TODAY

September 2012

Market Update

Much of the recent action has been in the resource sector as iron ore prices plummeted amid speculation that the mining boom is over as Chinese demand for our resources has peaked.

On August 31 a colleague attended a talk given by Nev Power, CEO of Fortescue. Mr Power outlined the company's plans for growth including a target of 155 million per annum within 18 months. His view of the iron ore market was that a stimulus package would result in a rebound in iron ore prices to $120 per tonne in the near future.

Within 3 days he had called an emergency meeting with the companies senior management and by the following Tuesday had announced staff cuts and the deferment of development until iron ore prices return to more sustainable levels.

We suspect that Fortescue's bankers were behind the cost cutting and project deferment. As we write, Fortescue has entered a trading halt amid news that it is in discussions with its bankers about potential waivers of its debt covenants.– since announced that these have been renegotiated.

To pin your hopes on a stimulus package is a risky business. China's problems are rooted in Europe and the US. Both these areas are experiencing sluggish economic growth – or in the case of Europe some economies are shrinking – therefore the demand for Chinese goods is weak.

China has also over-developed. Entire cities have been built but remain unpopulated. There is an element of the emperor's new clothes here – everyone seems to be turning a blind eye to what is happening in China.

Our colleague compared Nev Power's talk to an episode of the Simpsons. Homer buys a snow plough and enters the business of clearing roads and driveways of snow. His friend Barney buys a bigger plough and threatens to put Homer out of business. They join forces and in a moment of euphoria Homer declares "Now nothing can stop us". Then the sun comes out.

The point is companies like Fortescue are dependent on iron ore prices remaining well above $100. They are a price taker, like all resource companies. Its fortunes are in hands of forces beyond its control.

Quantitative Easing

Quantitative easing (QE) is a monetary policy tool used by central banks to stimulate the national economy when conventional monetary policy has become ineffective. A central bank implements quantitative easing by buying financial assets from commercial banks and other private institutions with newly created money, in order to inject a pre-determined quantity of money into the economy. Quantitative easing increases the excess reserves of the banks, and raises the prices of the financial assets bought.

As we write the US has announced a third round of quantitative easing (QE3). QE1 took place between November 2008 and March 2010 and amounted to over $1.4 trillion of liquidity pumped into the economy. QE2 was between November 2010 and June 2011 when the Fed injected another $600 billion. This one will be more modest – we have read a figure of $275 billion.

The Fed announced QE1 in March 2009 even though it had been expanding its balance sheet since November 2008. The market had bottomed in early March and I don't believe the formal announcement of QE1 by the Fed caused a market turnaround – it was already on the way up after falling by over 50% in the previous 18 months. No doubt the Fed's actions helped to sustain the rally.

The next announcement was in November 2010. The Dow Jones Index rose by 2% but fell for the next month. It then rallied for the 6 months. Overnight the market jumped 2%. The Dow Jones Index now stands at 13,539, just 4% below its all time high close. Given this has been a crisis of US making that is an extraordinary performance. In the past year The All Ordinaries Index has underperformed the Dow Jones by 16% and in the past 2 years it has underperformed by 12% per annum.

The reasons for this are manifold:

- until recently we have had a high interest rate policy versus the US zero interest rate policy
- we have had a contractionary fiscal policy versus the US expansionary policy
- we have introduced 2 major taxes: carbon tax and mining resource rent tax

We are not passing judgement on any of the foregoing points, but when they happen simultaneously, at a time when Europe is undergoing a profound crisis of its own; contractionary policies will sap confidence and the share market will struggle.

The Fed's move is dangerous and unprecedented. The continuous printing of money must result in a rise of inflation. US policy makers would welcome this for the moment, but once inflation starts to creep into the system it can be very hard to control.

This is one of the arguments for the rise in the gold price. Gold is used as a hedge against inflation. When QE1 was announced gold rose 8% to $960/oz. When QE2 was announced it rose 3.4% to $1383/oz. When QE3 was made public it rose 2.2% to $1772/oz.

Changes to NSW Government First Home Owner Grant

Until 30 September, the First Home Owner Grant is $7,000 and available to *eligible* first home owners purchasing a new or established home.

From 1st October, the grant increases to $15,000 and is only available to *eligible* first home owners for the purchase or construction of a new home. This amount will reduce to $10,000 on 1st January 2014.

Further information can be found at:

http://www.osr.nsw.gov.au/lib/doc/factsheets/ofs_fhb7.pdf

Life Strategies & ONE10 – A new partnership

Life Strategies and ONE10 are pleased to announce a new alliance to provide quality finance and lending services to Life Strategies clients and their family and friends.

Why this partnership?

The Life Strategies team realise how important a part debt plays in our lives. Although most people associate debt to something that costs money and gets in the way, if used wisely debt can:

- Help you buy your family home
- Help you buy a business that sets you up for the future
- Controlled leveraging of investments for greater returns

We also agree debt is at times misused and can cause a great deal of heartache.

For both these reasons, it is important to have the expertise of your adviser together with our 20-years of combined lending experience, to ensure your finances are looked after and that you are making the right financial decisions for your business, your life and your future.

Some great offers on the market

Here are some great offers currently available.

Every now and then an amazing fixed rate hits the market. CBA and St George have a fixed rate of 5.59% that both new and existing clients can take advantage of.

If you are looking for a basic loan with a very low variable rate, look no further than AMP. Their Essential Loan comes with a rate of 5.90% with no ongoing fees or charges, and redraw is available!

For a limited time, CBA is offering clients $700 to refinance with them. This offer ends 30 September

Of course all of the above offers come with standard lender terms, so talk to us before making any decisions so we may assess your individual suitably.

How can you use our service?

It's simple; contact your Life Strategies team as normal. They will understand your needs and then contact us.

We look forward to working with Life Strategies, and with you.

ONE10 is an Australian Credit Licensee. Licence number 407713

What does Trauma insurance do?

Most of us have taken out house insurance, contents insurance, car insurance, hospital insurance and even life insurance without too much fuss. Many have been convinced that they cannot operate without income insurance or total and permanent disability insurance. Yet only about 2% of us have trauma insurance.

The credit for trauma insurance goes to Dr Marius Barnard, a South African surgeon who took part along with his brother, Christian Barnard, in the world's first heart transplant in 1967. Having done many surgical operations since then, Dr Marius Barnard says he has seen many medical success stories as surgical techniques have improved. "But when I went into private practice I could not help but notice that while many patients eventually fully recovered medically, they suffered severe financial problems".

"This was not because of the cost of the operation but because of the disruption to their lives and their loss of income."

"One case I came across a few days ago concerned a 40-year-old successful businessman who needed heart valve replacement. The operation was a success but he lost not only $40,000 in income while he was recovering but his business as well."

So what is trauma insurance and how does it fit in with what appears to be similar policies such as life insurance, total disability insurance and income protection insurance?

Life insurance, which should be called death insurance, pays out when you die. Total disability insurance pays out a lump sum if you have an accident or become so sick that you can never work again in your normal occupation. Income protection insurance makes regular payments to those people in the workforce who have an accident or injury that stops them working. Normally this policy will pay 75% of your earnings for a specified period of time or until you recover.

Trauma insurance pays out a lump sum when your doctor diagnoses that you have a specified dreaded disease. To collect, you do not have to be in the paid workforce, you do not have to die first and you are paid even if it appears you will fully recover. Housewives, for example, are taking out trauma insurance as it means they can hire someone to do housework and look after their children while they are recuperating.

Originally trauma insurance covered only four events – stroke, heart attack, cancer and coronary artery surgery.

Now, though, the range of illnesses and diseases covered has expanded to over 60 in some policies.

Depending on the policy, and they vary from one life company to another, you can be covered for such things as major accidents causing paraplegia, loss of limbs, severe burns, head injuries, comas, loss of speech, deafness, blindness, chronic kidney failure, major organ transplants, occupationally acquired HIV and even Alzheimer's disease and severe diabetes.

Some policies incorporate a death benefit – which means should you die, the policy pays out.

The main purpose of trauma insurance is to:

Help pay for medical and rehabilitation costs and treatment not covered by health insurance, Medicare or the Pharmaceutical Benefits Scheme. There is always a gap to pay

- Allow you the option to seek specialist medical treatment and medication that is either too expensive or is not available within Australia.
- Provide short or longer term income replacement
- Repay your mortgage or other debts
- Pay for home nursing care or assistance around the home or for someone to help look after the children while you recover

Generally to provide you with options and to relieve you of financial pressure during a stressful period so as to allow you to focus on recovery rather than worrying about your finances. You can even use the money to take a holiday to aid recovery.

Contact us to discuss your life insurance needs which should include some trauma cover for most of us.

FoFA in plain English

Understanding the Reforms

With trillions of dollars pouring into superannuation, an ageing population and increasing strain on the public pension system, the Government has long been aware of the need to support Australians to make wise choices about their money.

From 1 July 2012, Future of Financial Advice (FoFA) reforms were introduced. FoFA is designed to encourage Australians to seek financial advice and boost consumer trust in obtaining financial advice.

The financial advice industry has twelve months to make the transition to comply with these laws which become compulsory on 1 July 2013.

What are the new laws governing financial advice?

The changes area summarised in the following table.

Not all financial planners are the same

Financial planners who are members of the Financial Planning Association have additional standards to meet above and beyond the law which give you extra peace of mind when getting advice from an FPA member.

Sharni Tucker and Michael Huskic at Life Strategies Financial Services are both members of the FPA, with Sharni holding the Certified Financial Planner designation and Michael working towards his.

Life Strategies has since its inception in 1995 always been a fee based practice and where clients were paying a fee all investment and superannuation fund commissions are rebated wherever practicable. As such the FOFA reforms are not philosophically a significant change although as details about the implementation of the reforms come to pass we will have work to do to develop new forms and processes including the annual fee statement mentioned in the table.

Area of advice	Before 1 July 2013	After 1 July 2013	FPA members...
Adviser (commission) payments from investment and superannuation products.	Financial planners could be paid a commission by product providers which meant that their advice to you could have been biased.	Financial planners can no longer be paid a commission by product providers.	From 1 July 2012, FPA members have an additional professional obligation to clearly explain the initial and ongoing fees you will pay, including any product and administration fees.
Client first (Best Interest)	Financial planners are not bound by law to act in your best interests.	Financial planners are bound by law to offer advice in your best interests. You have additional grounds to lodge a complaint if you believe that this is not happening.	Have always had a professional obligation to put your interests first.
Ongoing service	Your financial planner did not have to tell you the fees you pay on an ongoing basis.	Your financial planner must send you an annual fee statement every year. You may be asked if you want to continue your relationship with your financial planner every two years. If you say no or don't reply, your access to that financial planner will stop.	Already have a professional obligation to explain clearly how your relationship will work, including fees and charges for any ongoing services. You have the power to stop paying for services at any time if you no longer require them.

SMSF Law Changes

The SIS Act has now been changed to require, for the 2012-2013 financial year and beyond, that:

1. trustees of self managed superannuation funds (SMSFs) consider insurance for their members as part of the fund's investment strategy;

This does not mean that life insurance must be included in every Fund but it does mean that the Investment strategy should show that the matter has been appropriately considered.

Where your fund is administered by LSFS we will address this when we prepare the FY 2013 financial accounts and minutes for your fund.

2. money and other assets of an SMSF be kept separate from those held by a trustee personally and by a standard employer- sponsor or an associate of a standard employer-sponsor;

This has always been the case but is now an operating standard which gives the ATO greater enforcement powers.

3. SMSF assets be valued at market value for reporting purposes.

This formalises a previous ATO guideline that we have always abided by.

Recent changes to Superannuation:

- the superannuation guarantee (SG) rate will gradually increase from 9% to 12% between 1 July 2013 and 1 July 2019
- the SG age limit of 70 will be removed from 1 July 2013, and employers will be required to contribute to complying super funds of eligible mature age employees aged 70 and older
- The SMSF Supervisory levy has been increased from $180 to $200 and will apply for the 2012 financial year. It is then expected to reduce to $191 in 2013 financial year.
- A new government super payment, called the low income super contribution (LISC), started on 1 July 2012. It will help eligible low income earners save for their retirement.
- LISC is for people who have an adjusted taxable income of $37,000 or less per year. People who are eligible for LISC will get a government super payment that is 15% of their concessional contributions, which includes super payments that an employer makes on a person's behalf from their before-tax income. The maximum payment will be $500.
- Members don't need to apply for LISC. The ATO will work out their eligibility using information on their tax return or, if you don't lodge a tax return, using other information they collect.
- Where possible, the ATO will pay member's LISCs to their super fund including SMSFs electronically. Payments will be made within 14 months from the end of the financial year in which the concessional contributions were made. The first payments will be in the 2013-14 income year.
- The existing super co-contribution program also aims to boost the super of low to middle income earners. The super co-contribution continues in the 2012-13 financial year. We will notify you in May June 2013 reminding you to make a non concessional contributions for this purpose where we believe you may be eligible.
- A new Contributions Tax on Concessional contributions where an individual earns over $300,000 in FY 2012 The definition of income includes taxable income, concessional superannuation contributions (both superannuation guarantee charge contributions and salary sacrifice contributions), adjusted fringe benefits, total net investment losses, some foreign income, tax-free pensions and benefits less child support.
- Where the $300,000 limit has been breached because of the level of concessional contributions the 30% contribution tax rate will only be applied to the amount of the contribution which caused the breach. On this basis an individual with $280,000 in taxable income who has made a $25,000 concessional contribution would pay the 30% contribution tax on $5,000.

Recent Training Attended

Our team regularly attend Professional Development sessions offered in relation to their work. These are some of the courses completed in the last quarter.

Sharni

Pathway Leadership and Development Day, an FPA seminar on financial planning & ethics and 2 investment- related webinars.

Sharni will be in Vietnam the second week in October for the annual FPSA conference, which brings together all the other advisers licensed through FPSA to attend professional development sessions and share ideas.

Michael

Pathway Leadership and Development Day, an FPA webinar on Attributes & Performance and a Statement of Advice workshop run by our licensee, FPSA.

Barbara

Barb attends BGL update courses regularly to assist with changes and efficiencies in preparing SMSF accounts. She also undertook the first intake of Institute of Chartered Accountants new CA SMSF Specialist Designation and qualified.

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

Contact:

Life Strategies

P: 02 9487 8200

F: 02 9487 8201

E: yourfinancialcoach@lifestrategies.net.au

Would your family or friends benefit from reading our newsletter?

Please feel free to forward our newsletter to them if there are items you think would be relevant and could benefit them.

If you require extra copies please do not hesitate to contact our office.