stonehouse
WEALTH MANAGEMENT

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BRISBANE

SYDNEY

GOLD COAST

www.stonehousegroup.com.au

HEAD OFFICE
P - 07 3871 4999
Lvl 2, 36 Station Road
Indooroopilly Q 4068
info@stonehousegroup.com.au

Market Review and Outlook

Kevin Stewart, Senior Partner

During the month of July, my wife Linda and I visited the Mediterranean region enjoying its fascinating scenery, history, culture and architecture. It is well known that the debt crisis in this part of Europe has had major financial impacts on world markets so it was interesting to anecdotally observe, from a tourist perspective, the state of its infrastructure and the attitude of its people.

My first observation was how dramatically better, in almost every way, our standard of living is in Australia.

Much public infrastructure in the regions we visited appeared to be in decline and in some cases decay. An interesting example occurred in the beautiful city of Barcelona whilst sitting outside 'Starbucks' enjoying a coffee situated in a very busy street next to 'La Sagrada Familia' (the most beautiful building I have ever seen). A substantial piece of paving in the middle of the footpath was missing, leaving a dangerous hole. As we were enjoying the facade of the building and the movement of the crowd, a woman in her late 60s caught her foot in the hole and tripped - either breaking her ankle or severely injuring the tendons. After rendering what assistance we could with ice, and having a Starbucks attendant call an ambulance, I contemplated the obvious need of repairing the footpath in such a busy area (two million people per year visit the Cathedral) and the woman's unlikely chance of recompense from a broke Spanish government body.

Moving further east, it was the beautiful Greek Island of Santorini that was clean, well-maintained and prestigious, full of wealthy tourists eager to visit, stay and be pampered. Having just visited Athens the contrast was quite stark and it appeared as if none of the incoming foreign currency was making its way back to the densely populated capital.

Some of Greece's compounding factors, according to Louis one of Stonehouse's 'Greek heritage' financial advisers), are explained by his family in Greece in that they do not seem keen to work very hard and do not pay their share of taxes, however as a counter balance, he further explained that families in Greece did support each other quite well.

> "It is worth noting that in spite of Europe's debt plagued economy, it is showing some signs of recovery after six long years of crisis."

My conclusion was that we should all, at a basic individual level, take full civic responsibility for our country as well as not relying on our Government to provide what we want, rather what we need.

From struggling Europe to market reflections

The last six months were a mirror of many other previous volatile periods: 4½ months up and 1½ down. The Australian equity market for this period was only held together by strong yield. The sudden decline from May was influenced by the debt problems resurfacing in Portugal and the pathway of winding down Quantitative Easing in the US.

Our market moved down more strongly than the US and other markets. Our overreaction in equity markets is a continual surprise to me as we still have reasonable growth expectations as well as world growth prospects of 3.2% to 4% overall.

It is interesting to note however that from the beginning of July there has been an upswing in Australian equity markets.

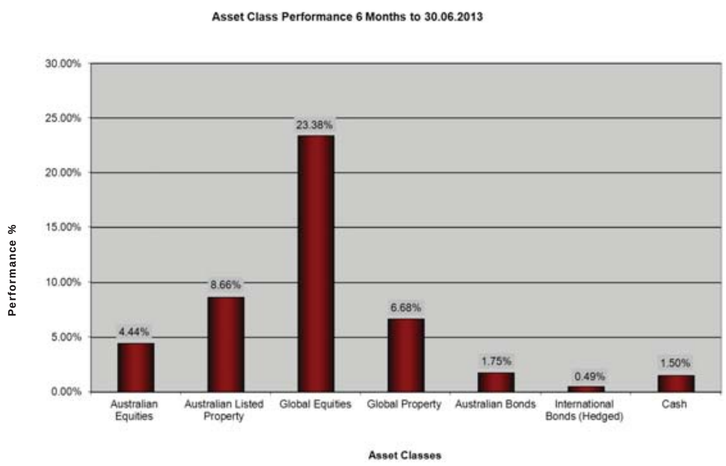
International markets, particularly Europe, have also had good positive growth. Emerging markets were subdued, however China still remains a 'Goldilocks' economy (not too hot, not too cold) with projected 7 to 7.5% growth. It is worth noting that the Chinese economy has grown so large and at such a fast pace that at about 7% growth annually it is the equivalent of creating a new Korea each year.

Both Australian and International Bond markets have in fact dipped on expected forward values.

Cash of course is low with investors seemingly more willing to take on additional risk from growth assets such as equities and property that have now good value yield with more likely upside capital potential than downside.

Housing prices continue to surprise with record-high prices across the nation according to APM Property Data. Prices increased by an average of 2.8% during the June quarter. “All the forward indicators, such as auction clearance rates, are very positive,” said Andrew Wilson, Senior Economist for Australian Property Monitors (APM).

Refer the table below for six months performance returns from the different sectors - all being notably positive.



Indicies = Australian Equities - ASX All Ordinaries Accumulation Index, **Australian Listed Property** - S&P/ASX 300 A-Reit Accumulation Index, **Global Equities** - MSCI World Index Unhedged (A$), **Global Property** - UBS Global Investors TR Hedged (A$), **Australian Bonds** - UBS Warburg Credit Bond Index, **International Bonds (Hedged)** - Barclays Capital Global Treasury Index Hedged $A, **Cash** - UBS Warburg Bank Bill Index

Our forward planning is still reasonably cautious and of the same mind as described in our January 2013 newsletter.

It is worth noting that in spite of Europe’s debt plagued economy, it is showing some signs of recovery after six long years of crisis. That is certainly the hope when a new PMI (Purchasing Managers Index) survey showed that its private sector in the Euro zone expanded for the first time in more than a year in July.

The jump in the closely watched ‘Flash’ Eurozone Composite PMI to 50.4 - the first time since January 2012 it has come in above 50 which signals expansion - is an indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. A reading of more than 50 represents expansion of the manufacturing sector. A reading of under 50 represents a contraction, while a reading of 50 indicates no change.

Exchange Rate Impacts

During our travels it was quite interesting to constantly convert prices to $A to get a feel for value.

The substantial drop in the US dollar against most currencies over recent years has given a huge boost to the US export competitiveness. The low cost and plentiful supply of capital has encouraged risk taking and subsequent expansion and growth. Two years ago, one Australian dollar was able to buy $US1.10, and it started the year still able to buy $US1.04. However the $A is now struggling to buy $US90c and a growing band of analysts predict it will be buying even less in the next year or so. The good news for investors however, is that the benefits of decline of the $A don’t appear to have yet been fully priced into the market – even if, in the unlikely event, the $A stopped falling.

The change in the currency fortunes affect investors in three channels:

Firstly, a positive increase in the value of foreign held assets. Further drops in the currency value will likely increase this value.

Secondly, the $A value of profits earned abroad by local companies increase as the $A declines. Our major mining companies, for example, earn the vast bulk of their revenue from export sales – the $A value of which increases as the currency declines, assuming not all their offshore sales are currency hedged. Furthermore, the benefit does not automatically disappear once the $A stops declining. This benefit is only realised once share-price valuations adjust to reflect the higher $A value of company earnings – which may or may not precede analysts earnings projections.

The third benefit from the weaker $A is more dynamic in nature – the gain in trade competitiveness. Australian companies will be able to gain market share. This should boost their earning power over time which should, to varying degrees, be reflected in sharemarket value.

Of course, the weaker $A is not all good news. By boosting import prices, the weaker currency hurts real household incomes, adds to inflation and does not help in the Reserve Banks’ desire to reduce interest rates.

In spite of the negative financial impacts from the GFC & Debt Crisis, people seem to be travelling in large numbers and spending money accordingly, in particular Americans, British, Canadians, Australians, Germans and Asians. The cruise liner we were on is constantly filled (approx 2,400 passengers), regardless of its destination, according to its staff.

Such travellers help the economies of the world – and I for one certainly played my part!

Changes to Superannuation

Employers take note;

A series of superannuation reforms are progressively being introduced from 1 July 2013, changing employer superannuation obligations. Employers will need to be aware that their super obligations have changed, and from 1 July 2013 they will have to:

· Increase the amount of super paid to their employees, with the first super guarantee rate increase from 9% to 9.25%. This will gradually increase to 12% by 1 July 2019.

· Make super payments for eligible employees 70 years or over from 1 July 2013, due to removal of the super guarantee upper age limit.

ARE YOU ADEQUATELY PROTECTED FROM THE UNEXPECTED?

Every day we come across scenarios that prove just how valuable insurance and income protection are. Here are some recent claim figures from just one of our insurers...

Life Insurance
Nurse, 41, Ovarian Cancer

Trauma Insurance
Real Estate Agent, 51, Heart Attack

Income Protection
Dentist, 51, Fracture of fingers

Increase of Concessional Contributions cap to $35,000

The superannuation concessional contributions cap has been increased to $35,000 for the 2013-14 financial year for individuals aged 60 years and over. Next financial year this increase will also apply to individuals aged 50 years and over.

Insuring Income

For any working professional, policies for life insurance, trauma insurance and income protection are all very much necessary requirements, especially when there are financial, family and business commitments to be maintained.

This was especially so in the case of a female GP based in Brisbane's Western Suburbs, who came to Stonehouse after a divorce saw her become responsible for a mortgage and school fees for her two sons.

"I'd had life insurance and trauma cover since having my children but I came to Stonehouse for income protection advice after seeing my ex-husband take three months off work for a significant health scare. It really highlighted the fact that that I would not be able to meet my responsibilities if the same were to happen to me.

"It was suggested that I take out income protection along with increasing my other policies. The costs for the policies were significant, but I felt I needed to do that for piece of mind."

Fast forward a year and as is so commonly the case, a busy work life meant policy renewal notices were going unattended.

A reminder email from Adviser Nick Webb was followed up by several phone calls until the policies were finally renewed, just prior to expiry.

This was fortuitous timing, as just two weeks after that, the GP was diagnosed with breast cancer.

"I had surgery straight away followed by a reconstruction. I am soon to have another reconstruction and then I will need a final surgery at the end of the year. I am very lucky that I do not need chemotherapy, however all in all it will still be several months off work and then several more working only in a part time capacity.

"I am just so fortunate to have had those insurances in place. The insurance provider paid a lump sum as soon as the paperwork was in. I'd been off for a total of 12 weeks and they paid a six month lump sum to cover for future surgery and then I received the trauma payout of $372,000 which I spent part of almost immediately on a personal re-habilitation program.

"To not have all the added financial pressure and concern has been so wonderful, I can simply concentrate on getting well and providing a sound future for my boys."

Certainty for SMSFs for Queenslanders

Michael Stewart, Senior Partner/Adviser

New duty exemption for transfers back to the SMSF once a Limited Recourse Loan has been repaid.

At last Queenslanders now have certainty with respect to transferring property held via a holding trust under a limited recourse borrowing arrangement to the Self Managed Superannuation Fund once the loan is repaid.

Section 130B of the 'Duties Act' has been amended to allow an exemption to transfer duty for transfers of property held on trust for the superannuation fund under an arrangement that complies with section 67A of the 'Superannuation Industry (Supervision) Act'.

The changes have retrospective effect from 26 October 2011.

We are aware that some practitioners have not been registering the Holding Trust Deed on the title as they have been attempting to argue an agency arrangement (rather than a trust arrangement) in order to secure a Duty Exemption. We recommend that all Holding Trusts/Bare Trusts be registered so that the Superannuation Fund's beneficial interest is clear moving forward and it is evident that a trust (rather than simply an agency) is created on the documents in order to comply with section 67A.

Five Minutes with ...

Lara Baker, (nee Stewart)
Insurance Administration Manager
Stonehouse Group

1, What does your job entail? I look after risk insurance applications and current inforce policies. I provide quotes, complete the applications with clients and then liaise with insurance companies.

2, What's the biggest challenge in your position? Dealing with underwriters! As I complete the insurance applications it can sometimes involve me discussing/ arguing underwriter's decisions with them as I strive to get the best offer possible for a client.

3, When you're not in the office, you can be found? Normally dining out! While my husband is on the bike exercising on a Saturday morning, I'm normally enjoying breakfast out with my girlfriends. Nothing better then a coffee and a chat. Other then that, if I'm not out with friends or at a family gathering (and we have quite a few!), I'm normally just at home relaxing with my husband of four years.

4, What is the biggest change you've seen within the industry? Having grown up in a family involved in financial planning I have seen many changes! Over the years I am continually impressed with the ability of my family to re-educate, adapt the business and cater their advice to clients for such changes. The biggest change recently commenced this financial year has been by way of the Future of Financial Advice (FOFA) reforms which have seen much time and money spent interpreting and putting systems/ processes in place.

5, How important are client relationships? Client relationships in our business are extremely important. As we are dealing with clients financial affairs it is imperative that they trust us and our advice. As my role involves asking a client a lot of personal medical history questions it is important that I have a rapport with them so that they feel comfortable with me and understand that everything we discuss is strictly confidential.

Watoto Choir Sings at Stonehouse

A strong sense of social conscience runs deep within the Stonehouse team, with many advisers often donating their time and skill sets to various causes throughout the community.

These endeavours now extend overseas with Stonehouse Partner and Senior Adviser Andrew Stewart having recently spent a month with his family volunteering at several orphanages and charitable institutions within Africa.

Their trip has included time at Nateete Community Centre in the slums of Kampala, the Milele Centre (which Adviser Michael Stewart has been actively raising funds for through the Tour of Hope) and Watoto, a holistic care program in Uganda which rescues, raises and supports orphaned children.

An integral component of the Watoto story is their children's choir which has toured the world since 1994, spreading awareness, broadening horizons and raising much needed funds.

On a recent tour of Australia, Stonehouse was fortunate enough to secure a performance by the choir, who held a lively concert out the front of their Brisbane office for associates, friends and family.

Andrew Stewart, who helped facilitate the event said, "It was so wonderful for us to be able to share with the rest of our colleagues just how amazing these orphaned children are, their smiles and genuine affection have left a lasting impressions on the entire Stonehouse team."

SMSF Notice Board

- The 2012 income tax returns are overdue – if this return has not been lodged for your Fund please contact our office immediately.
- We are starting work on the 2013 income tax returns – if you have not forwarded us your information please do so as soon as possible.
- Have you changed your contact details? If so, phone or email our office and let us know.