Retirement Victoria

CLIENT NEWS

WINTER EDITION – JUNE 2010

Federal Budget 2010

Not So Simple Super

Remember Peter Costello's *Simple Super*. It was, of course, never going to be simple.

Politicians love announcing policy – but always add some spin to oversell it.

Ego gets in the way. They fail to acknowledge difficulties of implementation and the complexities of designing new legislation to interface harmoniously with the labyrinth of existing legislation. Witness the contortions of the Rudd Government on both policy and implementation.

In the four years since the Costello announcement of *Simple Super* we have seen the addition of overlay upon overlay to super, tax and Centrelink legislation, regulation and policy. Super rules have never been more complicated.

This year's Federal Budget adds further complication. Longer term proposals at this stage are fluid. They depend to a great extent on election outcomes, legislative contingency and the implementation of proposals which are as yet underdeveloped or defy common sense.

In this Edition of the *News*, we have elected to address only measures which have short term relevance for clients. See ***Information Update*** on Page 4. A more extensive summary of Budget proposals can be found in the ***Looking Ahead*** section of the RV Website.

Let me initially clarify a Budget matter which appears to have misled quite a number of clients.

Resources - Tax on Super Profits

Lest you are one of the many members of the community who think the proposed "super" tax is a tax on superannuation, it is not. It is a proposed tax on "large" profits made by resource companies. It has nothing to do with superannuation.

(Does nobody in Government understand that, in the context of tax, the community identifies the word 'super' with superannuation?)

There is a sound argument for resource companies being required to pay more to the Australian community for the extraction and sale of our mineral wealth. Structure it as a tax on 'excess' profits if you will. But don't call it a 'super' tax. The Government has added a layer of confusion to an already complicated proposal.

It further feeds the image of a Government not quite in touch with the community it serves.

Continuing Care Reports

Mid-Year Reports will be forwarded to *Continuing Care* clients progressively from mid-July 2010.

This round of reports will be the last set forwarded using our present database software.

We are in the process of refining and installing a new client information and portfolio management system which will improve the speed, quality and accuracy of our data management and reporting processes.

While the system is costly to establish and maintain, it will enable us to fully update client portfolios, unit values and unit prices on a daily basis.

(We have in addition grabbed the opportunity to add 50% to our office space on level three, following the exit of the previous tenant. It will further assist effective staff operations and delivery of client services in the years ahead)

RV Reception – Shannon Clarke

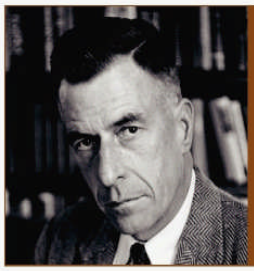
Receptionist in any good organisation is a key role. Shannon joined us in January as the new face of RV. She went to the UK for a holiday eight years ago, met Londoner Joe, and has only just returned - she and Joe decided to settle in Australia.
Her Mum is delighted as are we – charm, warmth, intelligence and initiative is a fair summary.

Best Wishes
Alan *– on behalf of RV staff*

The Years Ahead

Over many years we have written regularly and extensively on issues related to retirement strategy, markets, global debt, the potential for inflationary pressures and the underlying strength of the Australian financial system and the Australian economy. For another perspective on aspects of these themes we have decided to include two articles by one of Australia's leading boutique fund managers – *Perennial Investment Partners*. The articles are from their excellent booklet *'The Wisdom of Great Investors'* and are printed with their permission. If you would like a copy of the booklet please contact the RV office.

Disregard short-term forecasts and predictions



"The function of economic forecasting is to make astrology look respectable."

John Kenneth Galbraith,[8] economist and author

DURING periods of uncertainty, investors often gravitate to the investment media for insights into how to position their portfolios. Media portrayal can often exaggerate and sensationalise current events, increasing investors' concerns. However compelling the forecasts and views of the media may appear, it often adds little value to an investor's decision making process.

The study below tracked the average interest rate forecast from *The Wall Street Journal* Survey of Economists from December 1982–June 2008. This forecast was then compared to the actual direction of interest rates. *Overall, the economists' forecasts were wrong in 35 of the 52 time periods – 67% of the time!*

Table 2 suggests that investors should not spend time and energy focusing on variables that are unknowable and uncontrollable, like the direction of interest rates or the value of the All Ordinaries Index. Instead, focus on things that you can control, like creating a well diversified portfolio appropriate for your investment time horizon, taking into account your objectives, needs and financial situation.

Table 2: Six Month Average Forecasted Direction vs Actual Direction of Interest Rates

***The Wall Street Journal* Survey of Economists (12/8–6/08)**

Date	Forecast	Actual	Result	Date	Forecast	Actual	Result	Date	Forecast	Actual	Result
12/82	▼	▼	Right	12/91	▼	▼	Right	12/00	▲	▼	Wrong
6/83	▼	▲	Wrong	6/92	▼	▲	Wrong	6/01	▼	▲	Wrong
12/83	▼	▲	Wrong	12/92	▼	▼	Right	12/01	▼	▼	Right
6/84	▼	▲	Wrong	6/93	▲	▼	Wrong	6/02	▲	▲	Right
12/84	▲	▼	Wrong	12/93	▲	▼	Wrong	12/02	▲	▼	Wrong
6/85	▲	▼	Wrong	6/94	▼	▲	Wrong	6/03	▲	▼	Wrong
12/85	▲	▼	Wrong	12/94	▼	▲	Wrong	12/03	▲	▲	Right
6/86	▲	▼	Wrong	6/95	▲	▼	Wrong	6/04	▲	▲	Right
12/86	▲	▲	Right	12/95	▼	▼	Right	12/04	▲	▼	Wrong
6/87	▼	▲	Wrong	6/96	▲	▲	Right	6/05	▲	▼	Wrong
12/87	▼	▲	Wrong	12/96	▼	▼	Right	12/05	▲	▲	Right
6/88	▼	▼	Right	6/97	▼	▲	Wrong	6/06	▲	▲	Right
12/88	▲	▲	Right	12/97	▲	▼	Wrong	12/06	▲	▼	Wrong
6/89	▲	▼	Wrong	6/98	▲	▼	Wrong	6/07	▼	▲	Wrong
12/89	▲	▼	Wrong	12/98	▲	▼	Wrong	12/07	▲	▼	Wrong
6/90	▼	▲	Wrong	6/99	▼	▲	Wrong	6/08	▲	▼	Wrong
12/90	▼	▼	Right	12/99	▼	▲	Wrong				
6/91	▼	▲	Wrong	6/00	▼	▼	Right				

Source: Legg Mason and *The Wall Street Journal* Survey of Economists. This is a semi-annual survey by *The Wall Street Journal* as at 30 June 2008.
*Benchmark changed to 10 Year Treasury.

[8] John Kenneth Galbraith (1908–2006) was a North American economist and taught at Harvard for many years. Galbraith's books on economics were bestsellers in the 1950s and 1960s. Galbraith wrote dozens of books and many, many articles. Arguably, his most famous works are the popular trilogy on economics, American Capitalism, (1952), The Affluent Society, (1958), and The New Industrial State (1967).

Don't attempt to time the market

"Far more money has been lost by investors preparing for corrections or trying to anticipate corrections than has been lost in the corrections themselves."

Peter Lynch,[2] legendary investor and author

A VOLATILE market can cause investors to panic and to abandon long-term investment strategies by pulling out of the sharemarket, with the intention of moving back in when the environment improves. It is almost impossible to predict when markets will improve and, by attempting to do so, investors lose out on the returns they could have earned had they stayed put.

Chart 2 illustrates the danger of trying to time the market. Over the 20 years to 2009, the investor who missed only the best 10 trading days, out of the 5,240 trading days in this period, saw their return reduce to 7.4%. Amazingly, an investor only had to miss the best 60 days to see their return turn negative!

Looking at **Chart 2**, it would appear that the most successful investors are those who understand that timing the market is almost impossible and stick with their long-term strategies.

Chart 2:
The Danger of Trying to Time the Market (All Ordinaries 20 Year Average Annual Returns 1989–2009)

Source: All Ordinaries, Perennial Investment Partners, IRESS to 31 December 2009.

AEU/RV Retirement Seminars

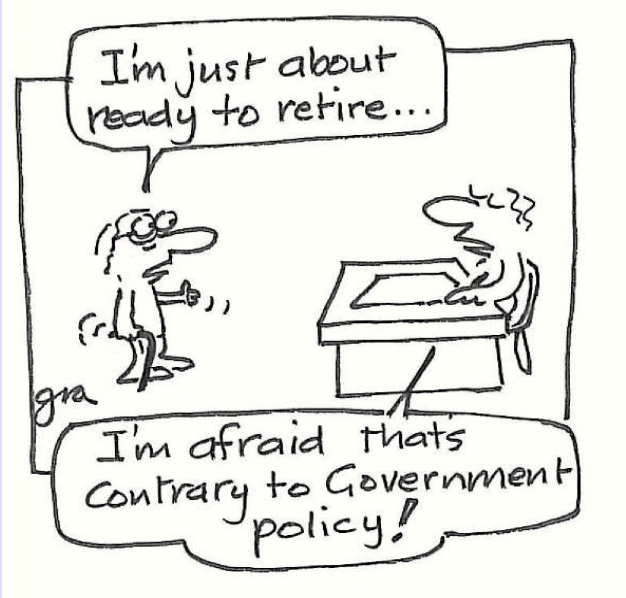
At the AEU Offices
112 Trenerry Cres, Abbotsford

Thurs. 1st July (T2 Holidays)
10.00am – 12.00 midday

Sat. 14th August
10.00am – 12.00 midday

Tues. 29th September (T3 Holidays)
10.00am – 12.00 midday

Bookings: Rhonda Webley at the AEU Office.
Rhonda.Webley@aeuvic.asn.au or (03) 9417 2822.



Information Update

Account Based Pension (ABP) Payments

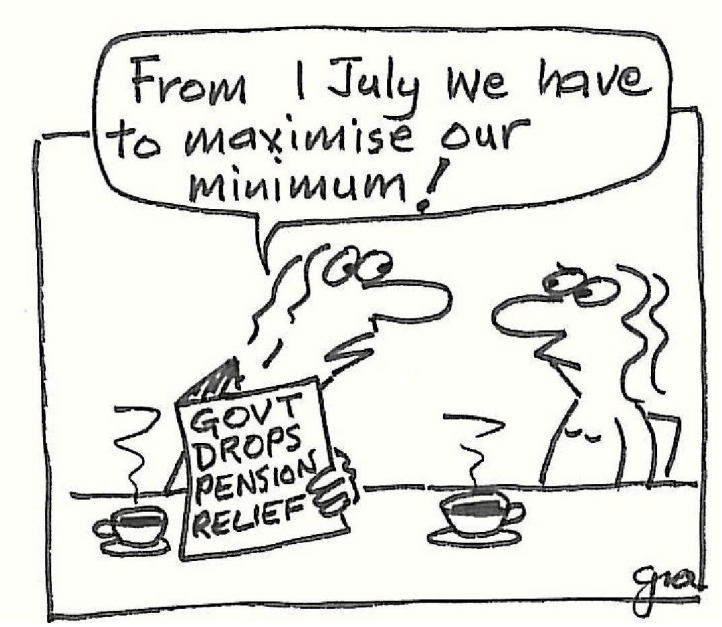
During the Global Financial Crisis the Government halved the minimum statutory pension which an ABP was required to pay each year. (ABP's were formerly called allocated pensions)

The Federal Government has announced that minimum pension payments for the 2010/11 financial year will return to normal levels.

We believe that the decision is premature but at this stage it seems unlikely to be reversed.

Thus for clients in the age range 55-64 the minimum annual pension will return to 4% p.a., for clients 65-74 the minimum will be 5% p.a., for clients 75-79 it will be 6% p.a., for clients 80-84 it will be 7% p.a. Thereafter it rises progressively at five yearly age intervals.

Arising from the change some clients may benefit from adjusting their income model for 2010/11 in consultation with their Adviser.



See the *Looking Ahead* Section of the RV Website for the extensive Budget Summary

Super Contributions – Budget Update

Under The rules introduced from 1st July 2009 the maximum **total** of annual 'concessional' contributions to super became $50,000 p.a. for age 50 and above, and $25,000 p.a. for those below age 50. (see *RV Client News – Summer 2009/10* p.1 and *RV Insights – May 2009* – both available in the *Publications* section of our website). The maximum for those age 50 and above was scheduled to reduce to $25,000 p.a. from 1st July 2012.

However the Government announced in the Budget that the ceiling of $50,000 p.a. would continue for those with less than $500,000 in total in their superannuation funds. When or how this amount would be determined was unstated. How defined benefit entitlements, such as ESSS pensions, would be assessed was also unstated, as was the issue of market movements, contributions or withdrawals taking people over, or bringing them under, the $500,000 limit.

It is a half-baked and unmanageable proposal. Resolution may eventually lie in the continuation of the $50,000 p.a. maximum for all those aged 50 and above – a significant salary sacrifice issue for many clients. We'll keep you informed.

Government Co-Contribution to Super

The rate will now remain at a maximum of $1,000 p.a. It will no longer progressively increase to $1,500 p.a. as previously announced. Contact us if you would like a copy of our latest ***Dollar Notes*** on the Government Co-Contribution to Super and how it works.

Interest Discount – from 1st July 2011

Taxpayers will be able to claim a new 50% discount on the first $1,000 of interest earned during a financial year. The maximum reduction in taxable income will thus be $500 p.a. The discount will also apply to adjusted taxable income in determining eligibility for Family Tax Benefit and Commonwealth Seniors Health Card.

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