

# Prosperitas

*Prosperitas: Latin for prosperity & good fortune*

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## What a Super time of year!

We hope that you are busy because we are certainly flat out like lizards drinking (movie tickets for the first reader to submit the collective noun for lizards)!

The deadline relating to the superannuation 'window of opportunity' is now well and truly upon us, the interest of the general public only seems to be intensifying. Naturally our existing clients will be placed at the front of the queue, so please don't be shy if you have any nagging query in this regard, just don't be slow or worse, late!

While we enter the fourth year of sustained equity growth on the Australian market, it would be reasonable to enquire as to the sustainability of the current upward trend and to exactly where the value is at present. A convincing and quite a positive position has been articulated by AMP Capital Investors on page 3 of the this issue however, if your thinking remains a little skeptical, the previous page provides equity solutions to those among us who require some downside protection. Protected Equity Loans have circulated through financial services circles for some time now and tend to increase in appeal when the markets are on their highs or in times of heightened volatility. If you remain unfamiliar with them, the ins and outs of such have been enunciated for your reading pleasure.

Following on from the controversial 'Healthy BBQ' article of a few issues ago, the editor has once again confronted the reader on the final page as he grapples with the ethics of re-gifting. A little Seinfeld-esq and we hope that you enjoy the article along with the balance of our latest edition of Prosperitas..

Martin R McIntosh  
*Managing Partner*

# Protected Equity Loans

Much of the wealth in Australia has been built on borrowed money. Successful people and businesses have long recognised that, by borrowing money and investing it productively, they can grow their wealth faster than if they relied on cashflow alone.

Australians have a strong history of gearing into property and share based investments for investment purposes. A relatively new (but increasingly popular) method of gearing are protected equity loans.

Protected equity loans enable you to make a geared investment in shares or managed funds without being liable for any shortfall between the amount borrowed and the value of the shares held as collateral. It is essentially investing with an insurance policy. In short, falling markets don't have to mean losing capital yet you retain the benefits of any increase in the value of investments.

In return for this protection, investors pay a high interest rate. The cost of this interest rate is partially offset by tax-deductions and dividends or distributions received over the term of the investments. At the end of the loan period, if the value of your portfolio has fallen below the amount borrowed you are only required to hand over the investments in settlement of the loan. On the other hand, if the value has risen, you keep the difference between the loan and the portfolio value as well as any dividends received during the loan.

*The institutions that provide a protected equity loan will lend up to 100% of the value of the portfolio. This is the key benefit of protected equity loans as it allows investors to achieve a greater exposure to the market than they may be able to by other lending methods where a deposit is usually required.*

When considering these protected equity products, investors need to identify the true costs of that protection. For it to pay off, you will need the average returns across your portfolio to exceed your after-tax loan interest costs.

For suitable clients, Planning Partners offer two types of protected equity loans:

- **Protected lending into blue-chip Australian shares.**  
This is a 100% loan to purchase shares listed on the ASX. The interest rates on these products vary between 13% and 15% depending on the stocks chosen and the loan period. Clients receive the cash dividends paid over the period of this investments which can be used to help service the loan. On this point, it should be noted that the average dividend yield on Australian shares is around 4% per annum.
- **Protected lending into wholesale managed funds.**  
This is a 100% loan to purchase Australian and international based wholesale managed funds. Due to the different method of protection, the interest rates are around 9% per annum (similar to Margin Loan rates). However, the investor does not receive cash distributions over the term of the loan as these are automatically re-invested in the underlying managed funds.

Protected Equity Lending products tend to be very popular in the lead up to the end of the financial year. This is due to the fact that investors can prepay interest in advance on the loans in June to secure a larger up front tax deduction in the current financial year.

Naturally, an investment in a protected equity products should only be undertaken after seeking appropriate financial advice regarding the suitability of the strategy for your particular situation. We welcome you to contact us should you wish to discuss further.

## INVESTMENT TERMS

**Gearing:** A measure of indebtedness; that is; the extent of borrowings against the assets held by a person or company.

**Investment Style:** The methodology or style adopted by an investment manager to invest money on behalf of clients. It may be fund specific or specific to a particular manager.

**Junk Bond:** A high risk, high yield, debt security rated below investment grade.

**Mandate:** The agreed objectives and risk constraints given by an investor to his or her investment manager. A mandate is usually set out as part of the management agreement between a fund manager and its client.

**Market Capitalisation:** The sum of the total amount of various securities issued by a corporation, multiplied by the current market price of those securities.

**Unit Trust:** A pooled investment fund or collective investment, established under a trust deed, that continually offers new units and stands ready to redeem existing ones from the owners.

**Institutional Investor:** An organisation whose primary purpose in investment markets is to invest in its own assets or those that it holds in trust for others. Includes fund managers, superannuation funds, life companies, universities, banks etc.

Source: Oxford Dictionary

# SUPERANNUATION CONTRIBUTIONS

Superannuation continues to be the cornerstone of our tax-effective wealth creation strategies. The attractiveness of superannuation contributions was significantly enhanced by the 2006 Federal Budget which abolishes tax on all superannuation withdrawals for individuals over age 60. This comes into effect on 1 July 2007.

Tax Deductions are available for superannuation contributions in 2006/2007 subject to the following Age Based Limits.

Age – at date of the last contribution on Financial Year	Maximum Deduction Limit for 2006/2007 (\$)	Contribution required for 'Self-employed' to claim Maximum Deduction
Under 35 years	\$15,260	\$18,680
35 years to 49 years	\$42,835	\$54,847
50 years and over	\$105,113	\$138,484

## Superannuation Strategies for Employees

- Instruct your employer to salary sacrifice a larger portion of your salary (or bonus payments) to superannuation for the remainder of the financial year.
- A \$1.50 contribution will be made for every \$1 personal contributions made by employees with assessable income plus reportable fringe benefits of \$28,000 pa or less. The maximum co-contribution (\$1,500) reduces by 5 cents per dollar over \$28,000. No co-contribution will be paid once assessable income is greater than \$58,000.
- For business owners who are employees of their own entity (eg. Company or Trust), the entity can claim a tax deduction for contributions made on your behalf subject to your Age Based Limit.

## Superannuation Strategies for Self-Employed

If you are not an employee (or receive less than 10% of your total income from employment services), you may be eligible to claim a personal tax deduction for contributions made to superannuation. The tax deduction available is based on the first \$5,000 + 75% of the excess contribution up to your Age Based Limit.

It is important to note that one does not need to be actively working to take advantage of this strategy. For example, a retiree under the age of 65 could claim a tax deduction for superannuation contributions to offset capital gains tax from the sale of investments.

## Spouse Contributions

You may be able to claim a tax rebate a tax rebate of up to \$540 for spouse (undeducted) contributions to superannuation, if your spouse's assessable income is less than \$13,800 in 2006/2007.



## The rise and rise of the AUSTRALIAN SHAREMARKET

**With the Australian share market continuing to surge higher, it is reasonable to question its sustainability.**

Is the share market overvalued? Is there a bubble? How far could it go? For the last few years there has been much debate about whether the surge in Australian shares is becoming a bubble with the focus of concerns varying over time between resources and industrials.

Share bubbles are characterised by stretched valuations, investor euphoria, a lot of capital raising and a narrowing in share market gains. Our assessment is that Australian shares are still a long way from being in a bubble. First, Australian shares are still not overvalued. After spending years tracking below our fair value estimate, the Australian share market has now pushed towards the middle of the fair value range. But while the market is no longer cheap it is not expensive either.

Australian shares have spent the period since the March 2003 bear market low catching up to the level of profits. For example, over the last year the share market is up 17% but earnings per share rose by about the same. This contrasts with what happened in 1987 when shares jumped 90% in the 12 months to their peak, but earnings growth was 25%.

*Australian shares' high dividend yield underpins the market. The dividend yield grossed up for franking credits at around 4.9% is only 1% below the 10 year bond yield and is well above the gross yield on rental housing of around 3.2%, so it doesn't take much capital growth to ensure shares have a decent return versus other assets.*

The Price Earnings ratio is another key measure of the market's value and illustrates how much the share-market is willing to pay per dollar of earnings. At 15.2 times, the forward price earnings ratio (calculated using year ahead forward earnings) is in line with its ten year average. But it remains well below its late 1990s high of 18.3 times.

In summary, we do not believe that the market is over-valued at current prices. By the same token, we do not predict that the sharemarket will continue to provide the same level of returns as the last 3 years (25.87% per annum as measured by the ASX 200 index). Rather, returns are likely to move to their long-term average of around 11% (4% income and 7% capital growth). This return is significantly above the cost of funds (interest rates) and should be sufficient to ensure the long-term success of a well structured financial plan.

Source: AMP Capital Investors.



Pete Bailey

**How I relax is...** Xbox – Fifa 2006, Game of choice.

**I'm reading...** Sometimes a great notion by Ken Kesey.

**Last movie I saw was...** For your consideration, very funny. Christopher Guest back to his best.

**My favourite TV show is...** The Office, very amusing.

**My favourite CD/record is...** Tool, Lateralus.

**My favourite gadget is...** Discman/ IPOD/Stereo – anything to do with music.

**My favourite way to pass a day is...** Breakfast on Brunswick Street; Fitzroy Pool or Rose for Roast Pork and Beers.

**My three ideal dinner party guests would be...** Stefan Edberg – Tennis lessons; Maynard Keenan, Lead singer of Tool and Hunter S Thompson – Brilliant Author.

**If I could travel anywhere it would be...** Peru for the Inca Trail.

**The sports team (eg union, league, AFL or soccer team etc) I mostly follow is...** Hawthorn Football Club.

**What annoys me most is...** Herald Sun, Opinion pieces.

**My most useful possession is...** Honda Accord Aerodeck '93.

**I wish I knew...** How to play guitar like Mike McCready.

**My favourite quote is...** 'If you don't enjoy your own company, you're probably right!' – Chanel.



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## Is re-gifting ETHICAL?



Ever received a gift which you already have. Most of the people among us either receive or give at least one re-gift in our lifetime.

Some precaution when re-gifting:

- It is imperative that you avoid re-gifting the same item to the person who has given you the gift.
- Never re-gift a gift to someone who knows the person who originally gave you the gift.
- Ask yourself if the person who gave you the gift will ever have occasion to visit the home of the person to whom you are giving the gift. If there is any possibility whatsoever, don't do it.
- Remove the original wrapping and make sure there are no cards attached to or tucked inside the gift from the original giver. Be sure it is in good condition and carefully remove all traces and hints that the item was already gifted. Then wrap the gift with new paper.
- Never re-gift an item that has obviously been used before.
- Some gifts may be out-of-date and thus should not be re-gifted.
- Do not disclose to the recipient that you are re-gifting.
- Ensure the suitability of the item for use by the person to whom you are giving it. Don't just give them any gift because you don't need it or have an extra one.

On occasion you may find that re-gifting is essential for you as you have two or three identical items from different persons. Instead of the item lying in your drawer, unused, it is going to be beneficial for someone else. This is, of course, if you follow the advice above and make sure the item is suitable to the person to whom you are re-gifting.

Most importantly **DON'T GET CAUGHT!**

## For those of you whose future income depends on hitting the jackpot ...

If you are relying on striking it rich to fund your retirement, we've got some sobering statistics! Here are your chances of winning the top prize in each of the following games.

\$2 Instant Scratchie	1 in 960,000
\$5 Jackpot lottery	1 in 5,900,000
Lotto	1 in 8,145,060
Oz lotto	1 in 45,379,620
Powerball	1 in 54,979,155

Source: NSW Office of Liquor, Gaming and Racing, "Playsmart" brochure, April 2006