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BOUTIQUE

WEALTH MANAGEMENT GROUP

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Understanding Currency Risk

A key point of difference between owning domestic and overseas assets is that foreign investments expose your portfolio to changes in exchange rates. This is because international shares are purchased in the currency of their home country.

When money is converted into a different currency to make an investment, changes in the value of that currency relative to the Australian dollar will affect the total loss or gain on the investment when the money is converted back. Let's explore the impact of these fluctuations on your international investments.

Effect of a changing Australian dollar

A rising Australian dollar will decrease the value of your international investments. This is because your overseas shares now buy less Australian dollars than when you first invested.

Stock Quantity	Stock Price \$US	Value \$US	Exchange Rate \$A/\$US	Value \$A
1000	50	50,000	0.70	\$71,429
1000	50	50,000	0.80	\$62,500

As a result of the rising Australian dollar, the share price denominated in US dollars has fallen by \$8929

Let's assume you have bought 1000 shares in an American company at a value of \$50 each. If the share price remains constant but the value of the Australian dollar goes up against the American dollar, the actual value of your investment falls. In this example there is no actual change in the value of the American company, however the value of your investment has fallen.

Conversely, a falling Australian dollar will increase the value international investments.

Stock Quantity	Stock Price \$US	Value \$US	Exchange Rate \$A/\$US	Value \$A
1000	50	50,000	0.80	\$62,500
1000	50	50,000	0.70	\$71,429

As a result of the falling Australian dollar, the share price denominated in US dollars has risen by \$8929

In the example, the American stock has not changed in value but because the Australian dollar has fallen, the value of the investment has in fact risen. This is because your international investments would now buy more Australian dollars than before when converted into Australian dollars.

How do you manage currency risk?

Hedging is a strategy used in an attempt to reduce the risk and impact of adverse currency movements. Essentially it is defined as an activity whereby an investor seeks to protect an investment by taking a counteracting position - ie the investor may hedge some currency exposures back into Australian dollars to protect the investment when the dollar is rising.

The relative merits of currency hedging have been the subject of considerable controversy in investment circles over the years. As might be expected, there are multiple viewpoints both for and against hedging away currency risks.

To hedge...

Hedging generally involves the use of derivatives. A fund manager that uses hedging may either fully hedge their portfolio or partially hedge their portfolio to reduce the impact of currency fluctuations.

Or not to hedge... ?

An unhedged portfolio means that the fund manager does not engage in any activity to protect the currency, nor try to add value through currency transactions.

Generally the returns on a hedged fund will more closely reflect the return of the actual investments themselves than would an unhedged fund as there is a much smaller currency impact on the overall return.

Which approach is better?

Like all investment decisions, that depends on your individual investment aims and risk objectives.

Whether a portfolio should be hedged, hinges on what global assets are being invested in and your risk/return objectives.

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Financial Services Guide

We have recently updated our Financial Services Guide (FSG).

Our FSG is an important document that outlines the type of products and services that we are authorised to provide under our Australian Financial Services (AFS) licence.

The purpose of the FSG is to provide you with information about:

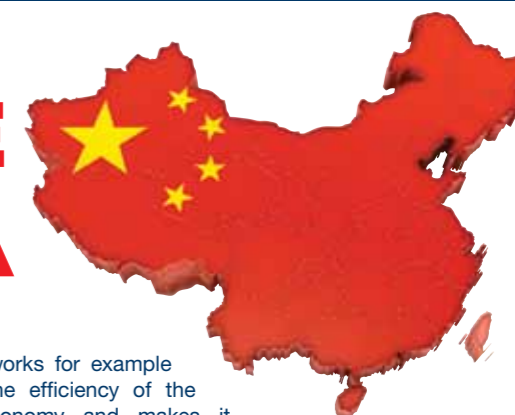
- Who we are and how we can be contacted
- What services and products we are authorised to provide you

under our AFS licence

- How we, and any other relevant parties are paid
- Who you should contact should you have a complaint.

You will be provided an updated copy of our FSG at your next Review Meeting. In the meantime, should you wish to view a copy of our most recent FSG please visit our website at www.boutiquewealth.com.au.

SPOTLIGHT ON THE IMPORTANCE OF CHINA

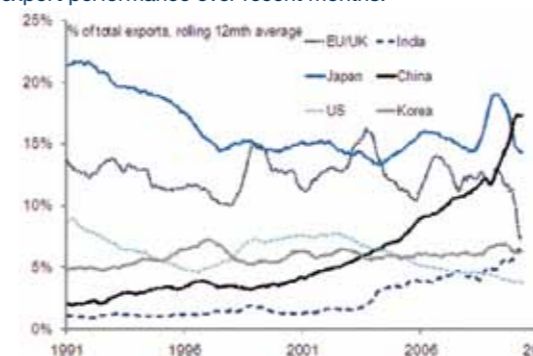


Economic performance

Since its reform began at the end of the 1970s, China's economy has been growing at an average rate of 9% annually. It has become the third largest world economy and by around 2030 it is anticipated that China will be the largest economy in the world. For the 12 months to March 2010, the Chinese economy recorded economic growth of 11.9% which compares to only 2.4% in the US, -0.2% in the UK, 4.6% in Japan and 2.7% in Australia. The magnitude and source of this growth has been a key driver of global and Australian economic growth over the past 12 months.

The Chinese government implemented a large and effective government spending package in late 2008 when signs of a slowdown emerged. Significant spending was devoted to infrastructure development; such as railways, airports, roads and ports. The Chinese government was also very effective at lifting investment spending in the economy through a large increase in bank lending and money supply, which is one benefit of a centrally planned economy.

This type of government stimulus led to an increase in demand for raw materials. China now accounts for 50% of global steel production, up from 15% a decade ago and Australian exports of iron ore and coal were a major beneficiary of this. In fact 70% of Australia's exports are now to Asia, while China is our number one trading partner. Over the past 12 months, 17% of Australia's exports were to China, compared to 14% to Japan, 6% to India and 4% to the US. The two key exports to China for Australia are iron ore and coal and together have been one of the key drivers of Australia's better export performance over recent months.



Source: Australian Bureau of Statistics 2010

The changing structure of the Chinese economy

The Chinese economy is changing; it is investing heavily in infrastructure and housing. The aim of this is to increase the ability of its economy to grow and lift national income levels. Building highways and high speed

railway networks for example increases the efficiency of the Chinese economy and makes it easier to spread economic activity across the country.

Traditionally the cities along the east coast have been wealthier given the proximity of factories to produce goods for export. With increasing demand for cheaper Chinese goods and also a rising level of demand domestically, economic activity spread further west, where wages were lower and factories had capacity. As a result more efficient infrastructure was needed to transport goods from West to East and to allow the population to move around and continue the process of urbanisation. This has led to a very strong demand for natural resources and given Australia's proximity to China and abundance of natural resources, the trade relationship has been one of convenience and benefit for both countries.

Also helping to increase demand for commodities, are higher income levels and the provision of electricity and water to more rural homes. This increases demand for household appliances, such as fridges, washing machines and even televisions. The government has also been providing subsidies to encourage purchases of fridges and other household appliances and also to provide water and electricity to more homes. China has also become an innovator, producing goods that meet the demand for Chinese consumers. An example of this are refrigerators that can run on electricity but also on batteries for up to three days in case of blackouts. Other examples include washing machines with small pipes to prevent rat infestation but also washing machines that can wash potatoes and meet the needs of farmers.

Increasing domestic demand

China needs to continue to raise the level of domestic demand because the economy has reached the point where the ability of exports to support economic growth is diminishing. In many markets Chinese domestic demand is above, at or close to the level of external demand for the same goods. China will continue to grow its exports in line with global economic growth and probably higher as it takes further market share and moves up the value chain. But this growth will be a smaller and smaller proportion of total growth.

This reflects a relatively unique stage in emerging markets. Japan, too, arguably reached this stage where the domestic market is larger than export markets but this is largely explained by demographics. For countries like Korea and Taiwan external markets have generally protected these economies from downturns despite difficult domestic situations. Both countries suffered credit crunches as a result of negligent credit card lending, Korea in 2003 and Taiwan in 2005, but GDP growth remained

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Protecting Your Wealth

Most people focus on growing their wealth but protecting your wealth is just as important. Changes in your personal situation such as illness, injury, a new family or divorce can sometimes cause your wealth to erode, both during your life and after you are gone.

While you can't always predict life's changes, you can plan ahead to help protect your finances from being diminished by them. Learn more about two ways to protect your wealth - personal insurance and using a trust.

Insurance - Protecting your financial security

What would you and your family do if you unexpectedly became ill or injured and were unable to earn an income indefinitely?

- Would you be able to maintain your lifestyle?
- Would you be able to repay debts?
- If you have a business, would it survive?
- Or worse, if you died, would your family

cope financially?

If you're unsure, personal insurance might be worth considering - in fact it's considered an essential part of any financial plan.

Personal insurance cover can help protect you and your family by providing a financial benefit should something unexpected happen such as illness, injury or death.

Who should consider personal insurance?

Personal insurance is appropriate for anyone who relies on their income to support themselves and/or their family. It's particularly important if you:

- have new or existing debt
- don't have adequate savings
- are a single income household
- have a family or dependants
- are a business owner

What types of personal insurance cover are available?

Different types of insurance can help in varying situations. Some of these can be combined together in one policy.

Insurance	Description
Salary Continuance (Income Protection)	Purpose: To cover the essential costs of daily living if you become unable to work This provides a benefit of up to 75% of your income if you become ill or unable to work due to accident or injury. Depending on the situation, benefits can continue to be paid until age 65. Premiums are generally tax-deductible.
Life (Death)	Purpose: To provide your family enough to pay debts, meet immediate expenses and maintain their standard of living if you die Provides a one-off payment to your beneficiaries if you die. This can your family repay debts, pay for funeral expenses and medical bills and maintain their lifestyle.
Disability (TPD)	Purpose: To help maintain your standard of living if you become seriously disabled Provides a one-off payment if you become seriously disabled. This can help provide for immediate and ongoing medical needs, any home modifications and to pay any remaining debts.
Trauma	Purpose: To help you keep on top of things if you suddenly become seriously ill Provides a one-off payment in the case of a serious illness such as cancer or heart attack. This can help pay for medical costs associated with treatment, repay any debts and unexpected expenses.

How can I obtain insurance cover?

Your Boutique financial adviser can review your overall situation, financial commitments and lifestyle to help you decide on the most appropriate level and type of insurance cover for you and your family. They can also advise you on whether to hold insurance inside super, outside super or to hold a combination of both.

Frozen Fund Redemption Window

Clients with Mariner Mortgage Funds and Blackrock Combined Property Funds in their portfolio's would have received notification from ASGARD that another redemption window is opening soon.

Boutique has automatically re-submitted previously signed authorities for you to participate in this redemption opportunity. You do not need to do anything. We will continue to automatically re-submit until all units have been redeemed from this investment.

Please contact your Adviser if you have any queries.



Spotlight on The Importance of China (Cont)

positive because of strong export growth. Only in times of a synchronised global slowdown has economic activity fallen. China too has benefited from the protection of a strong export sector but in coming years its ability to protect the broader economy from a domestically induced slowdown will be limited.

This change will have profound consequences for the Chinese and global economies. In particular, China needs to allocate resources better. In an export- dependent economy inefficient resource allocation gets hidden under external growth but in a domestically driven economy resource efficiency needs to be higher. There are three principal areas for reform; monetary policy, prices and the role of the state sector. A change in focus by China will likely impact on Australia's export relationship, but time will tell in what shape and form this will be.

Are there any potential issues?

China is still a developing economy with a government that exerts wide control over the economy. Property rights are still being established, financial market liberalisation is in its early stages, the banking system remains underdeveloped, as does the legal system compared to Western country standards. Social unrest is also an issue, with concerns that the average Chinese citizen is not benefiting from the economic boom. How the government deals with this will be important.

The Chinese economy will continue to grow in importance in terms of its global economic impact and the sheer size of its population. Furthermore the changing structure and nature of its society will make it a force to be reckoned with.

By Stephen Halmarick, July 2010
Head of Investment Markets Research

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Charitable Giving

If you have an interest in giving to the community, it's sometimes hard to know where to start. While you may not consider yourself a 'philanthropist', these days there are a number of ways to give that can be rewarding for you and the community.

As charitable giving can have a big impact on your tax position and your overall financial plan, it's worthwhile seeking advice from your Adviser.

What should I consider first?

There are a number of ways to give to the community, but how you do this will depend on a number of factors:

- Your reasons for giving - Do you want to help the community in general, help a specific cause, establish an award or scholarship, claim a tax deduction or get your family involved in giving?
- The level of money you have to give - Do you have \$20,000, or \$200,000?
- The level of involvement you want - Do you want control over how funds are used or who will receive the donation?
- Your timeframe - Do you want to give during your lifetime, through your will or both?

Your answers to these questions will help you and your Adviser decide on the best approach and whether planned giving is appropriate.

Line of Credit - Friend or Foe

A lot of clients often ask if a line of credit loan is a good way to pay off their home loan quicker.

This is not a simple yes or no answer. On one hand, if used correctly, a line of credit can be an excellent way to pay off your home loan sooner and potentially save yourself thousands of dollars in interest. On the other hand, if not used properly, it can have the reverse effect.

The danger is, a line of credit is like a very big credit card. It is set up with a borrowing limit, which means that you can take funds out your loan, up to your set limit, at anytime. Also, you are not required to make minimum monthly principal and interest repayments in order to gradually reduce the balance like you would on a standard type loan. Interest is simply charged to your loan on a monthly basis and as long as you are under your credit limit, there is no requirement to make payments at all. This is where some people get themselves into trouble. If you are not disciplined and you don't manage your money very well, then a line of credit is not for you. Chances are you will end up with a home loan debt higher than what you started with.

On the positive side, if you are disciplined and operate strictly to a budget, then a line of credit can work very well for you. If you have a good income with surplus funds left over after you have paid all your bills, then a line of credit could save you thousands.

The idea is that you pay all your income into your line of credit loan, get yourself one credit card that has an interest free period (most have 55 days). You then pay as many bills as possible on your credit card and then once a month, your line of credit automatically pays out your credit card in full. By using this system effectively, you

BOUTIQUE VALUE PROPOSITION

- Consistently Excellent Customer Service
- Focus on Building Strong Relationships
- Considered Advice that is thoroughly explained and easily understood
- Honesty and Integrity in our dealings
- Comprehensive yet simple solutions to client problems

should never pay interest on your credit card. In addition to this, your income is credited against your home loan longer, meaning there is less interest to pay.

This strategy works on the basis that the less you spend, the faster your loan will reduce. As you get a loan statement every month, you can watch your loan balance reduce much quicker than you could possibly do with a standard home loan.

In summary, a standard loan provides you with a lot of structure, as you are required to make regular repayments on a monthly basis, which will reduce your mortgage to nil over a period of time. A line of credit loan provides you with a loan limit that you can draw up to at any time, and does not require regular servicing. If you are disciplined then you may benefit from the added flexibility and potential savings that a line of credit can generate.

Boutique Finance Group Pty Ltd provides comprehensive and professional mortgage broking services via a panel of lenders and is represented by Shane Will. Shane is a qualified Finance Broker and Accredited MFAA member and has extensive experience in structuring mortgages and investment lending for professionals.

Boutique Finance helps clients to find loans most suited to their current circumstances and requirements from a panel of lenders and our service is free of charge.

Should you, your colleagues, friends or family be looking for assistance with borrowing needs, please contact:

Shane Will at our office on 08 9381 8779 or shane.will@boutiquewealth.com.au.