



Financially Speaking

Brought to you by your Financial Planner
an Authorised Representative of
Lonsdale Financial Group Limited

Edition 20 2008

Inside this edition

- Riding through the volatility
- Behavioural investing – why investors are creatures of habit
- Retirement short cuts for baby boomers
- What's your most valuable asset?
- Philanthropy – structured opportunities to give
- Matters of the heart

Riding through the volatility

Recent market volatility might be prompting investors to re-think their investment strategy. But it's at times like these, that remaining with the investment strategy is more important than ever.

It has certainly been a roller-coaster ride for global share markets over the past 12 months. The Australian share market returned -13.4% (including dividends) over the 12 months to 30 June 2008 – its first negative financial year return in five years.

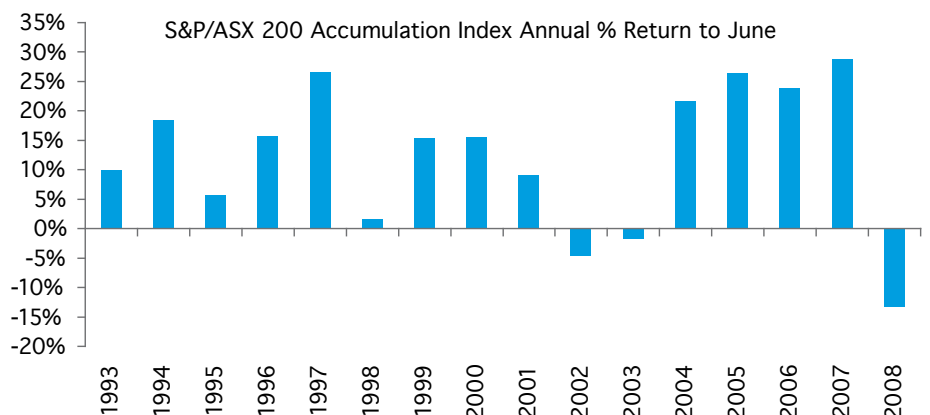
It is worth mentioning that the Australian share market has delivered incredible

returns over the previous four financial years (as shown in Chart 1), averaging around 25% per year (including dividends) from 2004-2007 – well above the 12.43% pa average over the period 1993-2008.

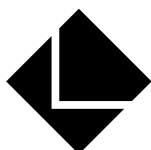
What's upsetting the markets?

The global markets' woes have largely been due to the US sub-prime mortgage crisis and the subsequent global credit squeeze, resulting in higher borrowing costs. In more recent months though, record high oil prices, higher food prices and hence rising inflation, have been a more dominant concern, as this generally means higher interest rates and a slowing in economic growth.

Chart 1: Australian share market strong returns comes to an end



Source: Morningstar and Tyndall Investment Management. Past performance is not an indicator of future performance.



LONSDALE

Lonsdale Financial Group Limited
Australian Financial Services Licensee
Licence Number 246934
www.lonsdale.com.au

How does this affect Australia?

Australia has had relatively limited direct exposure to US sub-prime mortgages, but the higher borrowing costs have impacted those local companies that were highly leveraged such as Centro, ABC and Allco.

The Australian market has actually fallen more than the US, reflecting in part its higher weighting in financial stocks (40% including listed property trusts), versus the US (which has around 20%). Financial stocks have been particularly impacted

by the credit crisis. The Australian share market is also feeling the effects of higher official interest rates.

On the positive side though, Australia has benefited from its trade relationship with the booming Chinese and Indian economies. The urbanisation of China and India has been a boon for Australian resource companies.

Investing in cash not the solution

During such volatile times term deposits and cash management trusts, which are

currently offering interest rates of up to 8% pa, might seem like an attractive option. However switching out of shares into cash may result in locking in losses and it can also be detrimental to long-term performance.

Returns on cash and cash-like investments are relatively high now – but this is unlikely to be sustained, as history has proven (see Table 1). Over the last 20 years, cash has only once been the best performing asset class and that was in 1990.

Table 1: Each year's best and worst asset classes is random

 Yellow = Best performing asset class that year  Blue = Worst performing asset class that year

Annual return to June						
	Australian Equities	International Equities	Cash	Australian Fixed Interest	International Fixed Interest	LPTs
1989	3.5%	15.3%	16.0%	7.2%	16.7%	-0.1%
1990	4.1%	5.3%	18.3%	17.2%	13.5%	15.2%
1991	5.9%	-5.8%	13.2%	22.3%	15.3%	7.7%
1992	13.3%	-3.0%	8.7%	22.1%	15.0%	14.7%
1993	9.9%	17.3%	5.7%	13.9%	13.7%	17.1%
1994	18.5%	6.7%	4.9%	-1.1%	1.5%	9.8%
1995	5.7%	3.7%	7.0%	11.9%	12.5%	7.9%
1996	15.8%	27.7%	7.8%	9.4%	11.3%	3.6%
1997	26.6%	26.0%	6.5%	16.8%	12.1%	28.5%
1998	1.6%	22.1%	5.1%	10.9%	11.2%	10.0%
1999	15.3%	15.9%	5.0%	3.3%	5.5%	4.3%
2000	15.5%	12.6%	5.4%	6.2%	4.9%	11.9%
2001	9.1%	-16.0%	6.0%	7.4%	9.0%	13.9%
2002	-4.7%	-19.3%	4.6%	6.2%	7.7%	14.9%
2003	-1.7%	-6.2%	4.9%	9.8%	12.2%	12.1%
2004	21.6%	20.2%	5.2%	2.3%	3.1%	17.2%
2005	26.4%	9.8%	5.5%	7.8%	12.3%	18.1%
2006	23.9%	15.0%	5.7%	3.4%	0.1%	18.0%
2007	28.7%	7.8%	6.3%	4.0%	-10.1%	25.9%
2008	-13.4%	-21.3%	6.6%	4.0%	8.1%	-37.8%

Source: Morningstar and Tyndall Investment Management. Past performance is not an indicator of future performance.

Indices are as follows:

Australian Equities: S&P/ASX 200 Accumulation Index

International Equities: MSCI World Index ex Australia (with dividends reinvested) exp in AUD (unhedged)

Cash: UBSA Bank Bill Index

Australian Fixed Interest: UBSA Composite Bond Index

International Fixed Interest: JP Morgan Global Traded – Ex Australia Total Return Index Hedged in Australian

Chasing last year’s best asset class not the answer either

Chasing last year’s best performing asset class is not a wise strategy either. As Table 1 shows, each year’s best has been a random outcome. Sometimes last year’s best can actually be next year’s worst performing asset class. Interestingly last year’s worst performing asset class can actually be next year’s best (ie 1992/1993 and 1995/1996 with International Equities, 1996/1997 with Listed Property Trusts and 2007/2008 with International Fixed Interest).

It’s “time in” not “timing”

Trying to time when to enter and exit a market or asset class is a difficult task – few investors get it right. When markets turn they can rise very quickly and being out of the market when this occurs can be costly.

Let’s look at an example. If you had invested in a portfolio that replicated the S&P/ASX 200 Accumulation Index over the period June 1998 to June 2008 and stayed invested the whole period, you would have earned an average annual return of 11.37%,

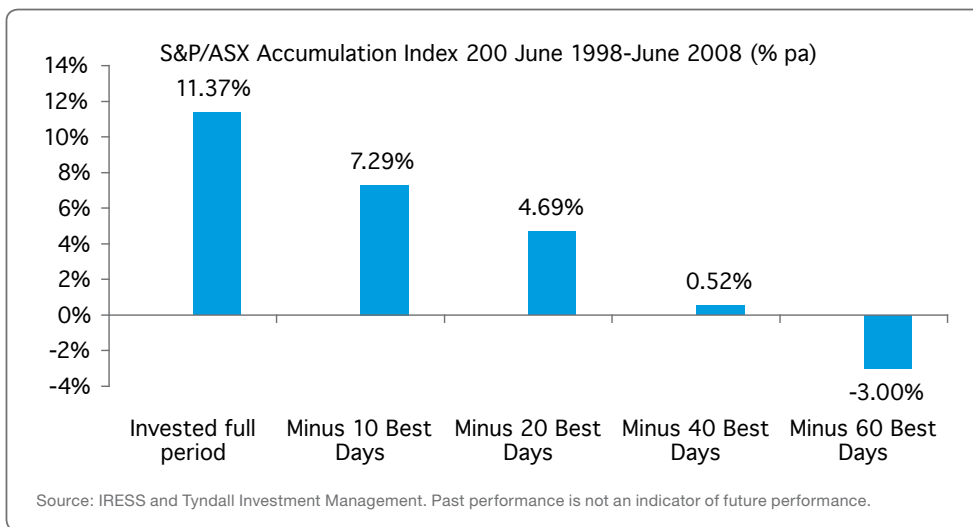
before fees and tax (see Chart 2). However if you were out of the market for the 10 best days over this period your return would have been 7.29% pa. A 4% pa difference in returns can make a substantial difference to the value of your investment over the long term.

Over the course of any market cycle the share market will invariably suffer setbacks. History has shown that it has always bounced back and continued its upward trend. Rather than chopping and changing investments to chase the highest returns, a far better strategy, particularly during periods of high market volatility, is to stay focused on your long-term goals and have an appropriate investment strategy in place to meet these goals.

Your financial planner can assist you in planning for your future. Call your financial planner today.

Source: Tyndall Investment Management Limited

Chart 2: Being out of the market when it rises can be costly



Behavioural investing – why investors are creatures of habit

It's little surprise that bulls and bears are used as symbols of different markets as they are distinctly moody animals. Investors, both individually and collectively, are equally prone to making decisions based on mood, emotions and simple herd instinct. It's called behavioural investing and it's particularly important to be aware of it during periods of market volatility.

We like to run in packs

Irrational investing can take hold of the most seasoned investor and it's often because 'everyone else is doing it'. The share market tech bubble of the late 1990s was a perfect example. Fabulous fortunes were to be made from hi-tech stock and their prices skyrocketed. Huge premiums were paid on companies that had very little underlying value, because everyone believed they would be valuable. In 2002 the bubble burst and the NASDAQ plunged to a six year low.

What this means for current market conditions

Since November 2007 the Australian share market has been volatile. Many investors are experiencing market volatility for the first time and it can be unnerving. It's a natural instinct to do what it seems like everyone else is doing: selling their shares or investments. This is made worse by media reports and newspaper headlines sensationalising falls: 'Billions lost in a day!'

Sensation sells

For the media, running stories about billions of dollars being wiped from the value of shares, with graphs of red lines plunging downward, means good business for them but unsettling times for everybody else. It seems like suddenly thousands of investors are much poorer. However, this is not the case. Although the value of some investors' investments has gone down, investors are only poorer if they sell their shares or investments at a loss. By 'spooking' people with headlines – making the herd run – the media can sometimes influence people to make decisions they may not otherwise have considered.

Look beyond the share price

The general consensus is that the economic fundamentals of the Australian economy are sound. The economy here is not close to recession (the opposite in fact). Rather than being blinded by current share prices, investors should look at the company behind the share price and whether it has sound management practices, low debt levels and positive profit forecasts.

The risks of selling during a downturn

While it's a natural reaction to want to sell your investments during a market downturn for fear of losing more money, investors should always pause and think. Markets continually fluctuate but over time the consistent trend is upward. By taking a long-term view and staying in the market, investors could ride out the lows of the market and access its potential growth. Not being in the market for the full period could mean you walk away from any returns achieved during the period out of the market.

Disciplined investing

One kind of investor that everyone should be, regardless of their instincts, is a disciplined one. This is particularly true of fund managers. Fund managers rein in their natural instincts to ensure their decisions are based on sound research and judgement. A disciplined investor will make sure a portfolio is always balanced and diversified, and generally will not sell their investments at the bottom of the market and will not buy in a bubble. By understanding what kind of investor you are, and ensuring your decisions are based on rational thought, you are more likely to benefit over the long term and achieve your financial goals.

What type of investor are you?

From a behavioural point of view there are three main types of investors. It's a good idea to work out which type you are. It may help determine what sort of investment decisions you are comfortable with and also what sort of behavioural investment decisions you might make.

Source: Colonial First State

	Trend followers	Contrarians	Holders
Instinctive behaviour	Tend to follow the herd. If the market is falling they feel the urge to also sell shares. If the market is rising they feel they should jump on board for fear of missing out.	Like to swim against the tide. They see a general movement as an opportunity to do the opposite. They might buy during market downturns and sell during upswings.	Simply stand their ground. They hold onto their shares for the long term and don't respond to market fluctuations.
Opportunities	Can make gains by following market moves and picking up on general trends.	Can seize opportunities when the market is behaving irrationally.	Can see out market fluctuations and make long-term gains with minimum transactional costs.
Danger	May respond to irrational market panic and ignore fundamentals.	Everyone is not always wrong, a stock may be cheap because underlying fundamentals are weak.	May hold onto stocks beyond their usefulness in a portfolio – sound reasons for purchasing a stock may no longer be valid.

Retirement short cuts for baby boomers

Nearing retirement and want to work part-time or make a career change but can't afford to? The transition-to-retirement rules let you tap into your super to supplement your income.

The Government's Transition to Retirement (TTR) policy allows anyone who has reached preservation age (55 for those born before 1 July 1960) to access their super as a non-commutable income stream (NCIS) without having to quit the workforce. A non-commutable income stream is simply a type of pension that doesn't allow you to access the capital.

If a person wants to reduce the number of hours they work, this strategy can be used to generate supplementary income. Likewise, it can be used by someone contemplating a late life career change, such as starting a new business, to derive a steady income during the start-up phase.

The TTR rules have a further application of allowing a person who continues to work full-time to boost their super savings. This approach incorporates other strategies, such as salary sacrifice and making deductible contributions to super.

Salary sacrifice is a workplace arrangement whereby the worker forgoes part of his/her gross salary in return for additional employer super payments. Meanwhile, self-employed and substantially self-employed individuals (or others who don't receive employer super contributions) can claim a tax deduction for personal contributions made to super.

While income is directed into boosting accumulation savings, existing super is used to commence an NCIS, ensuring the person receives sufficient income to cover their requirements.

What's the benefit? Concessional contributions, such as salary sacrificed amounts, are taxed at a maximum of 15%* as opposed to your marginal tax rate that depending on your income could be as high as 45% plus Medicare levy.

At the same time, super income streams receive favourable tax treatment. While the capital used to support your pension

is held in a tax-free environment (ie no tax is payable on fund earnings), pension payments receive preferential tax treatment.

Under the Government's new simpler super system, pension payments made to people 60 or older are tax-free from 1 July 2007. Pension payments to those aged between 55 and 59 are divided into two components – a taxable portion and tax-free amount. Depending on your circumstances, you may be eligible for a deductible (tax-free) amount. The taxable portion is subject to your marginal tax rate; a 15% tax offset applies to these monies, thereby reducing the tax payable.

By implementing a TTR strategy, pre-retirees may also become eligible for other tax concessions, such as the Low Income Tax Offset. Income from a super income stream may also attract a 15% tax offset, which makes it more tax-effective than salary or business income. As with many tax strategies, the higher your marginal tax rate, the higher the savings.

If you are 55 or older and plan to keep working, your financial adviser can help you evaluate whether a TTR strategy may be of benefit to you. To retain flexibility in case of a change in plans, it's important to choose an NCIS that can be commuted back into super or cashed out tax-free when you retire.

Key benefits of a transition-to-retirement strategy

- A reduction in personal income tax, which results in a greater amount invested in super.
- Lower tax on earnings within superannuation compared to personal marginal tax rates.

* Concessional contributions are taxed at 15% within the cap and 46.5% above it. The concessional cap for 2007/08 is \$50,000, though a transitional rule allows individuals 50-plus to contribute \$100,000, taxed at 15% until 30/6/2012.

Source: Zurich Australia Limited



What's your most valuable asset?



Is it your home, your super, or even your car? You may be surprised to learn that your most valuable asset is probably you! A 35 year old who receives an average salary of \$50,000 each year over their working life would need a lump sum of around \$1 million⁽¹⁾ to replace that income.

What will happen to you or your family if you're no longer around, or can't work? Can you replace your lost earnings? Will the mortgage be paid? It's not a pleasant thought that your family would have to sell their home if they couldn't make ends meet.

Unfortunately, while most of us will happily insure our car and home, we seem less than happy to insure that very valuable asset, ourselves. Just 55% of Australians have life insurance and 31% have income protection insurance.⁽²⁾

How much insurance cover do I need?

How much cover you need depends on your own situation. Think about:

- Paying off your mortgage and other debts
- Providing your family with an income to replace lost earnings
- Allowing for large expenses such as a child's education
- Whether your super, investments or other insurance can help

Some experts recommend you'll need cover of around ten to thirteen times your taxable earnings if you're in your mid thirties with young children. If you're in your mid forties with older children, you'll need cover of around six to nine times your taxable earnings.

Even if you do have insurance, you may well be underinsured. Average group life cover falls about \$165,000 short of the amount of the average new mortgage.⁽³⁾

It's probably no surprise then, that studies⁽⁴⁾ have found that 60% of Australian families with dependent children will not be able to support the family on their insurance payout for more than one year.

Can I arrange my insurance through my super?

If you've got some cover through your employer super fund, you're off to a great start. This can be a cost-effective way to arrange your insurance. This cover is often a fixed amount, so you'll need to check how much you've got and whether you can increase it. You should also check what happens when you leave your employer, as you may lose your cover.

What kind of insurance is available in super?

- Death cover leaves your beneficiaries with a lump sum to help cater for their financial wellbeing in the event of your death.
- Terminal illness benefits are a prepayment of your death benefit if you have a terminal illness.
- Total and permanent disablement (TPD) cover pays you a lump sum if you are totally and permanently disabled through illness or injury.
- Salary continuance/income protection cover can provide you with a financial safety net of up to 85% of your salary if you are disabled due to illness or injury.

You can also take out your own cover, through a policy in your personal super fund. This is a good option if you're self employed, can't increase your cover in your employer's fund, or need more flexibility. You can take this cover with you from job to job.

Some other advantages of taking out insurance in your personal super fund include:

- you can pay for the premiums out of your super benefits rather than from your after tax income, and
- your personal deductible contributions or salary sacrifice contributions can be a tax-effective way of affording insurance premiums.

How can I change my cover?

By discussing your insurance needs with your financial planner, you may need to increase your cover or apply for a new policy by completing an insurance application form and questionnaire from a current Product Disclosure Statement. Once you have completed this information, you will be contacted if further medical evidence is required to complete your insurance application.

Speak to your financial planner or risk insurance specialist for more information.

Footnotes:

1 Present value of \$50,000 annual income from age 35 to 65, at a discount rate of 3% p.a.

2 TNS/IFSA, Investigating Income Protection Insurance in Australia (July 2006)

3 IFSA Life Insurance Headland Statement (July 2007)

4 Underinsurance Key Facts, IFSA (August 2005)

Source: Colonial First State

Philanthropy – structured opportunities to give

The number of Australians wanting to give financial support to charitable organisations and causes has increased significantly over the last five years. Philanthropy is a topic clients are raising more frequently with financial planners as they incorporate their charitable giving into their overall wealth management plan.

Philanthropic options

The two most commonly used approaches for charitable giving in Australia are direct grants and endowment funds.

Direct grants, where donors provide monetary support directly to charitable organisations on a case-by-case basis, continues to be the most common method for making a charitable grant. Donors are able to claim a tax deduction if grants are made to charitable organisations with Deductible Gift Recipient (DGR) status. Donors can claim the tax deduction at the time each grant is made. Making direct grants is a popular approach that most people are already familiar with; however the concept of endowment funds is gaining momentum.

Endowment funds

An endowment fund is a sum of money that is invested and a portion of the investment return of the fund is used to make charitable grants. The remainder of the fund is reinvested to ensure the fund continues to grow for future grant-making over an extended period. Endowments allow a philanthropic mission to be pursued in perpetuity and if a donor wishes to wind up their endowment fund at any time, the full amount of the endowment can be distributed as grants. A tax deduction can be claimed for the entire amount donated at the time the endowment fund is established and for all subsequent donations.

Endowments provide more control to donors, a feature many donors find attractive. Endowment funds enable donors to have separately identifiable capital and income and personalised grant-making in addition to the exemption from income tax.

There are two main types of endowment funds — Prescribed Private Funds (PPFs) and the more recently utilised arrangement of an account (sometimes called a sub-fund) within an ancillary fund referred to as a Charitable Endowment Fund (CEF).

Prescribed Private Funds (PPFs)

PPFs were introduced by the previous Federal Government in 1999 to encourage greater individual and family philanthropy in Australia. The first PPF was set up in 2001 with grants made from PPFs totalling \$184 million between 2001 and 2006. As at November 2007, there were 610 approved PPFs and donations to them totalled in excess of \$1 billion. PPFs are exempt from income tax and allow individuals and families to claim full tax deductibility for donations, without needing wider public participation. The Australian Taxation Office (ATO) provides a model trust deed to simplify the process of establishing a PPF. It should be noted that government approval is required to establish a PPF, which can take up to three months. Additionally, most donors find that a significant commitment to philanthropy is desirable to set up a PPF. Due to the establishment and ongoing costs associated with PPFs, Goldman Sachs JBWere Philanthropic Services estimates that donors (individuals, families or corporations) would need to commit a minimum endowment of \$400,000 in order for the PPF to be cost effective. PPFs have grown in popularity since they were established; partly because the donor has full control over investment management and grant making.

However, there are ongoing donor responsibilities, such as annual audits and information returns due to the ATO.

Charitable Endowment Funds (CEFs)

A CEF account is a simple and effective structure for establishing and giving via an endowment fund and is gaining popularity in Australia.

CEFs, like PPFs, are exempt from income tax and enable donors to set up separate, identifiable accounts to contain capital and earned income. A CEF account is different from a PPF in that it is a simpler structure to administer without start up or ongoing requirements from the donor. The CEF is controlled by external Trustees, who are responsible for all administrative and reporting requirements. Whilst the final decision about which charitable organisations receive grants from the CEF rests with the Trustee, donors to the CEF recommend charitable organisations of their choice at the time of application to the CEF and can change those recommendations at any time. CEF account holders receive reports on donations made from their account, commentary on investment performance, grant details and a summary of fees charged.

This simple, hassle-free structure for giving via an endowment can be established rapidly and allows donors to provide an enduring gift to charitable organisations while reducing the administrative responsibilities of establishing and managing a PPF.

For details on how to establish an endowment fund, please call your financial planner.

Source: Goldman Sachs JB Were

Matters of the heart

While a healthy lifestyle and regular check-ups can help reduce your risk of traumatic illness, they are by no means a guarantee – as this true-life case study brings home. That's why everyone needs a financial contingency plan.

At 6:30am on a Monday morning, Abby Bloom was driving south through the Sydney Harbour Tunnel when she felt a tightening feeling, possibly swelling, in the throat. The debilitating sensation progressed rapidly and within minutes her arms "felt useless". She pulled into a breakdown bay and asked her 17-year-old daughter to drive her to nearby St Vincent's Hospital. "It was unlike anything I have ever experienced," says Abby, who at the time was not yet 50.

It took a while for doctors to identify that Abby had suffered a heart attack, because she had no known family history of heart disease (her mother was a sprightly 89 at the time) and no other risk factors. At her most recent check-up, her cholesterol levels were slightly elevated but still within the normal range. The day before her heart attack Abby had been kayaking solo on Sydney Harbour; she'd spent the previous week bushwalking in Central Australia.

Abby was extremely lucky. She was treated within the "golden hour" after the onset of symptoms, when many people die from heart attack, and underwent angioplasty

to insert a stent in her heart. "There was no muscle damage and I felt better than new," says Abby, who could not walk 50 metres after the operation but with supervised cardiac rehabilitation was soon jogging 45 minutes a day. "I am aware that time may be very limited and that has me working to accomplish all that I want to, professionally and personally... a different way to 'smell the roses'." Since then, Abby has started three new biotech companies and part-purchased an occupational rehabilitation company.

Every day, more than 100 Australians suffer a major coronary event and about half will live to tell the tale.* The Heart Foundation says cardiovascular disease affects two in every three families.

According to the Heart Foundation, cardiovascular disease:

- kills one Australian every 10 minutes
- affects more than 3.5 million Australians
- prevents 1.4 million people living full lives due to disability
- costs Australians \$14.2 billion (1.7% of GDP) in direct and indirect health costs.

When was the last time you saw your doctor to check your blood pressure, cholesterol and other heart health risk factors?

In the event of a serious health blow, such as a heart attack, the last thing you should have to worry about is money. That's what prompted Dr Marius Barnard to help develop Trauma Insurance in the 80s. All too often, Dr Barnard, whose cardiac surgeon brother Christian performed the world's first heart transplant in 1967, would watch his

brother's patients recover from heart attack only to be left financially devastated by the experience.

Trauma Insurance pays a lump sum on the diagnosis of a specified illness or injury, including heart attack and stroke. You can spend the benefit however you want - to pay off the mortgage, cover out-of-pocket medical/rehabilitation costs or fund an extended holiday to help you recuperate. To find out more about Trauma Insurance, speak to your financial planner.

* Australian Institute of Health & Welfare

Source: Zurich Australia Limited

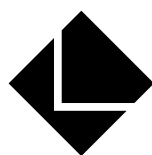


Disclaimer

The information contained in this document is based on information believed to be accurate and reliable at the time of publication. Any illustrations of past performance do not imply similar performance in the future.

To the extent permissible by law, neither we nor any of our related entities, employees, or directors gives any representation or warranty as to the reliability, accuracy or completeness of the information; or accepts any responsibility for any person acting, or refraining from acting, on the basis of information contained in this newsletter.

This information is of a general nature only. It is not intended as personal advice or as an investment recommendation, and does not take into account the particular investment objectives, financial situation and needs of a particular investor. Before making an investment decision you should read the product disclosure statement of any financial product referred to in this newsletter and speak with your financial planner to assess whether the advice is appropriate to your particular investment objectives, financial situation and needs.



LONSDALE

Lonsdale Financial Group Limited
ABN: 76 006 637 225
Australian Financial Services Licensee
Licence Number 246934

Level 41, 120 Collins Street
Melbourne VIC 3000