



NEWELL PALMER SECURITIES PTY LTD

WEALTH – LIFESTYLE – SECURITY

May 2011

Welcome to our May 2011 Client Newsletter. It has been a very busy year at Newell Palmer with many interesting projects! You can touch on these in our “Recap of the last quarter at NPS” article. In this edition we will also discuss:

- Investment Outlook
- Future of Financial Advice reforms
- The importance of Critical Illness (Testimonial)
- The May Budget
- Valuable Tips for End of financial year tax planning.

We wish you, your family and friends all the best for a rewarding 2011/12 financial year.

Investment Outlook

Economic Overview

In the US, there are positive indicators, including signs of strengthening labour markets, expansion in manufacturing and increasing retail sales, although the housing market is still weak. Economic indicators in the core European countries are positive, with rising inflation as an emerging concern of the European Central Bank. The peripheral European countries continue to grapple with high unemployment and high sovereign debt.

US manufacturing expanded in April, driven by gains in exports. Confidence among U.S. consumers climbed in April. High levels of joblessness and home foreclosures are restraining the U.S. recovery. The U.S. jobless rate declined to 8.8 percent in March from November's 9.8 percent. Residential real-estate prices dropped by 3.3 percent in the 12 months through February 2011.

The People's Bank of China raised the required reserve ratio of banks for the fourth time this year, in April, to 20.5% and raised banks' deposit and lending rates by 25 basis points to 3.25% and 6.31% respectively. The Consumer Price Index (CPI) reached a 32-month high of 5.4% in March. Taming inflation is the Chinese government's top priority.

The global economy remains in recovery mode with growth forecasts being revised higher by the International Monetary Fund. Developed world central banks continue to remain stimulative while central banks in the emerging world are trying to deflate asset bubbles and contain rising inflation. We are beginning to see signs that developed world central banks are starting to raise interest rates to control inflation.

We expect world growth to be positive but not impressive and we also expect inflationary concerns to be an increasing headwind to growth.

Interest Rates & Currency - The Reserve Bank of Australia left the cash rate unchanged at 4.75% for the fifth consecutive meeting in May. Given the acceleration of core inflation to a 2.5% annualised pace in early 2011 (from 2% in Q4 2010) and some signs of improvement across business credit, commodity prices, and jobs growth, we expect some moderate interest rate rises in 2H 2011.

Australian Shares - We believe the balance of risks for the medium-term outlook for Australian equities is still positive, driven by a cyclical recovery in equities, despite upgrades to the resource sector earnings being off-set by weaker earnings growth in Industrials. Dividends may provide the larger part of total return over the next 2 years.

International Shares - From where we sit, near zero cash rates and easy liquidity will support the US equity market in the near term and provide positive sentiment for other markets. Clients should move to their full target weight in the sector to take advantage of the high A\$ and superior earnings from international companies. Partial currency hedging should be considered.

Property - House prices fell by 1.7% quarter on quarter in Q1, the second largest quarterly drop recorded since 1986. The market looks quite soft, despite a period of stable interest rates. The previous sharp increase in the cash rate over the last year has stopped house price growth. In our view, the Real Estate Investment Trust (REIT) sector has stabilised, and will likely provide a defensive return in a world of uncertainty. The sector is trading at a distribution yield of 5.9%. Clients should move to their full target weight in this sector.

Sector View

Cash	– Neutral
A\$ Government Bonds	– Negative
A\$ Hybrid Securities	– Positive investment grade
International Bonds	– Negative
Australian Equities	– Neutral - buy on pull back
International Equities	– Neutral - Move to full target weight
Listed Property	– Neutral - Move to full target weight
Residential Property	– Neutral

WEALTH –
LIFESTYLE – SECURITY

Future of Financial Advice Reforms

As some clients may be aware, the government has recently introduced a number of proposed reforms to the Financial Advice industry, designed to further protect consumers and remove, as best as possible, the business models that do not align the interests of Adviser's with the best interests of their clients.

The most controversial of these proposals are the prospective bans on commissions and volume based payments and the "Opt in" clause. These measures are specifically targeted at eliminating less reputable Advisers whose business models rely on:

- Recommending products that specifically give financial incentives to the Advisor.
- Setting clients up with investment products that charge commissions for the purpose of allowing the adviser to collect a fee year after year without any further contact with the client and without providing any further service.

Implications for the Financial Planning Industry.

Many Advisers who relied on commissions and volume bonuses are either considering changing their business model or selling up and leaving the industry. Indeed, many industry participants are close to retirement age and we expect many planners to leave the industry.

This has significant implications for clients who may find that their Advisor is no longer able to service them or that their client files have been sold to another planning firm.

Implications for Newell Palmer Securities.

Newell Palmer Securities appreciates these new changes and we are pleased that our firm is already a model example of the direction the government wants to see the industry take. Our firm was established in 1983 and we have been operating a "fee for service" model since 1991. Advisers are in regular contact with clients and it is company policy at Newell Palmer that advisors are to provide clients with a full review of their financial circumstances every year. Client interaction is a high priority.

We are noting a pickup in enquiry from clients who have had their files sold to other groups as planners leave the industry and do not want to deal with a new group they do not know; as well as from clients who are reassessing what service they are getting and what soft dollar fees they are paying. If you have friends or family that are not being well serviced, ask them to review their arrangements or feel free to get them to contact us.

Critical Illness Testimonial

—Evelyn Wise

"My husband and I have been long standing clients of Newell Palmer since the early 90's. In our initial discussions with our advisor, Paul Bourgeois, I was not particularly interested in the idea of Critical Illness Insurance and whilst I took my advisor's advice, on many occasions I considered cancelling the cover, particularly when I stopped working and became more conscious of the cost.

It was a short time after having a conversation with my advisor in 2006 about whether or not the cover was still suitable, that I became concerned about a recurring bleeding nose. Some tests later and I was diagnosed with 'small cell neuro endocrine carcinoma', a form of malignant tumor.

I have since lost sight in one eye and hearing in one ear. If it wasn't for the best doctors in the world at RPA Sydney, I might have lost much more than that."

Evelyn's treatment required constant trips to the hospital for up to six hours a day and she required over three months of chemotherapy treatment. This was at a time when her two children were doing their school certificate and HSC and Evelyn's husband, a Managing Director of a successful company, was unable to remain at home each day to look after Evelyn. It was a stressful time.

"I was very worried about our finances: the ongoing trips to hospital, preparing meals for the entire family, the medical treatment - it was all getting very expensive and we were relying on my husband's income to support everything. I was very pleased that when the time came and the claim with our insurer was made, the full Critical Illness benefit was promptly paid out."

Evelyn is thankful that she took out Critical Illness cover "if you can afford it, don't deny yourself the protection it gives you and your family" and was even able to use part of the proceeds to make a donation to the RPA.

This testimonial highlights the importance of Critical Illness Cover. Critical Illness cover is statistically, of all health insurance, the least held form of cover, yet it is the most likely of all covers to trigger.

The current research from ABS, NATSEM and the Cancer Council shows that 50% of all Australians aged over 30 will suffer at least one of seven critical illness's and alarmingly 1/3rd of all women and 1/4th of all men will suffer cancer. Males are 2.5 times more likely to claim on Critical Illness than on life and females are 5 times more likely.

Have you considered Critical Illness cover? It may be worth reviewing yours and your family's insurance.

May Budget

Despite warnings that this was to be a “razor gang” budget it ended up being more like “death by a thousand cuts” with a large number of small spending savings very carefully spread around in order not to overly upset any one demographic. While investors didn’t escape completely unscathed there was very little to complain about either and certainly nothing that wasn’t flagged beforehand.

One interesting measure was the change in the indexing of the superannuation concessional contributions cap. Rather than fully indexing the current \$50,000 upper limit for those aged 50 and over, it is now to be \$25,000 above the lower limit. Accordingly, should indexation increase the lower limit by \$5,000, rather than applying the same percentage to the upper limit and thereby increasing it by \$10,000 it will also only increase by \$5,000. This may result in the upper limit failing to keep pace with inflation.

From 2013, the upper limit is to only apply to individuals with less than \$500,000 in superannuation assets however no further information was forthcoming on how the government intends to achieve the extremely difficult task of measuring this.

The government has provided some relief to those who inadvertently exceed their superannuation contributions tax with a one time chance to refund up to \$10,000 of excess contributions without the usual severe penalties.

Minimum superannuation pension drawdown amounts, currently at 50% of normal levels, are to be increased to 75% as at July 1st, 2011 before returning to the normal minimum levels in the 2012/2013 financial year.

The Government has determined that the lower co-contribution threshold will remain frozen at the current level of \$31,920 for another (or third) financial year. As a rule of thumb, for 2011/12, working individuals with a total income under \$54,000 pa (down from \$54,500 in 2010/11) and \$1,000 of

after tax money available to contribute to super will be better off making an after-tax contribution of up to \$1,000 rather than salary sacrificing an equivalent pre-tax (grossed up) amount. This is because the amount of Government co-contribution received is higher than the equivalent tax savings available through salary sacrifice

The government has provided \$48.6 million to the ATO and ASIC for increased scrutiny of those involved in the Self Managed Superannuation Fund industry. This also includes tightening restrictions on assets such as collectibles and personal use assets and how they are valued.

Superannuation legislation will be amended to confirm that where there is a self managed super fund with a corporate trustee, a parent or guardian may be a director of the body corporate in place of a member that is a minor.

Current income tax rates and thresholds for residents and nonresidents will continue to apply for 2011/12. The Low Income Tax Offset (LITO) will no longer be available on unearned income by those aged under 18 in order to address income splitting between minors and adults. This may affect those operating family trusts.

From July 1st 2011 a temporary Flood and Cyclone Reconstruction Levy will apply to those with a taxable income in excess of \$50,000. It will be a tiered levy of 0.5% on all income between \$50,000 and \$100,000 and 1% on all income over \$100,000. This is to be applied for the 2011/2012 financial year only.

The Government has announced that the dependent spouse rebate will be removed for taxpayers who have a dependant spouse born on or after 1st July 1971 (ie aged 40 or less on or after 1st July 2011). The intent is that the removal of this offset benefit will result in the spouse actively looking to rejoin the workforce.

A Recap of the Last Quarter at Newell Palmer

It has been an interesting start to the year at NPS with a number of major developments including changes to our administration software and platform. Accordingly we have included a summary to keep our clients informed of the new changes.

NPS brought in another administration platform-FirstWrap (owned by CBA) which provides a cost effective alternative to the BT Platform, particularly for clients with multiple or family accounts. NPS managed to leverage our size and business history with CBA to obtain an attractive fee discount for our clients.

NPS is in the process of transitioning to a newer and more efficient administration platform which will assist in providing clients with the flexibility and convenience of viewing their live, consolidated investment portfolio and other data online. This

web based administration system comprises a complete suite of tools which will allow us to increase efficiency and enhance the value of our client reporting and service.

The NPS Investment Committee team met with a number of reputable global fund managers including Aberdeen Asset Management, Magellan Group and Platinum Asset Management. After conducting a number of meetings and reviewing their product offering, we have included a number of new funds to our recommended list which will assist in adding real value to clients portfolios.

We take this opportunity to thank our clients for their patience and understanding over the past few months whilst we implement these new changes to our service offering and continue looking for ways to add value to our clients.

End of Year Financial Planning

We are pleased to provide our 2011 year end tax planning guide. Tax planning involves many issues and ideally should be done on a regular basis throughout the year. Outlined below are a number of suggestions that may assist taxpayers to legitimately minimise or defer their taxation exposure. Please note that these are suggestions of a general nature only and we recommend that you contact your adviser at Newell Palmer to assist you with your planning requirements.

1. Contribute to your super

Putting money into super, whether it be personal concessional or an after tax contribution, can be a very effective and prudent tax strategy. Earnings on super assets are concessional taxed at up to 15 per cent, compared with earnings on personal investments which are taxed at your marginal tax rate, which may be as high as 46.5 per cent.

2. Contribute to your spouse's super

You can claim an 18% tax offset on super contributions of up to \$3,000 made on behalf of a low-income or non-working spouse. To be eligible for the maximum \$540 tax offset, your spouse's income must not be more than \$10,800 per annum, while a reduced offset is available if your spouse earns less than \$13,800.

3. Sacrifice your end of year bonus to super

Salary sacrifice can be a great way to boost your superannuation and reduce your tax burden at the same time. If your marginal tax rate is more than 15% then by placing your bonus pre-tax income into super you will save the difference between the concessional tax rate and your marginal tax rate on that pre-tax contribution. This saving can be significant if you are in the top tax bracket and increases in line with the size of your contribution. Please ensure that you do not exceed the maximum deductible contribution limits.

4. Qualify for a Government co-contribution

The super co-contribution is a government measure to boost super savings. If your total income is less than \$61,920 then you may be able to receive the super co-contribution from the government.

5. Manage your Capital Gains Tax

Unfortunately a good performing asset will eventually lead to capital gains tax when sold. If this has occurred for you in the 2010/11 financial year you might consider selling any non performing investments for which you have made a loss. Capital losses can be used to reduce or even eliminate any potential capital gains tax liability and unused capital losses can be carried forward. Alternatively, you may wish to delay the sale of a profitable asset until after 30th June. This way you can defer paying tax on the capital gain for up to 12 months. If you are self employed another option is to make a personal deductible super contribution. This tax deduction could reduce or even eliminate your CGT liability.

6. Move assets into a lower tax rate ownership

If you and your partner reside in different income tax brackets you may want to consider changing the ownership structure of your assets. Holding assets in the lower income partners name can produce tax savings based on the difference between your marginal tax rates. Be aware, however, that putting this strategy into action can trigger capital gains tax and other transaction costs. It's important to seek advice.

7. Bring forward your deductible expenses

To reduce your taxable income this financial year you could bring forward expenses that are otherwise tax deductible in the following year. Prepaying 12 months interest on a fixed rate investment loan or pre payment of income protection insurance are some examples.

8. Education Tax Refund

If you have school age children, you should investigate the education tax refund scheme. You may qualify for a refund of 50% of expenses, up to a maximum of \$794 for primary school children and \$1,588 for secondary school children. The refund is available for items like laptops, educational software and textbooks, but not for school fees or uniforms. To get the refund, you must meet the eligibility criteria

Newell Palmer Securities Pty Ltd
PO Box 1680 Crows Nest NSW 1585

Suite 101, 270 Pacific Hwy Crows Nest NSW 2065

Phone (61 2) 9906 8066 Fax (61 2) 9906 8080

www.newellpalmer.com.au

Newell Palmer Securities Pty Ltd ABN 89 050 040 232

Australian Financial Services Licence No. 229264

Principal Member of Financial Planning Association of Australia Ltd

This newsletter provides general information only and does not take into account your individual objectives or financial circumstances. Any recommendations are based on a consideration of the securities alone, and as such, before acting on any information in this newsletter, you should consider the information in light of your objectives, financial situation and needs. It should not be seen as a substitute for specific and professional advice. While every care has been taken in the preparation of this newsletter, Newell Palmer Securities makes no representations to the accuracy or completeness of any statement in it and responsibility is disclaimed for any inaccuracy, errors or omissions. While we make every effort to include taxation considerations that are relevant, we are not acting as practicing accountants and matters relevant to tax should be clarified with your taxation adviser. Newell Palmer Securities and its associates may have an interest as defined in the Corporations Law 2001 in the securities referred to in this newsletter and may hold investments in or receive brokerage on such securities.

PRIVACY POLICY: You may, contact us by any of the methods detailed above, request not to receive further newsletters from us and we will give effect to that request. Please allow two weeks for your request to be actioned.

The Newell Palmer Team – Email Address

Paul Bourgeois – Director/Adviser
pbourgeois@newellpalmer.com.au

David Duong – Adviser Assistant
dduong@newellpalmer.com.au

Jerome Chopard – Director/Adviser
jchopard@newellpalmer.com.au

Sian Chua – Adviser Assistant
schua@newellpalmer.com.au

Vernon Rego – Director/Adviser
vrego@newellpalmer.com.au

James Hayes – Adviser Assistant
jhayes@newellpalmer.com.au

Richard Jackson – Adviser
rjackson@newellpalmer.com.au

Vicky Cook – Receptionist
vcook@newellpalmer.com.au

Simon Babbage – Adviser
sbabbage@newellpalmer.com.au

Charlotte Ping Du – Accounts
cdu@newellpalmer.com.au

John Toniato – Adviser Assistant
jtoniato@newellpalmer.com.au