



# NEWELL PALMER

## SECURITIES PTY LTD

WEALTH – LIFESTYLE – SECURITY

May 2009

Welcome to our May 2009 Newsletter. With the end of the Financial Year only a matter of weeks away, should you require any assistance with year-end financial planning strategies or implementations please contact your Newell Palmer Financial Adviser. This newsletter together with the previous copies can be found on our newly redesigned website, [www.newellpalmer.com.au](http://www.newellpalmer.com.au). We wish you, your family and friends all the best for a rewarding 2009/10 financial year.

## Investment Outlook

### Economic Overview

U.S. and European banks need to raise US\$875 billion in equity by next year to recapitalise banks to a level similar to the pre-crisis years and twice that amount to match the level of the mid-1990s, the International Monetary Fund (IMF) estimated. The IMF estimates that the U.S., European and Japanese financial sectors face losses of about US\$4.1 trillion between 2007 and 2010. The banking sector has already written down US\$1 trillion of those losses.

Governments are aware of the dangers of banking failures, and their actions, including government guarantees on deposits and re-capitalisations, have been successful to-date to keep banks solvent. This was the first and most important step to settling the current financial crisis. The other two critical issues are building consumer confidence and helping companies deal with their loan requirements as the availability of credit diminishes.

**United States** - The Obama administration has committed itself to provide funds to support economic growth, as is the Federal Reserve and U.S. Treasury, by boosting cash in the system. We believe they will succeed and the U.S. will recover later this year.

**Europe** - The UK budget deficit is expected to reach 3.3% of GDP this year and next year, putting pressure on the Sterling. In the 27-nation EU, only Hungary faces a bigger shortfall this year at 4% of GDP. Europe's recovery to lag the U.S.

**Japan** - There are now signs that the economy has bottomed, for example, Japan's industrial output rose for the first time in six months in March.

**China** - The Chinese government's 4 trillion yuan stimulus package is beginning to kick in, evidenced by strong fixed-asset investment numbers and China's new lending, surging

by more than six times to a record 1.89 trillion yuan (US\$277 billion) in March from a year earlier.

Massive amounts of government stimulus around the world, at a time when government revenues are falling, have resulted in the much publicised government deficits facing many countries. Policies to balance these budget deficits will act as a constraint on economic growth as will any continuation in the current trade imbalances between the West and Asia.

**Australian Shares** - The significant amount of successful capital raisings on the Australian share market suggests that there are funds available to absorb these raisings. The market appears to have bottomed in early March 2009 and using forward earnings as a guide, the All Ordinaries appears to be fairly valued at 4,000 points.

**International Shares** - Sharemarkets are down over 20% for one year and 30% for three years to end April. It is difficult to go to any fund manager presentation without being shown evidence why international equities are cheap. A rising A\$ will make overseas shares more attractive. A sustained rally in world sharemarkets must wait for evidence that earnings are rising.

**Property** - While the decline in prices for properties valued over more than \$1m have stolen the headlines, these properties represent only 5% of total house sales, with more than 80% of sales concentrated in the \$100-600k price range.

We do not believe that current house prices are too high. With the decline in mortgage rates, the average monthly repayments on a \$300k property loan would be around \$1,320. This compares to the median rent for a three bedroom house in Sydney of around \$1,400 per month.

### Sector View

Cash	–	Negative
A\$ Bonds	–	Negative
A\$ Hybrid Securities	–	Positive investment grade
International Bonds	–	Negative
Australian Equities	–	Neutral
International Equities	–	Neutral
Listed Property	–	Neutral - wait till after down-grades to valuations complete
Residential Property	–	Buy

WEALTH – LIFESTYLE – SECURITY

# Budget Update

---

In one of the most eagerly anticipated Budgets in decades, the Federal Government announced a range of measures of interest to investors. These include but are not limited to:

## 1. Reduction In Personal Income Tax

The Government has confirmed that previously legislated tax cuts will go ahead for the 2009/10 and 2010/11 financial years. No additional tax cuts were announced in this budget.

## 2. Reduction In Superannuation Contribution Caps

The maximum concessional contribution has been halved effective 1 July 2009 to \$25,000 for those aged 49 and under and \$50,000 for those aged 50 and over. This includes any employer contributions. This will require those salary sacrificing (including anyone currently using a transition to retirement pension) to review their contributions to ensure they remain under the limit.

## 3. Small Business Tax Relief

As part of previous fiscal stimulus packages, the Government had announced that small business (those with a turnover of less than \$2million) would be able to claim a bonus tax deduction of 50% for the acquisition of eligible assets until 30th December 2009.

To be an eligible asset for this bonus, the asset must:

- Cost more than \$1,000 (although substantially similar assets may be aggregated in order to reach this threshold)
- Be purchased between 13 December 2008 & 31 December 2009
- Be used or installed ready for use by 31 December 2010

# Newell Palmer Website Upgrade

---

Thanks to your feedback, May 2009 saw the launch of the new Newell Palmer Securities website which has been redesigned with a vibrant new look, new content and significant layout updates for improved usability and navigation.

This new site is designed to give you access to a range of new functionality including:

- Up-to-date market and finance news via RSS (Rich Site Summary) Feeds. The RSS Feeds allows us to retrieve the latest content from major news sites such as News.com.au and Reuters which is displayed at the bottom of each page. This will save you time by not having to visit each site individually.
- Regular Articles of Interest. This section will be updated on a regular basis providing you with the latest articles of interest.
- Client Login Page; this client-only access page will provide

## 4. Private Health Insurance Rebate

From 1 July 2010 the Government will introduce a 3 tiered approach to determine the amount of private health insurance rebate payable to individuals. Once income is above the upper threshold (\$120,000 for singles and \$240,000 for couples) no private health insurance rebate will be payable.

## 5. First Home Owner's Grant

The Government has announced that the First Home Owners Boost (FHOB) will be extended for a further 6 months to 31st December 2009 for both the housing market and first home buyers.

## 6. Pension Drawdown Relief Continued

The government has continued the halving of minimum drawdown from Account Based Pensions. As an example, an Account Based Pension recipient aged 65 would normally need to draw a minimum of 5% of the pension balance. This has now been halved to 2.5% for the 2009/10 financial year. The objective is to assist in preventing forced sales of assets into a depressed market.

## 7. Changed Income Definition For Commonwealth Seniors Health Card

The definition of adjusted taxable income for the purposes of the Commonwealth Seniors Health Card will not include the gross tax-free superannuation pension income which was previously announced in the 2008/09 Budget. This is a significant win for clients. This would certainly have been influenced by their recent difficulties in having this measure passed through the Senate. It will also enable clients to take larger one-off super/pension payments in a particular year without affecting their entitlement to the Seniors Health Card.

you with links to your Investment Portfolio, Insurance & Mortgage details and Industry websites. Other features include Newell Palmer Securities Monthly Market Overview and Outlook Report, Calculators, and more...

For our regular users, certain features remain unchanged such as newsletters, frequently asked questions (FAQ), adviser & assistant profiles and our contact details.

In order to obtain access to the Client Login Page, please email [info@newellpalmer.com.au](mailto:info@newellpalmer.com.au) and we will provide you with your login details.

The new website is aimed at providing you with an enhanced user experience and we are confident that by adding [www.newellpalmer.com.au](http://www.newellpalmer.com.au) to your favourites, most of your online financial requirements should be met.

We welcome any further feedback on our new website and take this opportunity to say 'thank you' for your continued support and appreciate your ongoing referrals to new clients.

---

## Over A Decade of Service

---

Over a decade of service undoubtedly is a significant portion of any person's life, demonstrating valuable qualities such as loyalty, solidarity and friendship, and for just over ten years now Vicky Cook has been the welcoming voice and the first friendly face you see as you enter through the doors of Newell Palmer Securities (NPS).

Prior to working at Newell Palmer, Vicky was employed in a library and then as a case manager. Initially Vicky joined Newell Palmer as a Bookkeeper, "I liked the people but not the work" she recalls. Realising Bookkeeping didn't suit her personality Vicky intended leaving, until she was offered the role as a Receptionist.



"I had never done this type of work before, but I loved the interaction with the clients and the staff".

Vicky has a natural talent that cannot be taught and her interaction with our clients is clearly the part of the role she enjoys best as she explains; "Let me say from the start, I have never worked in a place that has so many lovely clients. I have always been blown away by the courtesy of the clients that NPS seem to attract. I have always looked forward to coming to work as I have only nice people to talk to every day.

Although the market changes constantly, I never get inundated by worried clients, as they are so well informed and educated by their Adviser and they understand or are prepared for what the market is doing".

Of the advisers she says, "One of the main reasons I have always stayed at NPS is the Directors' sense of integrity... I have also become aware after the fact and more by accident, of some incredibly kind acts on their clients behalf which has cost them personal time and money".

We at Newell Palmer Securities feel that it is important to recognise the dedication Vicky has shown to our company and our clients over the years, whether it be a simple enquiry or a challenging question, Vicky has always handled herself with the utmost professionalism at all times, and for that, we thank her.

---

## The Case for International Equities

---

Performance from indexed based international equity funds has been poor over the last decade and the question that investors are asking; is it worthy of ongoing support?

The case for international equities has been long argued as a key component of a well diversified growth portfolio. The case in support of this is as follows:

- Australian stockmarkets represent less than 2% of the world's stockmarkets. Therefore investing in a broadly based international equity portfolio provides an enhancement to Australian equity investments.
- Investing in overseas companies and markets provides opportunity to invest in stocks and companies which are not represented in the Australian market and provide opportunities to enhance returns and diversification. Companies such as Nokia & Microsoft are examples of this.

However the performance of the International equities index as measured by the MSCI (Morgan Stanly Capital International

Index) has performed poorly in an absolute sense. As of April 30, 2009, the MSCI has achieved a compound return of -2% for the last 10 years in \$AUD.

This compares with the performance of the Australian market which has fared significantly better at +6.21% compound returns. On that history alone why would you bother?

When you analyze the performance of the MSCI, it is important to note that the index is dominated by the US (55%), Europe (30%), and Japan (11%).

Although the international index will change over time to reflect the growth that is occurring in Asia, the MSCI is highly correlated to the old world economies such as US, Europe and Japan.

The question that needs to be asked is; where will the sustainable growth in company earnings come from in the next 5-10 years to provide reasons to invest internationally?

**continued on next page**

## The Case for International Equities cont.

It is acknowledged that the emerging markets of Asia (including India and China) and the broader emerging markets (Brazil, Russia, India & China) provide far better opportunities for growth than the developed countries of US, Europe and Japan. This will feed into company earnings.

The main reasons for the positive outlook are:

- Economic growth rates of the Emerging markets are 2-3x growth rates of the “old world” economies of the US, Europe and Japan. This will potentially have an enormous impact on income, employment and consumption in these respective economies.
- Savings ratios in emerging markets are significantly higher than developed countries which lead to investment spending and growth.
- Strong budget positions of selected Asian countries (notably China) and emphasis on infrastructure spending to improve the productive capacity of the country and its companies. This will feed into sustainable and growing economies and companies.
- Younger population in the developing countries (compared to developed countries) provides greater scope for growth in consumption.
- The absence of public sector debt (in an absolute and relative sense) in the emerging markets provides greater scope to build sustainable growth and the lesser need to raise taxes which is positive to growth.

We at Newell Palmer have identified that active fund managers who are not constrained by the MSCI have the potential to tap into opportunities that some of emerging markets and companies within these markets offer.

There are a number of international managers who favour a stock specific bottom-up approach to deliver performance and who are not constrained by index type investments.

One of our recommended international managers which adopt the “non-MSCI” investment approach has outperformed the

index by 15%pa compound over the last 10 years. They have been able to do this on the basis of country selection and stock selection far different to the Index. Notably their current US exposure is significantly underweight the MSCI Index.

In conclusion, we would argue that investing in international equities is a rational way of investing in growth assets to diversify and enhance potential returns. Whilst not discounting the benefit of Index Funds, we would argue that active managers with an eye on the global shifts (both political and economic) provide opportunities to enhance returns and provide the potential to build capital.

## Year End Tax Planning

Our May newsletter normally details a number of financial year end strategies. This year we provide a simple checklist which should be considered in line with the implications of budget changes:

- ✓ Delay the receipt of income
- ✓ Bring forward deductible expenses
- ✓ Prepay interest expenses
- ✓ Review superannuation contributions - self employed, salary sacrifice and spouse
- ✓ Realise capital losses and offset against gains

There are, as always, a number of tax effective products available which Newell Palmer Securities has completed research and due diligence on and is comfortable to recommend. Please contact your adviser who will be able to assist you and make specific recommendations appropriate to your circumstances.

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](http://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 Section 849 of the Corporations Law in the securities referred to in this newsletter and may hold investments in or receive brokerage on such securities.

PRIVACY POLICY: You may, by 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](mailto:pbourgeois@newellpalmer.com.au)

**Jerome Chopard** – Director/Adviser  
[jchopard@newellpalmer.com.au](mailto:jchopard@newellpalmer.com.au)

**Vernon Rego** – Director/Adviser  
[vrego@newellpalmer.com.au](mailto:vrego@newellpalmer.com.au)

**Simon Babbage** – Adviser  
[sbabbage@newellpalmer.com.au](mailto:sbabbage@newellpalmer.com.au)

**Georgia Cameron** – Project Manager  
[gcameron@newellpalmer.com.au](mailto:gcameron@newellpalmer.com.au)

**Petrina Rinkin** – Client Services  
[prinkin@newellpalmer.com.au](mailto:prinkin@newellpalmer.com.au)

**Sian Chua** – Adviser Assistant  
[schua@newellpalmer.com.au](mailto:schua@newellpalmer.com.au)

**David Duong** – Adviser Assistant  
[dduong@newellpalmer.com.au](mailto:dduong@newellpalmer.com.au)

**Martin Joughin** – Adviser Assistant  
[mjoughin@newellpalmer.com.au](mailto:mjoughin@newellpalmer.com.au)

**Vicky Cook** – Receptionist  
[vcook@newellpalmer.com.au](mailto:vcook@newellpalmer.com.au)

**Charlotte Ping Du** – Accounts  
[cdu@newellpalmer.com.au](mailto:cdu@newellpalmer.com.au)