stonehouse WEALTH MANAGEMENT

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Introducing our Core Value Portfolio

In April, Stonehouse officially launched its latest innovation in the management of investment assets; the Stonehouse Core Value Portfolio (CVP). Two years in the planning, the Portfolio seamlessly integrates our investment philosophies of conservatism and value-orientation with our commitment to independence in investment selection. Furthermore, it introduces a level of monitoring and analysis to further distinguish Stonehouse from other firms in the financial planning industry.

Stonehouse Investment Committee member, Ben Hancock, explained that while Stonehouse clients fared much better on average during the GFC than their peers, this destabilising event highlighted the need for downside protection strategies that extend beyond traditional investment allocation techniques of the past.

'We recognised the importance of minimising losses during market downturns, as capital devaluation relies on significant rebounds in market prices to restore value. The Stonehouse CVP however seeks to protect against downside risks whilst enabling participation in subsequent upside momentum, thereby reducing volatility while improving the overall return profile.'

The Stonehouse Core Value Portfolio incorporates a Dynamic Asset Allocation model which allows for the repositioning of funds across asset classes in response to changes in the economy and investment markets.

Mark Stewart, also a member of the Investment Committee said, 'Our clients will initially notice that they are receiving more frequent communications from Stonehouse on our views of economic and market conditions in addition to any changes made to the composition of their Portfolio. This will allow us to provide greater transparency than ever before as to the ongoing service that we provide to our clients between review appointments'.

> "The portfolio seamlessly integrates our investment philosophies of conservatism and value-orientation with our commitment to independence in investment selection."

As part of this enhancement to the Stonehouse investment process, the Investment Committee has also welcomed highly respected economist and investment specialist, Dr Bartholomew Dowling, who will provide insight in relation to both macro and microeconomic conditions.

Mark explained that while the Stonehouse CVP will feature within most client portfolios in the future, Advisers will continue to utilise the best composition of assets to meet client needs and this will remain paramount.

'Stonehouse Advisers have developed very close relationships with their clients over time and with the high level of skills and qualifications that each possess and the substantial resources at their disposal, we know that they will continue to identify the right solution for each individual's circumstances. In addition, many of our respected advisers also serve as members of the Stonehouse Research Committee which retains a pivotal role in strategy development and in filtering the best ideas through to the Investment Committee'.

For more information on the Stonehouse Core Value Portfolio please speak to your Adviser or visit our website.

- The Stonehouse Investment Committee

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Renting v Purchasing Property for Profit

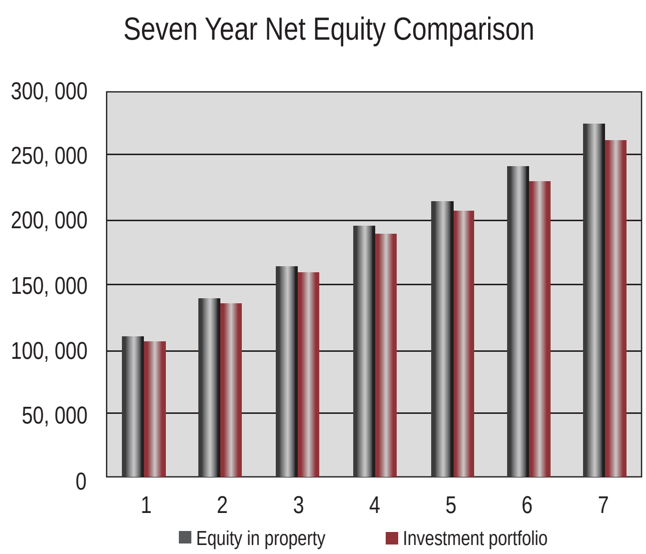
Jeremy Chiel, Partner/Financial Adviser
and Nick Webb, Financial Adviser

A question frequently asked by the younger generation in relation to wealth creation is, "Would it be more beneficial to buy a home or rent a property and invest surplus funds?" To answer this question, both the financial consequences and the emotional / lifestyle factors should be considered.

The greatest financial benefit to be gained by purchasing a principal place of residence (PPR) is to build equity through the repayment of debt whilst also benefiting from potential future capital growth. It is this 'forced savings mechanism' via principal loan repayments which results in the building of wealth through a home. However it is worth noting some barriers which prospective home owners must first satisfy before entering into the property market, including obtaining a sizeable deposit and the fact that most first home owners may not be able to afford their first suburb preference. This is not an issue when renting and often the lower financial commitment may make it possible to live in, for example, an inner-city area where it is simply too expensive to buy. Therefore at the outset, some may choose to rent purely based on this lifestyle choice. The most obvious downfall associated with renting many would concede is that you forego the opportunity to build equity in your residence. Furthermore, limited changes (if any) can be made to the dwelling and there is uncertainty associated with rental increases and security of tenure.

A compelling option for consideration is the regular investment of surplus cash flow which is generated by savings obtained through the difference between mortgage repayments and rental payments. In order for this to be a viable investment strategy, these said savings would need to be invested into high quality growth-oriented assets as part of a disciplined approach over the long term.

To demonstrate, the following graph illustrates both the net equity gained in a purchased property and the growth of an investment portfolio (for renters contributing surplus funds to an investment portfolio) over a 7 year period. The example uses a $500,000 property, purchased using a 20% deposit, an assumed 3.5% annualised growth, and 7.5% interest rate on the $400,000 principal & interest loan over a 30 year term. For the rental property, a 5% rent is assumed (on a similar valued property), with 5% annual forecasted rent increases. The corresponding investment portfolio return is assumed at 8% per annum (which includes reinvested distributions). Finally, maintenance costs have also been factored into the purchasing scenario at a set rate of $5,000 increased annually with inflation (3.5%). In the "rent and invest" scenario, the 20% deposit (i.e. $100,000) has been utilised to establish the investment portfolio.



Over this period, the equity in the purchased property has grown to $271,247 compared to the investment portfolio of $261,059. It should be noted that over the same period, interest on the mortgage has accrued to $234,948 with rental payments totalling $211,914. Depending on returns, either scenario has the potential to yield substantial gains. However as illustrated above, purchasing a property appears to be the superior investment choice when looking purely at your bottom line. This is due to the fact that you are improving your net equity position through principal reductions in the loan value whist experiencing capital appreciation in the property purchased (one would hope).

Bricks and mortar is viewed by many as the most enticing asset class due to the fact that it is a tangible asset. Shares on the other hand may not seem to possess such traits however they do offer the advantages of liquidity and flexibility and also of comparatively low entry and disposal costs - attributes that property is unable to compete with.

Both options have their place depending on what one is trying to achieve, where they are in their life-cycle, and also what lifestyle factors are most important. If drawn toward the strategy of renting and investing, you should remember that a regimented savings plan must be implemented to make this a success as part of your wealth creation strategy.

As any financial comparison is based on assumptions it should be noted that the figures presented will fluctuate over time. Other issues to consider include how salary increases are handled – including the opportunity for an increased surplus cash flow to be invested, or used to pay down a mortgage, and the tax effectiveness of an investment portfolio. There will also be periods of time where variables such as interest rates and investment returns will deviate from their historical averages, which is why a long-term view is recommended for either option.

When it comes to insurance, it pays to have an adviser in your corner

I had been a loyal client of an insurer for many years. I dealt direct with the insurer believing they would look after me in the event of a claim. Unfortunately, when the time arose, the insurer declined, citing the fine print in the policy. I was left with a legal bill of tens of thousands of dollars which I had to pay myself.

I was fortunate however that soon after, my practice manager attended an Australian Medical Association Queensland conference where a representative of AMAQIS, (AMA Queensland Insurance Solutions - one of Stonehouse's brands), talked on insurance issues. My practice manager approached them and they agreed to review my case. AMAQIS negotiated with the insurer and using their expertise and industry knowledge, the insurer reversed their decision and they have now agreed to cover my claim. Using an expert insurance broker specialising in the medical sector is vital!

General Practitioner and practice owner, Queensland.

We often come across people who purchase insurance policies direct from insurers who later discover (usually too late), that the policy is either not the right solution for them, or when it comes to claim time, the insurer declines the claim based on the 'fine print' of the policy.

So what actually happened in this case?

We enter the story well into a long drawn out legal battle which the doctor is paying for himself, so far to the tune of around $45,000. The doctor in this case lodged a claim with his insurer seeking cover for his legal costs to defend a claim brought against him by a contractor. The policy appeared to cover the matter and the insurer's marketing material even highlighted disputes with contractors as a key policy feature.

So it came as a shock to the doctor when the insurer wrote to him declining his claim. The insurer referred to an exclusion in the 'fine print' at the back of a policy booklet some 30 pages long. The doctor, without the benefit of an adviser, accepted the insurer's decision and commenced to pay for his own legal representation.

Upon our involvement, we were able to successfully negotiate a review of the claim and within a few days, the insurer reversed their decision and agreed to reimburse all of the $45,000 the doctor had paid for his own legal defence.

The doctor now understands the importance of using a specialist insurance adviser.

Unless you have the time to become an insurance expert, we strongly recommend you have a specialist adviser in your corner.

Proposed Changes to Superannuation

Louis Strange, Adviser

Last month's Federal budget announcement by Treasurer Wayne Swan was delivered under the slogan, 'Stronger, Smarter, Fairer'. However with it, came a proposed new tax on pensions and annuities to be imposed from July 1, 2014.

This will tax all earnings inside pension phase above $100,000 at a rate of 15%, which was previously tax free. This will only be on the internal earnings of the fund as income and lump sum withdrawals will remain tax-free if above the age of 60.

As capital gains are included in the definition of earnings, any assets sold within pension phase with an assessable capital gain of over $100,000 will now attract this tax as well.

It must be noted however, that there are a number of issues with the definitions surrounding this policy as Labor has not legislated if this cap of $100,000 will rise with inflation.

Even with this proposed change, superannuation is still the most tax effective environment to fund retirement. With income payments withdrawn from pension accounts remaining tax effective between the ages of 55 to 59 and tax free above the age of 60, it is still more effective holding your retirement assets in a tax effective environment than personally, attracting marginal tax rates up to 47% with the increased Medicare levy.

Another notable change to the superannuation system is the proposed increase to the concessional contributions cap of $25,000. As employer contributions or salary sacrifice are attributed towards this cap, from 1 July 2013 this will increase to $35,000 for those over the age of 60, decreasing to an age of 50 at 1 July 2014.

Five Minutes with ...

Belinda Auld, Client Service Manager
Stonehouse Group

You recently celebrated 10 years long service, what does that mean to you? It's a lovely milestone, I'm very happy and enjoy coming to work, it feels like home. Certainly there are tough times, but there are also plenty of good moments with a fantastic environment, good people and I really love the work.

What does your job entail?
For the last ten years I have been Andrew Stewart's Personal Assistant, however this year we restructured slightly and so now I look after the clients of Andrew, Kane Livingstone and Nick Webb. My main role is to liaise and assist clients with queries, prepare documents and assist the advisers.

How has the financial services industry changed during the past decade?
It changes really quickly – every couple of months, but it's so constant you never really notice until you look back at old forms and compare. Then you see how much information you need to gather now and how much paperwork is involved.

What do you do in your down time?
I have three adult children so they keep me busy. My two boys play ice hockey and my daughter does synchronised figure-skating and has represented Australia. Other than that, I like to spend time with my husband of 28 years.

How did you start out at Stonehouse? I was actually working for a life insurance company here in Brisbane. When they began centralising to Sydney, Stonehouse offered me a job.

You're a qualified JP – how beneficial is that to your position?
I became a JP because of work, it's utilised multiple times every day – certifying documents, statutory declarations and affidavits - it's certainly a very good skill to have.

Favourite book?
Di Morrissey's Opal Desert. It's based around Australia's mining past and weaves our pioneering history into modern narratives.

Cycling for a Cause

Last month Stonehouse Partner and Senior Adviser Michael Stewart participated in the 'Grand Tour of Hope', a four day, charity-focused bike ride aimed at raising funds for community projects in developing countries.

The 2013 ride saw 20 riders cycle over 700 mountainous kilometres in a series of loop trails that encompassed South-East Queensland's Toowoomba, Crows Nest and as far a field as Nanango.

This year the Grand Tour has raised in excess of $30,000 with funds going directly to help build 'Milele', an early childhood learning centre in remote western Kenya situated atop a 10 acre lot of land purchased with last year's funds.

To date, the Milele Project has no other way of raising money than the Tour, with the proceeds from this year enabling them to commence initial building works.

September will also see a day-long, 'Tour of Hope' charity ride take place, with Milele's Managers, Frank and Linda Nyameche set to visit Brisbane to see the event. The Nyameche's have committed their whole lives to Milele and it will be wonderful to have them there.

Details of the September ride are yet to be finalised but please see the website if you would like to participate in this ride.

www.tourofhope.com.au

SMSF Notice Board

- There are still some Funds with outstanding information for the January–March 2013 BAS. Can you please forward this information to our office as soon as possible?
- The 2012 income tax returns were due for lodgement by 15 May 2013; if you still have outstanding information, please forward this to our office.
- Have you changed your contact details? If so, phone or email our office and let us know.