

VIEW

Happy New (Financial) Year!



From the Desk

Ros Johannesen, Financial Planner - Sydney

The end of the 2007 financial year is now behind us. It was certainly one of the busiest years from a financial planning perspective as we welcomed the 'Better Super' changes which bring us significant reforms to our superannuation system. The financial year also closes on what has been one of the best years in terms of investment performance.

The Economy and Markets

Following four years of very high returns from investment markets you may be wondering what could lie ahead for your investments. As usual, there are differing views on the outlook for the global and Australian economies and investment markets. Some are predicting the end of the Australian sharemarket bull run is near whilst others give reasons for it to continue. On the world scene, concerns have been raised about the US sub-prime mortgage market (loans to borrowers with poor credit credentials) and the US housing market; Japanese and European economic performance has been mixed and the Chinese economy continues to perform strongly. For Australian investors in international shares, the significant rise in the A\$ against the US\$ over the past 12 months has proved challenging if currency positions were unhedged.

On balance, we consider that Australian economic conditions will remain steady. With tax cuts now in place, consumer spending is likely to be strong. There are also signs that the housing investment market is showing signs of improvement.

Unemployment is at record low levels. Strong growth conditions raise questions as to whether inflation can be contained and interest rates left on hold.

It is fair to say that we expect more volatility in investment markets through to the end of the year with investment returns, particularly from Australian shares, returning to more moderate levels.

Centrelink Changes

Whilst the superannuation changes are now in place, we are turning our attention to a significant change in the Centrelink rules effective 20 September 2007. With changes to the Assets Test coming into effect, people of Age Pension age (currently 65 for men and 63.5 for women) can have up to \$825,500 (currently \$531,000 for a homeowner couple) and \$520,750 (currently \$343,750 for a single homeowner) in assets (excluding their home) and qualify for a part-Age Pension. With this change, people who may not have qualified under the current limits, will find themselves eligible.

If you have assets in excess of these amounts, you may qualify for the Commonwealth Seniors Health Card if your taxable income is below \$80,000 (couple) and \$50,000 (single), particularly as Allocated Pension income does not count towards this limit from 1 July 2007.

In closing, the superannuation contribution limits now in place remain quite generous. If you have any queries regarding the new superannuation regime, the upcoming changes to Centrelink benefits or your broader financial planning matters, please contact your FMD Financial Planner.

Legislative update estate planning

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This evaluation will be particularly relevant when considering whether to increase contributions to superannuation and take advantage of the additional tax incentives offered by the reform changes.

In particular, two estate planning areas you may need to revisit include:

1 New components for death benefits

From 1 July 2007, death benefits will be made up of two components, tax-free and taxable.

Lump sum death benefits paid to your dependants, such as your spouse, will be entirely tax-free.

Non-dependants will only pay tax on the taxable component of the death benefit. It makes sense to maximise any tax-free component.

2 Insurance cover within super

Funding your life insurance through super can be tax effective. With Reasonable Benefit Limits (RBLs) removed from 1 July 2007, it will be more attractive to hold larger amounts of life insurance within super.

Where non-dependant beneficiaries such as adult children are involved, it may be worthwhile holding insurance outside of super.

Some other estate planning issues worthy of review include

- The form of death benefit payments ie lump sum or pension
- Availability of the anti-detriment payment, ie refund of contributions tax
- Removal of compulsory cashing rules.

Speak to your financial planner about how the above implications affect your estate planning strategy.



vital statistics



MARKETS

- Dow Jones
- S&P/ASX-200

COMMODITIES

- Gold (\$US/oz)
- Oil \$US (W. Texas)

EXCHANGE RATE

- \$A vs \$US
- \$A vs \$EURO
- \$A vs GBP

Mid Month



Questions and Answers

Richard Dahl – Adelaide

Q: I am 60 this year and have heard about transition to retirement pensions. How do they operate and if I take one out, is there a limit on the maximum income I can receive from the transition to retirement pension and will I pay income tax?

A: Transition to retirement measures have been introduced which allow you to access your superannuation, through an income stream, without having to permanently retire from the work force. You must have reached your preservation age to commence a TtR pension, and the maximum transition to retirement pension is 10 per cent of the fund balance. Your income from age 60 will be tax-free.

Q: I am aged 49 and don't work. My only income is investment income.

Can I claim a tax deduction for superannuation contributions?

A: Yes, if employment income is less than 10 per cent of total income. From 1 July 2007, you can claim a 100 per cent tax deduction (previously \$5,000 plus 75 per cent of the balance) up to your age-based limit, which will be \$50,000 for anyone under 50 and \$100,000 for over 50s.

Q: I have a self-managed super fund and \$450,000 in a share portfolio outside super. I'm 59 and plan to retire in 12 months. Selling the shares will create a capital gain of \$320,000. What should I do?

A: After you retire, you could consider transferring your portfolio "in specie" to the SMSF. This will crystallise the capital gain. However, you can reduce the tax implication by making a deductible contribution to your SMSF. Once your fund moves to the pension phase, no tax is payable on growth and income produced by the share portfolio.

Q: What happens to any franking credits from Australian shares when invested within a superannuation or allocated pension fund?

A: You do not lose the benefits of franking credits. The tax payable on earnings within an allocated pension is nil and within a super fund it is a maximum of 15 per cent. In the accumulation phase, the franking credits can assist in reducing the 15 per cent tax. In an allocated pension, the franking credits are refunded.

STAFF PROFILE



Renae O'Donnell

*Personal Assistant to Martin Hawkins,
Brisbane*

Renae has worked as Martin's personal assistant for a little under 3 years and enjoys her high level administrative role with FMD QLD.

The most enjoyable aspects of her role are utilising her organizational skills and providing client service support.

Renae recently bought her first home with partner Steve and enjoys a chardy or two on their back patio with family and friends. When she is not at home, Renae enjoys camping and house boating (last trip was in February on a house boat on the Murray River which she thoroughly recommends).

Our ageing population

In 1970, the average age of the population was 31 years. This rose to 37 in 2004 and by 2050 it will be around 50. In 1970, there were 8 people aged between 15 and 64 to support each person of retirement age. This has now fallen to five and is expected, by the Australia Bureau of Statistics, to be only two by 2050.

The ageing population will alter our consumption patterns, the patterns of government spending and possibly our investing behaviour. It may also affect levels of taxation. Someone needs to pay for government services!

At face value the demand for healthcare and aged care services will rise, as might demand for the leisure activities of retirees. Road trains will have to make way for increasing numbers of caravans!

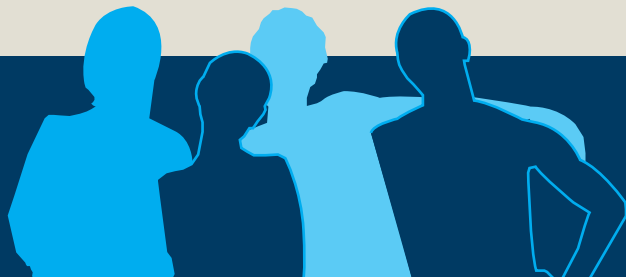
But will this large body of retirees want to hold the same mix of assets as the current population? Will they dump their shares and purchase bonds?

If this occurred, the mass selling of equity assets would affect markets. Share prices would fall and bond prices would rise. However, as this occurred, bond yields would fall and dividend yields would rise. Nothing stands still.

We should not take it as given that ageing of the population will create havoc in financial markets. Relative prices will change; new buyers such as the young savers of Asia may buy our assets, and retirees may in fact want to hold onto the income-producing assets that allowed them to retire in the first place.

Source: Colonial First State

FMD In The Community



The 10th Anniversary Mothers Day Classic was a resounding success, with the stunning total of almost 50,000 people around Australia walking or running for breast cancer research.

For the fourth year in a row, staff and family of FMD Melbourne pounded the pavement enjoying unseasonably warm weather as they ran around the Tan track and enjoyed the city and river views in support of the National Breast Cancer Foundation.

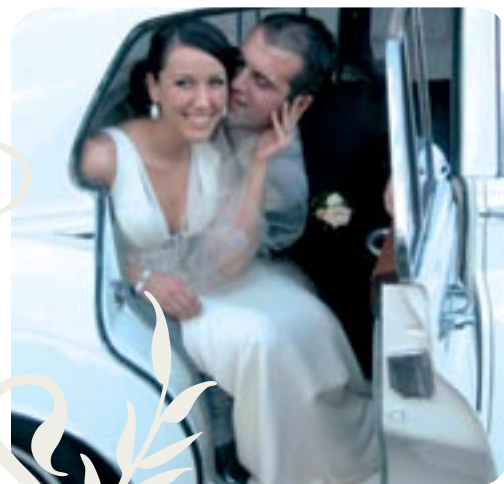
We wish to pass on a huge thank you to Charles Banks, Nannette Box and Nina Leather Reid, who fund raised and donated their time on Sunday morning (Mothers Day) 13 May 2007.



Congratulations Ivan & Sue

On Saturday 19th May 2007, Ivan Rados – financial planner and director with the Melbourne office – wed Sue Marton. The ceremony was held in South Melbourne, and the reception at the Croatian Social Club in Footscray. Ivan and Sue spent five weeks touring through Europe spending most of their time with family in Croatia and Hungary. They arrived home in Melbourne just in time for end of the Financial Year.

We wish Ivan & Sue all the best for a happy life together.



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