/t. In December it bottomed at $7,000/t. Copper is the most used metal in the world – its demand reflects world economic growth. It is in demand because of development in industrialising countries.

Oil rose to $112/b in May 2011. Having fallen to $28/b in the aftermath of the GFC. It fell to $75/b late last year and is currently trading at $107/b. Suddenly everyone is bullish on oil, like they were in 2007/2008. Oil is a self-limiter – when it gets too high the demand falls – people start using public transport or look for other ways not to drive.



Economic activity falls, and thus the demand for oil falls. It may go higher but if it gets back to $150/b as it did in 2008 I don't think it will stay there for long.

The $A over parity is wonderful for online shopping from the US and overseas travel however it is hurting parts of our economy particularly domestic tourism and retail, not to mention the A$ share of corporate profits earned overseas.

Economy

The economy expanded 0.4 per cent in the December quarter, compared with the revised 0.8 percent pace reported for the September quarter, according to the Australian Bureau of Statistics. Economists had tipped economic growth of 0.8 per cent for the December quarter.

For the year, the economy grew 2.3 per cent, a shade less than the 2.4 per cent predicted by economists. The rate was also slower than the revised 2.6 per cent pace recorded at the end of September.

Final demand rose 0.8 per cent in New South Wales, seasonally adjusted, but declined 0.5 per cent in Victoria in the quarter.

In Queensland, it rose 1.2 per cent but fell 2.4 per cent in Western Australia, showing the state's reliance on resource-related activity with commodity prices sinking during the quarter.

In South Australia demand increased 0.2 per cent in the quarter. In Tasmania it fell 0.9 per cent in the quarter, seasonally adjusted, while in the Australian Capital Territory it increased 1.5 per cent in the quarter.

Despite the strength of the mining boom, business investment was part of the drag on the economy in the final three months of 2011, shaving 0.2 percentage points off growth in the quarter.

Dwelling investment sliced a similar amount off GDP growth as the property sector continued to struggle in many parts of the country.

On the plus side consumption added 0.3 percentage points to growth in the quarter. Inventories - a mixed signal for the economy - added 0.3 percentage points to the quarterly growth result.

Unemployment figures, released the day after, showed a worsening picture in the jobs market.
The number of people in part-time jobs fell 15,400 for the month while full-time employment remained steady.

Mortgages and Lending

Life Strategies established an association with Boss Outsourcing Solutions ("BOSS") in 2007 to provide mortgage broking services to our clients. For more information on this service please talk to your adviser or refer to http://lifestrategies.net.au/our-services/mortgage-broking

The information below is compiled by Paul DeGatesbury. Paul is an Australian Credit Licensee with Boss (Licence No: 400492). *The contents of this article are Paul's opinions and do not take into consideration anyone's personal situation. Please speak with your Adviser before making or acting on any information contained. For more news and tips, go to www.twitter.com/BossAustralia*

Market Update

The last couple of RBA meetings have seen the cash rate holding steady. But this hasn't stopped the banks from increasing their variable rates, claiming global cost of funds as the reason. With their credit rating dropping recently, this may not help.

We have also seen fixed rates increase slightly; fueling further speculation rates might be on the up. However fixed rates are still great value, as you will see in the following section.

From 1 January, 2012, lenders are required to provide a Key Fact Sheet to the consumer if requested. The purpose of this is to make it easy to compare the various loans on offer from different providers.

Current Rates available

Here is a selection of the best offers covering a range of products:

- 3 year fixed rate 5.99%
- 5 year fixed rate 6.45%
- basic variable rate 6.45%
- professional package variable at $250k is 6.55%

professional package variable at $500k is 6.49%

General thoughts

With exit fees abolished, any time is a good time to review your loan structure and product, to make sure you are getting the best deal possible. We are only too happy to help you review your situation without any obligations on your part.

Consider fixing part or all of your loan

Boss can also assist you with your asset finance requirements and with self managed super fund loans

Rate Lock

Did you know that if you apply for a fixed rate and the rates go up on the market in between the time of your application and settlement, you would be subject to the higher rate?

To overcome this, all banks offer what is called a 'rate lock'. This is where for a fee (varies by lender) you can lock in your rate at the time of application (or approval depending on the lender).

Understanding Life's risks

Life insurance gives you the financial strength to support you or your family through their most difficult times. During your lifetime there's a pretty good chance that you'll need a hand at some stage:

- 50,000 Australians have heart attacks every year.[1]
- One third of women and a quarter of all men will suffer cancer at some stage in their lifetime – over 60% of whom will live for longer than five years after diagnosis.[2]
- More than 43,000 people are expected to die from cancer each year.[3]
- Half of all men and a third of women will be diagnosed with cancer before the age of 85.[4]
- Over 1,600 people die on Australian roads every year, most aged 26 - 59 years.[5]
- One stroke event occurs in Australia every 12 minutes.[6]
- Just under half the population with an arthritis-associated disability are aged 15-64.[7]
- With symptoms generally developing between ages 20-40, Multiple Sclerosis is the most common chronic central nervous system condition among young Australian adults.[8]

Having the right type and level of life Insurance cover in place allows you to:

Preserve your and your family's lifestyle – life insurance enables you to continue to make mortgage, rent and other payments and can help you to pay off debt. More than this, it empowers you to keep on doing everyday things such as spending precious time with family and enjoying the other things you love.

Stay in control and enjoy freedom of choice – some of the biggest benefits of life insurance cannot be seen and touched. Having sufficient funds to be in control during difficult times and having the freedom to choose treatment and lifestyle options are priceless.

Reduce stress and take better care of yourself – suffering from a serious illness or overcoming the death of a family member can be made even more stressful if you're struggling to meet your financial commitments. Life insurance can reduce your stress so you can focus on your emotional or physical recovery.

[1] Heart Foundation, Australian Facts 2004: Heart, Strokes and Vascular diseases 2004)
[2] Cancer Council: (www.cancer.org.au), *Cancer in Australia: an overview, 2008 Australian Institute of Health and Welfare (published December 2008)*
[3] Cancer Council: (www.cancer.org.au), *Cancer in Australia: an overview, 2008 Australian Institute of Health and Welfare (published December 2008)*
[4] Cancer Council: (www.cancer.org.au), *Cancer in Australia: an overview, 2008 Australian Institute of Health and Welfare (published December 2008)*
[5] Australian Government, Road Deaths Australia 2007
[6] Australia's Health 2008, Australian Institute of Health and Welfare, June 2008, ING Life
[7] 'Australia's health 2008' Australian Institute of Health and Welfare, June 2008
[8] 'Multiple Sclerosis – a $2 billion disease in Australia' Media release by MS Australia, www.mssociety.com.au

Minimum Pension drawdown relief

Minimum Pension Drawdown Relief Extended

Drawdown relief for account-based pensions will be extended to the 2012-13 year, with a 25 per cent reduction in the minimum payment amounts for these products.

The reduction in the minimum payment amounts will apply to account-based, al-located and market linked pensions.

Regulations giving effect to this change will be made before the new financial

Tax Changes for 2012/ 2013

Due to Government's new carbon tax, there are some changes being made to the individual tax rates from 1st July 2012. In order to ease the burden on the low income earner, the tax free threshold will increase from $6,000 to $18,200, although the Low Income Tax Offset (LITO) will be reduced from $1,500 to $445. This means that you may earn $20,542 before paying any income tax.

The first marginal tax rate will be increased from 15 per cent to 19 per cent, and will apply to that part of taxable income that exceeds $18,200 but does not exceed $37,000. For further information on these changes follow this link to the ATO, http://www.ato.gov.au/content/00309813.htm.

The Senior Australian's Tax Offset (SATO) is having a name change to Senior Australi-an's and Pensioner's Tax Offset (SAPTO).

If you are eligible for the SAPTO and the Mature Age Tax Offset (MATO), then with the LITO you could have a taxable income up to $31,600 without paying tax. If you are not sure if you have the correct 'disease' call us for a review!

Download the QR code application on your smartphone then scan this code and it will take you directly to our website!

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