stonehouse
WEALTH MANAGEMENT

Newsletter Volume 26 Autumn 2014

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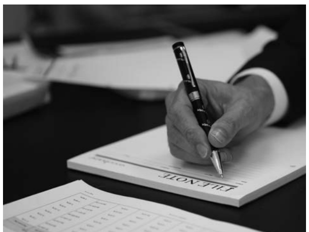

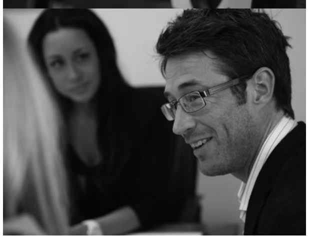

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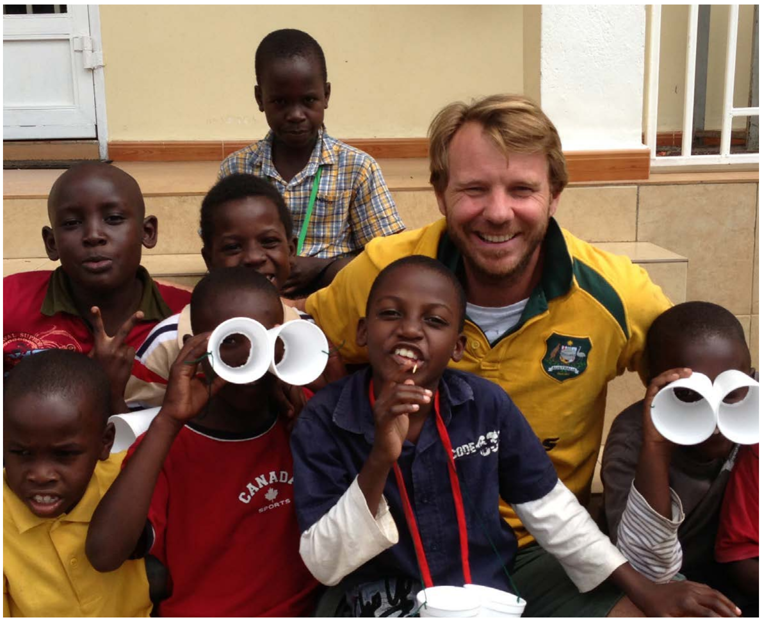
Volunteering in Africa

Andrew Stewart, Senior Partner



The decision to go to Uganda, Africa, came after a lot of discussions, research and prayer. It wasn't made lightly, and I dare say it is not for everyone. My wife Narelle and I understood the associated risks for not only ourselves, but for our three young children (ages 11, 9 and 7) that were coming with us (not entirely willingly I might add). This added weight to the heaviness of our decision. In the end however, we fully believed that the experience as a family of "helping others" on the other side of the world, in third world Africa, would be something that would not only improve us as individuals, but together as a family unit.

So, after many vaccinations, and with much medication and mosquito repellent on board, we headed to Kampala, the capital of Uganda, last August. We were met at the airport in the middle of the night with a big smile and a warm hug, by a man we hadn't even met before (except for a few emails). Pastor Haggai made us feel so welcomed immediately and put many of our fears to rest.

> " Watoto have spent the last 30 years working tirelessly to improve the lives of many in Uganda, starting with the women and children. "

In the past, a number of Stonehouse Advisers have raised funds through the 'Tour of Hope' 800km cycle tour, which has been generously supported by our clients. These funds have assisted in the support of Pastor Haggai & his wife Agnes who run a small school, 'Life Way Nursery School', in the slums of Kampala.

Haggai & his whole family have a heart to improve the circumstances of the children/ families in the slums. While Haggai struggles to pay the teachers meagre salaries and to make ends meet, he has big plans to establish self-sustainable projects to fully support this school and a larger second one. These projects aim to ease their pressures financially and to reduce/eliminate the need to rely on donations for their viability.

While visiting the area of the school and Pastor Haggai's church, it was personally very challenging to meet the children and their families. Living in the grip of poverty, the children are dressed in rags, many had little/no food and minimal clean drinking water. The school is a shack with a few small rooms. The church building was separated from the school building by a small creek overflowing with raw sewerage, leaving the strong smell of human waste permeating through the air. This smell is something I will never forget and cannot be experienced by just looking at a photo.

It is hard not to get emotional with the circumstances we witnessed, particularly knowing how much we take for granted in our daily lives here in Australia. Individuals like Haggai and Agnes give up their own lives every day in order to improve the lives of others. They not only provide physical aid, they provide "Hope". Hope for a better today, and hope for a better future through education with love.

After spending time with Haggai, we then moved on to work with the Watoto Church. In stark contrast to Haggai & Agnes who are at the beginning of their journey, Watoto have spent the last 30 years working tirelessly to

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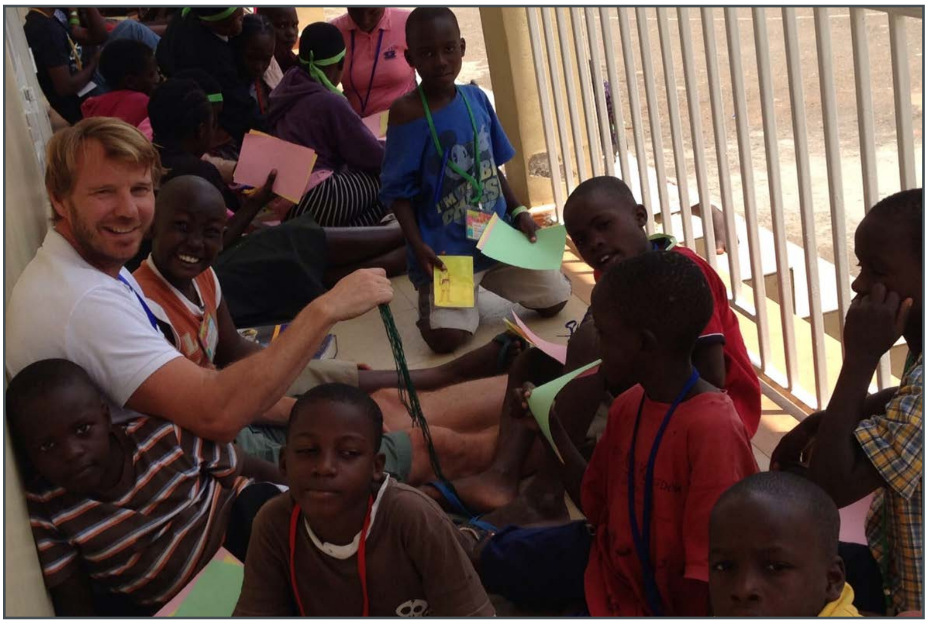


improve the lives of many in Uganda, starting with the women and children. You may remember the article from a previous newsletter, we had some children visiting from the Watoto Children's Choir at our Indooroopilly office. Watoto (Swahili word for "children") rescues children who have been abandoned or orphaned in Uganda. Watoto take the children into their care and nurture them, often when they are just little babies. My children especially loved visiting the babies homes. Seeing my son and both daughters nursing the many babies (often with special needs) is a memory that will stay with me for years to come. It is also the experience my children talk most about since our return home.

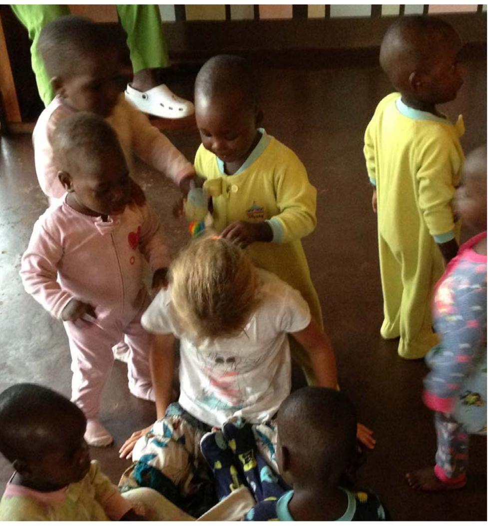
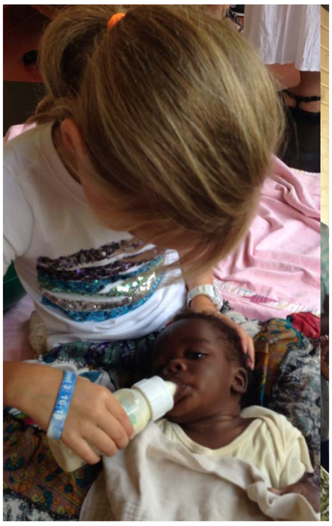
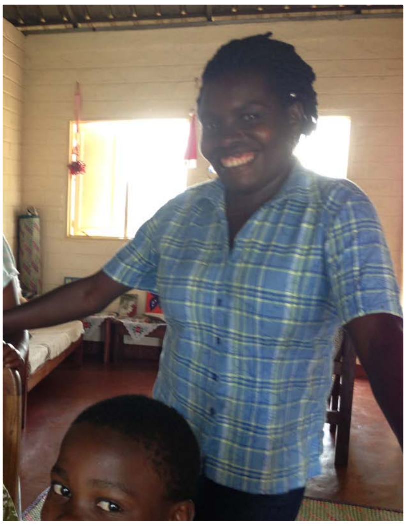
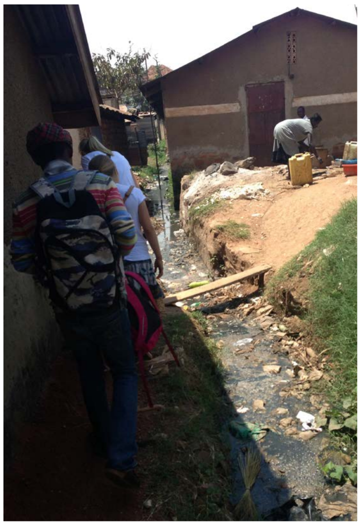
When the Watoto babies reach approximately two years old they move into a village home and experience life with their new 'family'. This is with a mother (usually widowed) and seven other orphaned children. Watoto children's homes are constructed in the form of small, vibrant communities. In this community is a school they attend and a loving environment. We enjoyed a meal and an afternoon together in one of the homes and since then we have "sponsored" Mumma Ruth, and an additional child from this home. Our families are now joined through the act of loving fellowship and the continued communication we share through their sponsorship program.

It was the school holidays while we were in Uganda and Watoto held an annual children's holiday camp. The physical surroundings were very different but other than that, there was little difference between kids on camp in Australia to kids on camp in Uganda. Very loud and fun! Our family worked with ten others on an international volunteering team, helping out with the teaching and sporting activities.

Regardless of the differences between our children and the locals, it didn't take long for the kids to start playing, kicking balls, jumping rope and running around together. We got to know many of the children better and developed friendships that will last longer than just our stay in their country.

Organisations like 'Droplets in the Stream' & 'Watoto' are helping many vulnerable and needy people more than I ever could have imagined. Our time in Uganda allowed us to meet many "ordinary people" who give up their own time to change the lives of others. After completely getting out of my comfort zone and experiencing it for myself, the respect I have for these individuals/families has grown immensely. Before we left I thought we would be going over to "help out" in whatever way we could, but God has a funny way of teaching you many valuable lessons in life and I realised that I was taught far more than I could ever give.

Stonehouse is committed to assisting further and hoping to make an impact on the lives of others in Uganda. If you would like to be involved in these or any other Stonehouse projects please send us an email to inbox@stonehousegroup.com.au

Financial Costs of the Ageing Process

Nick Webb, Financial Adviser

There is one certainty present in our current economy; the Australian demographic is ageing at an increasingly rapid rate. Recent statistics indicate that as many as 366 people turned 75 years of age each day during 2013, with this figure set to increase to an estimated 595 per day by the year 2023. With these startling figures coming under the microscope, it is no surprise that Aged Care is, and will continue to be, instilled in the back of our minds.

Emotional, social and logistical issues aside, the financial equation of 'the aging process' is a very daunting prospect for those entering into Aged Care in Australia. Anyone who has even glanced at the admission process into an Aged Care facility would be innately aware of just how complex these measures are to fully understand, comprehend and implement. With legislative reform around the corner (coming into effect on 1 July 2014), it is now more important than ever that Financial Advisers and their clients take heed to understand what these changes will mean with regard to their individual situation(s).

The reality is that there is no simple way to fully explain the ins and outs of the Aged Care admission process (and its associated financial ramifications); however for the purposes of this article, I will furnish you with a brief summary of the changes that will apply to individuals who enter into residential aged care on or after 1 July 2014.

The distinction between low level care and high level care will be removed.

- Residents will all be subject to the same fee structure which was not formerly the case.

Accommodation payments will replace the accommodation bond and accommodation charge.

- Accommodation payments will now be determined by a resident's assessable income and assets.
- Residents will have 28 days after entry to decide how they will pay for accommodation.
- Facilities will now be required to publish accommodation prices.
- Retention amounts will not be deducted from accommodation payments.
- The former home will be assessed as an asset up to a cap limit to determine accommodation payments unless occupied by a protected person.

As the new means-tested care fee will be determined by a resident's income and assets, it will remain imperative that appropriate investment strategies are employed to invest any remaining surplus funds. The table below provides a good summary of the impact that reforms will have on existing age care strategies, and has been borrowed from Challenger Life.

It is important to note that the new rules will apply to individuals who enter residential aged care on or after 1 July 2014.

Strategy	Impact under reforms
Long-term annuities	Deductible amount reduces assessable income which will immediately reduce the means-tested care fee Deductible amount also reduces assessable assets over time which will continually reduce the means-tested care fee.
Insurance bond within a family trust	Reduces assessable income which will immediately reduce the means-tested care fee. Increases assessable assets over time as no withdrawals are made from the insurance bond which will increase the means-tested care fee.
Gifting and funeral bonds	Reduces assessable assets and deemed income subject to caps which will immediately reduce the means-tested care fee.

A means-tested care fee will replace the income-tested fee.

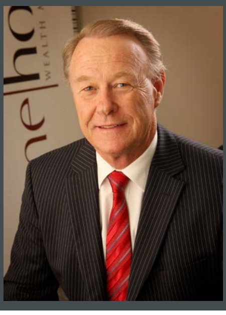
- The means-tested care fee will be subject to annual and lifetime caps.
- The means-tested care fee will be determined by a resident's assessable income and assets.

The reforms will significantly impact the way residential aged care accommodation and ongoing care fees are calculated and will result in many new residents paying higher fees; especially if assets are not structured in the most appropriate manner prior to admission into an aged care facility. The importance of receiving financial advice will be even greater under the new system as once obsolete decisions will now likely have a greater impact on how much a resident will pay once in care - one of which will be the decision to keep or sell the family home.

The truth of the matter is that there is no simple way to explain all facets when it comes to Aged Care; expert advice is essential because getting it wrong can be extremely costly both financially and emotionally in an already difficult time.

SMSF Notice Board

- The lodgement deadline for the Fund's 2013 Income Tax Return is approaching. If you have any outstanding information or documentation, forward these to our office as soon as possible.
- The GST reporting for the October - December 2013 has just been completed. The January - March 2014 quarter reporting requirements will be due soon.
- Have you changed your contact details? If so, phone or email our office and let us know.



Market Review and Outlook

Kevin Stewart, Senior Partner

The 6 months to 31 December 2013 rounded off a golden year for most investors.

Domestically, the buoyancy and optimism in investment markets were contrasted by the economy which spent the year teetering on the edge of at least a slowdown. Even though the Australian economy added 90,000 new jobs throughout the year, we need at least 200,000 every year to prevent unemployment rising, so the jobless rate kicked up from 5.3% to 5.8%. It seems hardly a day passes without news of significant businesses closing down or reducing staff!

Perhaps, rather oddly, the coming year is likely to see the investments and economic performances swap places to some extent. Equities and property are unlikely to do as well, but the economy may improve thanks to a lower Australian dollar, infrastructure spending and productivity gains.

A different mix of factors than what was experienced in 2013 are coming into play in 2014. The US Fed has committed to 'tapering' (cutting back on Quantitative Easing) and we will probably see a more subdued US equities market, which at the time of writing this article has reached an all-time high.

Also if the Australian dollar continues to fall (as predicted by many economists), it will unlikely have the substantive positive effect it had in 2013. Such falls start to raise prices on imports that impact on inflation and signal falling foreign investor confidence in Australia.

That brings us to the elephant in the room - the country that is singly most important to us: China. As we have stated in previous materials it has been a 'Goldilocks' economy of a 'not to hot not to cold' status. In 2013 it really didn't figure much in the forces driving investments but was still good for the economy. More importantly, it didn't turn sour. We don't have to assume the worst from China in 2014 and it looks likely to turn out, at best, to be something of a repeat performance of 2013 - meaning a broad continuation of the resources boom albeit at a slowing pace.

That, in essence, is the critical difference between 2013 and 2014. We now have the luxury of knowing that despite all the threats from China, all the problems in the US, and Europe's debt crisis – that we not only sailed though largely unscathed, but investors had a great year.

As stated in the past it is 'growth' that has the major impact on our ability to pay off debt and increase our wealth. The recent G20 finance ministers meeting in Sydney, in preparation for the Heads of Government G20 meeting which affirms common goals outcomes and procedures, had growth as its focus. The finance ministers agreed to an agenda that would pump $2.4 trillion over 5 years into the world economy by 2017 and impact global growth by 2%. It has been rare in recent G20 meetings to get such an agreed focus and hopefully the outcome can be achieved. Note, the G20 represents about 80% of world GDP.

Economist Shane Oliver, AMP Capital's chief economist remains 'cautiously optimistic' regarding the growth outlook for 2014. He explains that first, the cyclical patterns since the 1970's of major recessions every 8 - 10 years with modest growth slowdowns in between suggests we remain in a positive part of the cycle. Second, global monetary conditions will likely remain 'easy'. Spare capacity remains immense and inflationary pressures are low. Third, the drag on growth from fiscal tightening is reducing from around 1.3% of GDP in 2013 to around 0.7% of GDP in 2014. Fiscal tightening in Europe and in the US is largely behind us.

Reflecting this:

- Global growth is likely to pick up to around 3.5% (from 3% in 2013), ranging from 1% in the Eurozone, 1.5% in Japan, 3% in the US, and 5% in the emerging world, with China at 7 to 7.5%
- Interest rates are likely to remain low although there maybe more talk of when the US Fed will start to raise rates.
- Improving global growth amid constrained costs is likely to see earnings growth pick up.

For Australia, the combinations of a housing recovery, gradually improving confidence, a pick-up in non-mining investment and stronger global growth are expected to result in growth pushing up to around 3% by the end of 2014. Inflation is likely to remain within an acceptable band and the RBA is expected to keep the cash rate on hold at around 2.5% with a potential rate increase late in 2014.

Therefore the backdrop of improving growth but low inflation and interest rates is fairly positive for growth/ riskier assets. Overall, 2014 should bring more constrained returns with continued volatility however it should still end up positive for investment markets as global growth picks up and monetary conditions remain easy.

That being said, caution should, as always, be taken. In former US defence secretary Donald Rumsfeld's great characterisation: it's not the 'known knowns' of 2014 we have to worry about. Although they do look more sobering than those of 2013. It's the 'known unknowns' – the things that we know we don't know. And even more, the 'unknown unknowns' – the things we do not know we don't know, that are lurking out there.