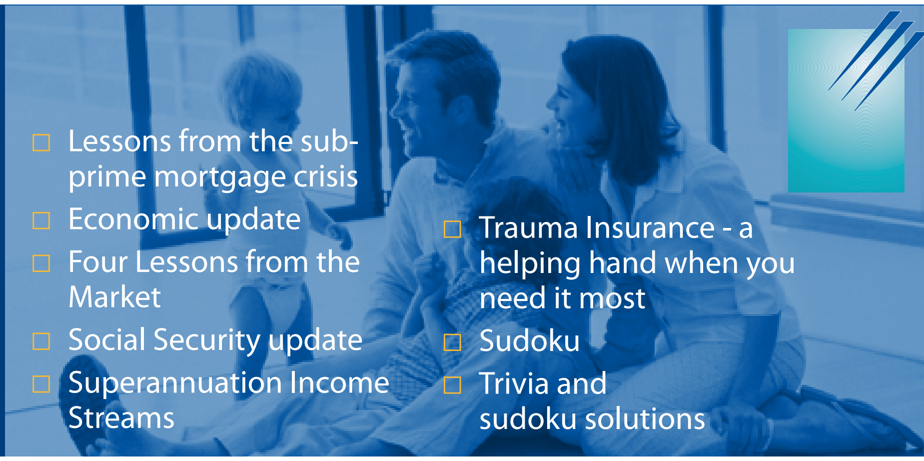
Successful Investing

Issue 1, 1st Quarter 2008



Lessons for Australian investors

from the sub-prime mortgage crisis in the US

With investment markets still shaken by the credit meltdown in the sub-prime mortgage sector in the United States, now is a good time to spend some time looking at exactly where your money is invested.

Owning a portfolio of investments that are diversified and managed by experts is fundamental to investment success. Decisions about buying, selling and holding are challenging enough in the best of times, let alone when a sub-prime crisis in the US is starting to ripple through Australia's markets changing the way we look at risk.

Above all else it is important to keep things in context. Australia does not have the sub-prime mortgage problem the US does – this type of lending, which to date has been very common in the US, is rare in Australia. In broad terms, the sub-prime mortgage crisis came about after vast numbers of mortgages were granted to people unable to afford them.

The only way people could afford these loans was through discounted introductory rates (or honeymoon rates) where the interest rate doubles two to three years into the term of the loan. It is at the end of the honeymoon period that people run into trouble and can't fund the increasing repayments. This then forces the lender to sell the property and recover the amount owing plus any unpaid interest.

Adding more fuel to the fire, a large percentage of these sub-prime loans were packaged into investments and sold by banks and other financial institutions as "structured" or "securitised" lending products. These are the products that have caused Merrill Lynch and Citigroup to write off tens of billions of dollars after it came to light that the properties used as security were dropping in value and worth less than the loans written over them. These events have rightly changed people's attitude to risk and this is now playing out on a global scale as consumers and businesses take stock, exercise greater caution and reduce their spending.

These issues serve as a timely reminder that risk comes with a price. Sharemarkets rise and fall and after a prolonged period of steady economic growth we are entering a period of greater uncertainty.

For investors it is not time to panic. However, the recent issues in the US emphasises the importance in the value of good financial advice. A good financial adviser will regularly review your portfolio's diversification and check the value of your holdings in the main investment classes: Australian shares, international shares, property, fixed interest and cash. He or she will also check that the percentage you have in each investment class, is appropriate to your age, personal circumstances and when you need to access your investment.

Source: Kirsty Dullahide, Head of Strategy and Portfolio Management, Australian Unity Investments

Economic update

US housing and the related credit fallout remains a key focus in both that country and for the global economy.

On the wider US economy, if the economic backdrop continues to deteriorate, the Federal Reserve (the Fed) stands ready to further ease interest rate. Despite the latest up tick in the inflation figure, the Fed would see that the downside risks to growth outweigh the upside risk to inflation.

For the rest of the developed economies, the growth outlook has continued to be revised lower along with the US. However, the global growth forecast has been largely unchanged due to upward revision in the emerging economies.

For Australia, conditions are likely to remain strong in 2008. The consensus growth forecast is 3.5% for 2008, a touch lower than 3.9% growth expected for 2007 but in line with the average pace of expansion since 1991. While inflation remains the key risk to watch, the fallout from the on-going credit crunch could lead a downside surprise.

Four lessons from the market

Since 2000, investment markets have weathered a variety of conditions - from volatility to stability, then recovery and volatility again. These changes have left many people wondering what the best way is to approach their investments.

Don't panic
Many people may be tempted to move their money out of the share market during times of volatility or weakness. But it's important to remember that markets move in cycles. Peaks and troughs are an intrinsic part of investing. While the cycle is unpredictable, history has shown us that recoveries always follow downturns, and vice versa. If you move out of the market, then you won't be there for the recovery, which can sometimes arrive unexpectedly and take off quickly.

The 1990s provided a period of stability and sustainable growth for investors, yet by the end of the decade, a series of events that were largely unpredictable had taken their toll on investment markets. The 'tech-crash', September 11, corporate corruption, the global economic slowdown, and the war in Iraq all contributed to volatile conditions in the markets.

From 2003 the global economy started its recovery and conditions stabilised, giving markets the opportunity to respond favourably. At the beginning of 2007 the ASX was 83.1% higher than it was at its highest point in the 1990s (source: Reserve Bank of Australia).

By the middle of 2007 however, concerns over sup-prime lending in the US had sent shock waves through stock markets across the world. The Australian share market lost nearly 15% between the high reached in July and low reached in mid-August, but by the end of August had bounced back to pre July levels. Many commentators are now calling that period of volatility a "market correction".

Throughout any market cycle, those people who hold their nerve, who remain focused on their long term goals and resist making snap decisions, are likely to be the winners.

Lesson 1: Markets move in cycles

Markets always recover
One thing we know from looking at the long-term performance of the share market is that, despite short-term volatility, the market always recovers.

Even after the crash of 1929 the share market eventually recovered, although it did take more than 10 years. The good news is that since the 1960s, the recovery period has been shorter, typically less than 5 years.

Avoid bubbles
Speculative investment bubbles have been around for as long as markets themselves, pushing the prices up, normally in the short term. A bubble occurs when investors come to believe that the investment environment has changed in some unique way, and that prices will never go down. Remember markets are unpredictable - those investing for a 'quick win' at the height of the tech bubble paid a premium for their assets and would not have foreseen the tech crash that followed.

Markets move in cycles. They go down, but history has shown us that they always recover. (Similarly, markets that rise excessively will eventually come crashing down, so beware of buying into investment bubbles.) The best approach is to accept market volatility, stick to your strategy and don't panic. By withdrawing from the market you could be robbing yourself of the most valuable gains.

Lesson 2: Diversification reduces risk

Type of diversification	Achieved by
Across asset classes	Including a range of asset classes in your portfolio. For example, your investment portfolio may contain shares, property, fixed interest and some gold bullion.
Within an asset class	Within Australian Shares for example, you may buy shares in companies that operate in different industries, such as mining, retail, banking and biotechnology.
Across countries	Reducing your exposure to a single country or region. You may wish to have investments in Australia, the US, Europe and China.

Managed funds provide an easy route to diversification. Through a single managed fund it's possible to diversify across asset class, company, industry, sector, country and even fund manager.

Diversification reduces risk. Because it's impossible to predict market movements, one way to manage market risk is to maintain a diversified portfolio. Spreading your investments across a range of carefully diversified assets, will minimise the risk and smooth your returns. Your financial planner can help you learn about funds that will help to diversify your portfolio.

Lesson 3: 'Time-in' not 'timing'

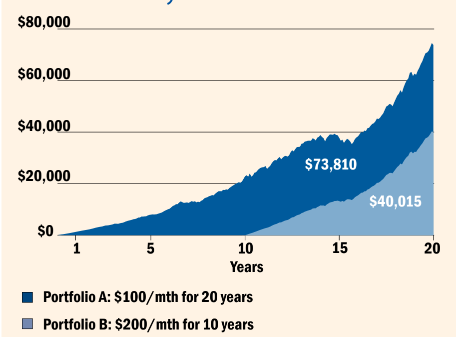
'Time-in' not 'timing'. Be patient, especially if you are investing for the long term. When things look bleak it's important to keep your goals in focus. Getting out of the market could mean you miss the rebound and the returns that go with them.

Lesson 4: Start early, save regularly

You don't need a lot of money to begin investing. By making small regular contributions over time, you might be surprised by how quickly your investments accumulate. And investing the same dollar amount at regular intervals can help smooth out the ups and downs of markets. Investing this way means you purchase more shares or units when prices are low and fewer when prices are high. It's important to start saving as soon as you can. The longer your money is invested the more you can take advantage of compound interest.

The chart shows how substantial a difference investing early can make. It compares the final size of the investment pools of two investors:

The cost of delay



Source: Morningstar. Investment returns based on the Morningstar Multisector Trusts Growth index

one (portfolio A) who invests $100 each month over a 20-year period starting in July 1987; and another investor (portfolio B) who starts 10 years later in 1997 but tries to catch up by investing $200 per month for 10 years. Both invest a total of $24,000 but because the first investor started earlier they have over $33,000 more than the later investor after 20 years.

Start early, save regularly. The sooner you start investing and the more often you do it, the better. Setting up a regular savings plan takes the guess work out of trying to find the right time to make an investment. Starting now will give your money time to grow through the power of compounding.

Source: Prepared by the Investment and Financial Services Association ('IFSA'), in conjunction, with Morningstar Research. PIS is a member of IFSA.

Social Security Update

Over the past few months the Government passed a number of measures relating to Social Security. One of the most notable changes that took effect from 20th September 2007 was the reduction in the assets test taper for pension recipients. Now it is possible for a homeowner couple to have other assets just over $800,000 and still qualify for a part pension under the assets test. This favourable outcome will see many more people now being eligible to receive at least a part pension whereas previously they were ineligible.

Another significant change that took effect from 20th September 2007 was the discontinuance of assets test exemptions for people who invested in complying income streams. Any investment in such an income stream product made prior to 20th September 2007 would retain its assets test exemption into the future but any new investments into this type of product made on or after 20th September would not enjoy the assets test concession.

The Government has since clarified that in certain circumstances where a person had invested in an assets test exempt income stream product prior to 20th September and they subsequently commute (cash out) that income stream and reinvest the proceeds in a new complying income stream, the assets test exemption would generally be retained, even where the new investment is made on or after 20th September 2007. This provides some flexibility for people who were enjoying a level of assets test exemption to maintain that exemption where they roll from one investment to another. As this is a complex area, financial advice should be sought before commuting an assets test exempt income stream.

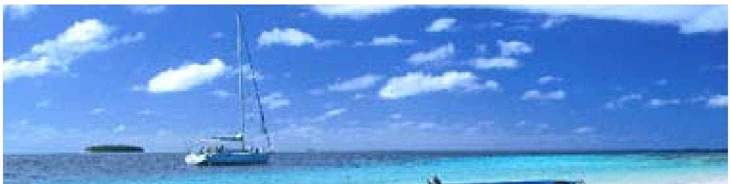
The Pension Bonus Scheme (PBS) provides the opportunity for people who continue to work beyond age pension age to accrue an additional tax-free lump sum benefit when they eventually cease working.

A number of changes to the PBS were announced in the 2007 Federal Budget. These changes, which took effect from 1st January 2008, include:

- The payment of an accrued PBS payment to surviving partner where the partner who was registered under the PBS passes away before claiming their bonus payment. Previously any accrued PBS entitlement was lost on death.
- Prior to 1st January 2008, an entitlement to the PBS must be made within 13 weeks of failing to accrue another full year bonus payment. From 1st January, Centrelink will have discretion to extend this claim period beyond 13 weeks in special circumstances.
- In certain circumstances, a pension bonus top up payment may be made where a persons assets have decreased and they become entitled to a higher age pension payment within 13 weeks of claiming.

From 1st January 2008, the amount exempt from the assets and the income test that is invested in funeral bonds has increased from $5,000 to $10,000. This will allow couples to have up to $20,000 ($10,000 each) invested in exempt funeral investments. The use of funeral bonds can be an effective way of reducing assets and increasing pension entitlements.

Source: Professional Investment Services – January 2008



Superannuation Income Streams

With all the changes to superannuation that have been taking place since July 2007, and with the every increasing interest in "transition to retirement" as a tax effective planning strategy, in this issue of Successful Investing we are re-visiting the current rules that apply to superannuation income streams.

When we talk about "superannuation income streams" we are referring to a person's accumulated superannuation benefit that is being used to provide regular income payments to the fund member. These arrangements are often referred to as a "superannuation pension".

Since 20th September 2007, the only type of new superannuation income stream that can be paid is an "account based income stream". In very limited circumstances a "market linked income stream" (also known as a "growth pension" or "term allocated pension") may be paid where it is being sourced from the commutation (cashing out) of an earlier market linked income stream.

An account based income stream is very similar to the very popular "allocated pension".

The minimum level of income that can be drawn from an account based income stream is determined by two factors; the age of the income recipient, and the amount being used to "purchase" the income stream. To comply with superannuation legislation, and receive very favourable tax concessions, a prescribed minimum level of income must be drawn out each year. The minimum income to be taken by a person aged under 65 is 4% of their account balance. The minimum percentage increases with age.

Whilst there is strictly no maximum on the amount of income that can be received, an income stream is paid under the "transition to retirement" rules is subject to a maximum annual income of 10% of the account balance.

The income levels are recalculated as at 1st July each year, based on the account balance and age of the recipient at that time.

Superannuation income streams can offer significant tax savings as most people from age 60 will pay no tax on their income streams.

Talk to your financial adviser about how an account based income stream may benefit you.

Source: Peter Kelly – Professional Investment Services – January 2008

SUDOKU

1. Fill the grid so that the numbers 1 through 9 appear in each row.
2. Fill the grid so that the numbers 1 through 9 appear in each column.
3. Fill the grid so that the numbers 1 through 9 appear in each 3x3 box.
4. A complete Sudoku puzzle contains the numbers 1 through 9 in every row, column, and 3x3 box.

source:www.web4sudoku.com

Puzzle 1

	1						9	3
				6	1	4		
	5			4				7
			6	7			3	
			8			7		2
						8	4	9
7		5					2	
		3			9			6
		4		2		3		

Puzzle 2

				9	6	5		
8	2		4					
	9		3		2			
	7	8						5
3		5			9			
			5		4		7	
7					8		9	
1			2		7			
		4		3			5	

Trauma Insurance

a helping hand when you need it most

No one likes to imagine a tragic event happening to themselves or their loved ones. But trauma is an unfortunate reality for many Australians. Conditions such as cancer or stroke, and tragic events like major head injury and the loss of limbs, can befall any of us and alter our lives forever.

The expenses associated with such trauma can cause additional problems that compound the situation. While there is not a great deal that can be done to prevent the initial emotional and physical shock, a Trauma Recovery Insurance Plan can ensure you and your family are financially secure.

Underinsured and under-prepared as a nation, it has been well documented that Australians are not well covered. In fact, only 22% of us have life insurance. When it comes to trauma insurance, the statistics are worse, with only 2% of Australians actually owning cover. This statistic is particularly low when you consider that in the UK, the provision against trauma is taken up by between 12 and 15% of the population.

So, why is it that Australians seem unprepared for the possible financial burden of trauma? The answer is multi-faceted: some people miscalculate their insurance coverage and others tend to view it as a luxury. Interestingly, it has been shown that once people understand the true nature of this risk they are keen to insure themselves adequately.

The right protection for you

Trauma insurance is one of the many personal insurance plans available, including life insurance, income protection, total and permanent disability (TPD) insurance, and business expenses insurance. While there is some crossover between products, each is designed to mitigate certain happenings.

Trauma Recovery insurance provides a lump sum in the event you suffer from a defined traumatic event, such as cancer, heart attack or major head injury. It is designed specifically to help cover the expenses associated with such events. It can assist in paying for expensive recovery and rehabilitation costs, pay to refit your home with wheelchair access, enable your partner or family member to reduce their work hours to care for you or pay a professional carer or can be used to provide an ongoing income stream for you in the future.

Thanks to modern medicine there is no doubt that people are living much longer, even upon diagnosis of a 'life-threatening illness' or after having been involved in a traumatic accident. More than 80% of heart attack sufferers will survive and 50% of people diagnosed with cancer are expected to live longer than five years. But, while patients and victims are clearly benefiting from the advancements in medical technology, it is often their financial situation that suffers irreparably.

Source: Axa

Trivia

- There's enough energy in ten minutes of one hurricane to match the nuclear stockpiles of the world.
- The average rainfall around the world is 40 inches per year.
- Boxing was the first sport to be filmed. Thomas A. Edison filmed a boxing match between Jack Cushing and Mike Leonard in 1894.
- The New York stock exchange had its first million-share trading day in 1886.
- There are 42 dots on a pair of dice.
- The king of hearts is the only king without a moustache on a standard playing card.
- The highest point in Australia is the top of Mt Kosciusko in New South Wales (2230 metres).
- A lump of pure gold the size of a matchbox can be flattened into a sheet the size of a tennis court.
- Mineral deposits in caves: The ones growing upward are stalagmites, the ones growing downward are stalactites.
- The largest hailstone ever recorded was 17.5 inches in diameter - bigger than a basketball.
- The wingspan of a Boeing 747 is longer than the Wright brothers' historic first flight.

Source: coolquiz.com and www.triviaplaying.com

SUDOKU Solutions

Puzzle 1

4	1	6	5	8	7	2	9	3
3	2	7	9	6	1	4	8	5
8	5	9	2	4	3	6	1	7
9	4	8	6	7	2	5	3	1
5	3	1	8	9	4	7	6	2
6	7	2	1	3	5	8	4	9
7	6	5	3	1	8	9	2	4
2	8	3	4	5	9	1	7	6
1	9	4	7	2	6	3	5	8

Puzzle 2

4	1	7	8	9	6	5	3	2
8	2	3	4	1	5	7	6	9
5	9	6	3	7	2	8	1	4
9	7	8	1	6	3	4	2	5
3	4	5	7	2	9	1	8	6
2	6	1	5	8	4	9	7	3
7	5	2	6	4	8	3	9	1
1	3	9	2	5	7	6	4	8
6	8	4	9	3	1	2	5	7

Contact your local office for further information:

Head Office:
Corporate Centre One, Cnr Bundall Rd & Slatyer Ave, Bundall QLD 4217
Ph: 07 5574 0244 Fax: 07 5574 0180
Email: info@profinvest.com.au Web: www.profinvest.com.au