

BOUTIQUE FINANCIAL PLANNING GROUP PTY LTD
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Economic & Market Update

Australian Economy

Our economy has picked up after a slowdown in 2005H1. Weaker consumer spending is being more than offset by bigger business spending and export growth. In a Financial Review survey of private sector economists (27 respondents), the median growth forecast for 2005/06 is 3.2% (up on the 2.6% recorded in 2004/05), rising to 3.4% a year later.

Consumer sentiment has suffered (Westpac Index fell 13.3% in September) eroded by the subdued residential property prices – especially in the eastern states.

The business sector has been buoyed by the surge in the terms of trade. As the prices of Australian resources exports have skyrocketed in response to the ever-increasing demand from China and India, import prices have remained stable, leaving companies with strongly growing profits and an incentive to build their businesses and add to their export capacity.

The high oil prices have so far had limited effect on inflation. The Australian Consumer Price Index rose by 0.9% in the September quarter, below expectations. The annual increase was 3.0%.

Global Economy

Standard indicators signal continuing good global growth following the strong 2004 rebound. Global spending is supported by relentless US demand, catered by the low-cost supply sources – China and India. Not even the devastating Katrina could deflect the

US Fed Reserve from its view of robust forward momentum in the US.

In Japan, the Koizumi win and the impending privatization of the postal & insurance system have reinvigorated the economy and financial markets. Domestic consumption and real estate markets are improving.

Data out of Europe remains mixed. Domestic spending remains sluggish. Manufacturing exceeded consensus expectations in September, rising to 51.7 from 50.4 in. The key recent development was the ECB leaving official interest rates unchanged at 2.0% as widely expected.

China has further relaxed its exchange trading regime. China's relatively small surplus has grown dramatically this year (to around 6.5% of GDP, or \$US125 billion), the fifth biggest in the world. A stronger yuan may help to reduce this imbalance. Much of the rest of East Asia also runs surpluses, along with Japan, Germany, Russia, Saudi Arabia, Norway, Switzerland, Canada, Singapore and Netherlands.

The biggest current account deficits are run by: US (70% of global red ink), Spain, UK, Australia and Italy.

Equity Markets

After hitting record highs in September, the Australian share market got the jitters in October with many major stocks such as BHP, Rio Tinto, Woodside and Macquarie Bank giving back some of the recent gains. During October the benchmark All Ordinaries Index fell 3.9% to close the month at 4,413 points. However, it still managed a rise of 16.5% for the past twelve months.

Given that Australia's domestic conditions are relatively strong while strong external conditions will be supportive of our export sectors, we continue to be positive on the domestic equity market. However, despite the recent correction, the prevailing view is that the sharemarket is not cheap and therefore strong returns of the past two years are unlikely to be repeated in the year ahead.

Better prospects for equity gains are seen in Asia, especially Japan. Also in Europe where cost cutting by German and also French firms helped these markets to enjoy strong profit growth. As a result, European equities still offer good value, although their strong run this year means they do not look as attractive as they did at the beginning of the year.

Although the US economy is coping well with the effects of the hurricanes and high oil prices, the US equity market appears unexciting, with limited upside in the face of emerging inflationary pressure and further tightening by the Fed.

Fixed Interest

After the fall in bond prices in all developed markets in September amid concerns that strong growth and rising fuel prices would push inflation up, global bond yields are back trading towards the high end of recent ranges and accordingly may find some support in the short term, but the medium term outlook remains poor.

RBA left official cast rates unchanged at 5.5% following its October board meeting. However, rates were lifted in Canada and New Zealand. The US Federal Reserve met in early November and, as widely expected, lifted its Fed Funds rate a further 0.25% to 4.0%

Jenny Turner Joins Boutique Financial Planning Group



Jenny Turner

Boutique are pleased to announce that Jenny (pictured left) has joined our group. Jenny has been in the financial planning industry since 2003 and started as a marketing assistant. Jenny progressed to a Client Services role where she picked up some valuable experience before joining the Boutique

team. Jenny is also a qualified personal trainer and gym instructor.

Jenny's role was newly created to assist Brad Scally in servicing and preparing client reviews for Boutique clients. She is a welcome addition to our growing team.

Economic & Market Update (cont'd)

Listed Property

The S&P/ASX 200 Listed Property Accumulation index fell 1.9% in October, outperforming the broader equity market. The premium to net tangible assets (NTA) remains high at 40% but yields are firm at 7.5%. We believe that while the sector may underperform the broader equity market over the next few months it is still underpinned by a healthy economy.

Currency

The AUD fell against the US dollar (USD) during October. It started the month at US 76.37 cents and ended it at US 74.71 cents. Many observers believe our dollar will continue to weaken relative to USD in the near term while the growth momentum in the US economy lasts and the spread between the Australian and US cash rates narrows.

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Congratulations to Cheryl

For those of you who don't know, Cheryl was off getting married this month. She headed back to sunny Queensland with her husband to be, Damien, for the ceremony and then on to Vanuatu for a well deserved break. Best wishes from the Boutique team and we look forward to the new "Mrs Quabba" back in the office late November. Maybe we will get some wedding shots for our next newsletter!

Christmas Investor Briefing

We are pleased to announce that Hans Kunnen will be our key note speaker at our Christmas Investor briefing on the 30th of November in the wonderful surrounds of the Perth Zoo.



Hans Kunnen is highly respected within the Investment Research industry. He is currently head of Investment Markets Research with Colonial First State and prior to that role was the chief economist for the State Bank of NSW. He also spends time teaching economics at Macquarie University in Sydney.

Invites to the session will be posted out over the next week so please RSVP by the due date for catering purposes.

XMAS Closure

The office will be closed from midday on the 23rd of December and will be re-opening on Monday the 9th of January. As you could appreciate we are all away with our families over the festive period however if anything urgent comes up then we will do our best to help you. Leave a message on our answering machine as it will be checked every few days.

Super Splitting Updates

The new bill and draft regulations are through for super splitting of contributions between a member and their spouse.

The key components are

- Superannuation funds will be able to offer splitting of any contributions made to the fund on or after January 1st 2006.
- Splitting will occur in arrears after each financial year in respect of the previous years contribution and will include all contributions (other than roll-overs).
- You are able to split 100% of splittable contributions. This was previously proposed as 60%

Comments and feedback are being sought from the industry by early November so we will await the outcome of this and the actual legislation. Either way it is a great outcome for most people in equalising future superannuation benefits and maximising tax free thresholds in retirement.

In August 2005 the BFP team did a research trip to South Australia, New South Wales and Victoria to visit some of Timbercorp's Agribusiness projects. We not only visited some of the existing income producing plantations that have been operational since the early 1990's but our client's projects that had only just been planted for the 2005 year. We were very impressed with the scale and professionalism of the projects and the people involved. The projects specifically visited were:

Table Grapes – Euston NSW

Timbercorp manages 169 hectares of established table grape vines in Euston NSW, part of a proposed 800-ha development plan over the next 5 years.



Farm manager conducting tour



Table grapes planted 2 years ago with the growth 6 months ahead of budget

Citrus Orchard – Renmark SA

Timbercorp manages 355 hectares of established citrus orchards on the Kangara Estate near Renmark in South Australia. The Kangara property has a reputation as one of the leading suppliers of fresh citrus fruit to the South East Asian and US markets, and includes new easy peel varieties in demand by consumers.



2005 Citrus project planted and irrigated



2005 project came with existing producing trees

Olive Grove – Boundary Bend, Victoria

Boundary Bend Estate (BBE) is Australia's largest producing olive grove, located on the Murray River in north-western Victoria. BBE is one of Australia's leading olive management and processing companies. Although BBE only has 2% of Australia's total Olive plantation, it produces over 30% of its output.



Boundary Bend processing plant



1999 plantation – already producing and cash flow positive

Almonds Orchard – Robinvale NSW

Timbercorp manages 5,100 hectares of almond orchards, which is the largest almond orchard in the southern hemisphere. These orchards are being grown under an alliance with Select Harvests Limited, which is Australia's largest integrated producer, processor and marketer of almonds.



2003 Almond Tree's already producing



Reg with the 2005 Almond plantation



Select harvests processing plant



FPA

FINANCIAL PLANNING
ASSOCIATION
of Australia Limited
PRINCIPAL MEMBER

Boutique Business Synopsis

Boutique Financial Planning Group Pty Ltd was incorporated in 1992 and undertook a name change in March 2004 when it transitioned to the new Australian Financial Services License.

Boutique Financial Planning Group Pty Ltd is a principal member of the Financial Planning Association (FPA) and abides by the ethics set down by the organization. Our Financial Planners all carry the Certified Financial Planner status (CFP), the highest designation given to its practitioners.

Boutique Financial Planning welcomes client referrals and undertakes to provide the same level of service and understanding that we provide our strategic planning clients.

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Reverse Mortgages – what are they and who will use them ?

Quite simply, a reverse mortgage allows you to tap into the equity you have in your home or investment property, meaning you can access funds for almost any purpose, without the need to sell the property. It is a life time loan, which means that you do not need to make any repayments at all while you are still living at home. The loan must generally be repaid when the property is sold, you have moved to long care aged facility or passed away. Most providers of reverse mortgages offer customers the option of taking the loan proceeds as a lump sum, as a regular payment or a combination of the two.

With the recent surge in residential property prices many people have experienced an increase in wealth, but this is tied up in bricks & mortar. Until now, the only available option to unlock this equity value in your home has been to sell it and downsize. A Reverse Mortgage provides a similar financial outcome without having to go through the time, cost and drain on emotions involved with selling your home.

A recent question put to Parliament has highlighted some interesting aged pension statistics that suggest there may be quite high demand from the retiree market for reverse mortgages. The statistics suggest that in 2005 there are over 1.1 million Centrelink pensioners with assessable assets of less than \$50,000 with nearly 800,000 of those having assessable assets less than \$25,000. These people would be key beneficiaries of reverse mortgages.

Please discuss with your Boutique Planner the implications of Reverse Mortgages if they are of interest to you.

Lawyers Quiz - Which twin?

A court was considering the fates of identical twins. It was known that at least one of them never told the truth, but it was not known which one. One of the twins was named John and he had committed a crime. John was not necessarily the one who always lied. The court had to determine which one of the twins was John.

“Are you John?” the judge asked the first twin

“Yes, I am”, was the reply

“Are you John?” the judge asked the second twin.

The second twin answered either yes or no, and the judge then knew which one was John.

Was John the first twin or the second?

Solution

If the second twin had answered yes, the judge could not have known which one was John. Hence the second twin must have answered no because the judge was able to work out who John was. This is the critical bit of the metapuzzle. From this it follows that either both twins told the truth or both lied. But they couldn't have both told the truth because we are told that at least one of them always lies. Therefore, both lied, which means that the second twin is John.

Tidy up those Shares !

For those of you who visited our website recently you would have noticed under our Boutique Client area a new icon for “Boutique E*Trade”. Boutique Financial Planning Group together with E*Trade have developed a web site only for Boutique Financial Planning clients that will allow clients to use Boutique as their CHES holder for shares. It will also allow our clients after opening an account to trade shares at a discount rate.



For those of you that have shares dotted around and are sick of multiple Chess Statements through brokers you do not know – then we have created the answer.

Call one of our staff to open up an account or try out the website and fax through your completed new account form. There is no cost for the service and it will make your financial management so much easier !