

BOUTIQUE FINANCIAL PLANNING GROUP PTY LTD
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Economic & Market Update

Australian Economy

The prevailing view on the Australian economy is positive. It remains robust with inflation under control, a benign interest rate environment, strong business investment offsetting softer consumer spending, the housing market undergoing a soft landing and a booming resources sector.

The inflation rate for the year to December 2005 came in at 2.8% (compared with 2.6% in 2004 and 2.4% in 2003). Unemployment has edged up to 5.3% in January due to a big drop in part time jobs (mainly in NSW). RBA has left interest rates on hold at 5.5%. Many analysts now believe the rates will stay at that level for the remainder of the year. GDP 2006 growth forecasts range from 3.0% to 3.5%.

Global Economy

The International Monetary Fund expects another year of growth in excess of 4% for the global economy. Working against that are inflationary pressures (oil!) and threat of rising interest rates (US, Europe)

The US is expected to register solid growth of around 3.5% for the year, although its economic climate remains mixed. Consumer confidence and employment rose in the December quarter but the signs of cooling in the housing market are casting a shadow over the economic outlook. A slowdown in the second half of the year is possible.

The Euro-zone business conditions have improved, outpacing the UK economy for the first time in five years. After shrinking for most of the past decade, construction orders in Germany have jumped in recent months.

The Japanese recovery remains on track with a rise in wages, employment and household spending. Japan is expected to record growth of 2% in 2006.

China and the rest of Asia should continue to perform strongly. Chinese economy remains heavily dependent on exports. Growth is expected to slow to around 8.5%, from 9.3% in 2005.

Financial Markets Outlook

World Stock Markets in 2005 (%)

DOW	-0.61
S+P 500	-3.00
NASDAQ	-1.37
JAPAN (TOPIX)	+43.50
KOREA (KOSPI)	+53.96
INDIA (SENSEX)	+42.33
BRAZIL	+27.71
FRANCE	+23.40
GERMANY	+27.07
RUSSIA	+83.29
EGYPT	+146.13
DUBAI	+131.27
ASX 200	+17.60

* All markets shown in local currency terms

Australian Shares

The forward P/E of the Australian sharemarket is currently a little over 15 times (below the 5 year average) and the current P/E is a little over 17 times, so one could argue the market is around fair value. The share market has risen 56% in 3 years but profits have risen 58%, driven by commodities.

This makes the market particularly sensitive to movements in commodity prices. Most analysts agree that the prices and the resources sector will continue to be supported by the ever increasing demand from China and other emerging economies in the medium to long term.

In the shorter term, after the 15% run up from the lows last October, a correction or a period of consolidation in Australian shares is due. The last two profit reporting seasons were associated with mild

corrections after a strong prior run-up, and something similar appears to be unfolding currently.

But beyond the short term, the Australian share market continues to offer solid returns on the back of attractive valuations, a relative high yield, reasonable profit growth and resource sector strength.

International shares

The consensus view is that global shares remain on track for further gains this year thanks to reasonable valuations, solid economic growth, benign inflation and still easy monetary conditions. However, it will be a more volatile ride thanks to periodic oil, inflation and interest rate scares along with slowing profit growth. Gains are likely to be more subdued than last year.

The US market lagged global equities in 2005 despite good economic growth, with investors unsure about the Fed's strategy on the future direction of interest rates. After the last rate rise to 4.5% at the beginning of February, companies and investors may finally get a break on rate tightening for some months to come. This would be positive for the US market.

We also remain optimistic about returns from the Asian, Japanese and European markets over the medium term, although much more modest gains are expected this year after the stellar performance of 2005.

Fixed Interest

The domestic bond market is expensive because Australian long term bond rates (a little over 5%) are currently below the official cash rate (5.5%). It follows that there is little inflation risk premium priced into the long term bond rates, perhaps not surprising given the weak housing and - more recently - weaker employment data. The medium term outlook for bonds remains poor. The corporate debt market should perform relatively well due to

Connie Ng joins Boutique Financial Planning



Connie Ng

Boutique Financial Planning is pleased to announce that Connie (pictured left) has joined our group.

Connie has been in the financial planning industry since 2004. She started her career initially as a personal assistant for a financial planner eventually evolving her duties to include client services, paraplanning and compliance.

She joined the Boutique team in November 2005, primarily to assist Anton Pol. Her main role is to prepare client reviews and provide customer service for Anton's clients.

Connie holds a Bachelor of Commerce from the University of Western Australia majoring in financial accounting, investment and corporate finance. She is currently studying for her Diploma of Financial Services.

Economic & Market Update (cont'd)

limited supply. Hybrid securities are also more attractive owing to their potential for franking credits.

Global bond markets remain vulnerable due to low real interest rates on sovereign bonds around the globe and prospects of further tightening in many countries. However, with the Fed seemingly near its tightening cycle and the fact that Asia and Europe are still awash with money seeking secure home – especially for pension funds - a major bear market is not in store for 2006.

Property

The Listed property sector rose 10.4% over the 12 months to the end of January. Although the sector continues to look expensive on a premium to net tangible asset basis, listed property securities offer better prospects than bonds thanks to their high yields (around 7%) backed by sustainable rental income for most of the trusts in the sector.

Unlisted non-residential property should have a strong year. Yields are still high and investor demand is strong.

Residential property is likely to have another tough year. Australian housing remains nearly 25% overvalued versus rents and wages. Gross rental property yields of 3% compare poorly to other investments and housing affordability is poor. Expect the east coast states to be weakest, but Perth and Darwin should do okay.

Currency

We see the Australian dollar trading in a fairly narrow range in the near term. Commodity prices should remain positive, but our interest rate advantage will continue to narrow. If the commodity prices stay strong, the dollar may end the year higher relative to the US\$.

Globally, the Yen and Euro should start to trend up again against the US\$ as their interest rates rise, and so the A\$ may move a little lower against these currencies.

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Ways to make more contributions to Super

Undeducted Contributions: By adding after tax amounts to your existing superannuation fund right now, you benefit by paying only 15% tax on the earnings of that investment. Alternatively, you can make regular contributions – that is fortnightly, monthly or quarterly – from your bank account.

Government Co-contributions: The government has introduced a scheme in which lower to middle income earners who make personal contributions to superannuation could receive the benefit of a government co-contribution into their superannuation account. The government has increased the co-contribution from \$1 to \$1.50 for every \$1 of personal contributions an eligible person makes to their superannuation fund.

The maximum government co-contribution of \$1,500 will be available to all employees with incomes below \$28,000 pa who make personal contributions. Above this amount, the maximum co-contribution will reduce by five cents for each dollar of income to phase out completely at an income of \$58,000 pa and above.

Spouse contributions: There is no limit to the amount you can contribute to super on behalf of your spouse and there are some special incentives for those with a low income earning spouse. If your spouse earns less than \$13,800 pa you are eligible to receive a cash rebate of up to \$540 (18%) on the first \$3,000 contribution you make on your spouse's behalf.

Salary Sacrifice: Salary Sacrificing allows you to redirect part of your pre-tax salary into superannuation instead of paying personal income tax rates. Salary Sacrificing remains one of the most tax effective ways to save for your retirement.

Self-employed? One of the disadvantages of being self-employed is not having your employer put contributions into Superannuation, and so you have to be responsible for looking after your own retirement. As a result, self-employed people can claim a tax deduction for their own superannuation contributions.

If you are self-employed, you can claim a full deduction for the first \$5,000 and the 75% of all contributions above \$5,000 up to your prescribed limits as set out below. Beyond these amounts, contributions can still be made, however no tax deduction is available.

The Maximum Deductible Contribution (MDC) prescribed age based limit for 2005/06 is set out in the table below:

AGE IN YEARS	MDC LIMIT	PERSONAL CONTRIBUTION REQUIRED TO GET MDC
Under age 35	\$14,603	\$17,804
Age 35-49	\$40,560	\$52,413
Age 50+	\$100,587	\$132,449

WestPoint Crisis

ASIC's action against Perth-based property developer WestPoint Management has understandably generated a lot of media coverage in the last few weeks.

ASIC is now investigating whether to bring legal action against WestPoint Corporation's directors as well as various financial planning groups which sold the mezzanine investments used to finance its property developments while allegedly

pocketing undisclosed commissions of up to 10%.

Up to 3000 investors had invested an estimated \$300 million across the funds. These mezzanine products were used to lure investors with higher rates of return.

Typically, if something sounds too good to be true - then it generally is!

Boutique Financial Planning (BFP) has NOT invested any client's money with this company.

At BFP an Investment Committee meets on a quarterly basis to ensure our client's portfolios are meeting the required standards. We always fully disclose any fees that we receive.

The Changing Face of Retirees & Retirement

When you plan, you need to understand the impact many financial and non-financial issues will have on your life as you move from work to retirement. You need to understand that the retirement that you are planning for is not necessarily like the one of your parents or grandparents.

Research shows:

- 33 percent of retirees have difficulty adjusting to retirement.
- Boredom is the main problem after the first six months; and
- Retirees who work on their retirement plans adjust better to retirement and make better lifestyle and financial decisions.

We are living in times of huge changes - in Australia's demography, in the structure of the workforce and workplace, as well as the cultural and lifestyle expectations. These non-financial issues are taking on new and additional significance for financial planning. On the one hand, the average number of years in the full time workforce is shrinking on account of redundancies and early retirement, while on the other hand there is new legislation against compulsory retirement. As a result we can no longer assume that people will retire at the fixed age of 55, 60 or 65 - it may well be 45 or 75.

Research shows that at least 25% of retirees are actually in semi-retirement, having some sort of paid work. The growing proportion of the workforce that is in part-time work includes many men - and especially women - in their 50s and 60s. What is more, surveys have estimated that 40-50 per cent of retirees want to have some sort of paid work after the traditional retirement age.

It is important to realise that issues associated with lifestyle in retirement, legal implications, taxation and social security considerations, and the whole area of investment are all intertwined.

Why you shouldn't chase last year's returns

While you might be able to pick the future performance of a football team based on last year's performance, this is often because you know the team, you know the competition and the environment doesn't change. However, with investment markets, it's more difficult. Factors such as interest rates, exchange rates, commodity process, political and environmental issues all come into play at a global and local level to influence performance. As a result, last year's winner can easily become 'yesterday's hero'.

Last year's best can often be next year's worst!

Look at some examples of last year's best performing asset class becoming the next year's worst. An analysis shows that over the past twenty years there have been six occasions where last year's best performing asset class has become the next year's worst.

Australian Shares

- Best Asset Class in 1986 (52%)
- Worst Asset Class in 1987 (-8%)
- Best Asset Class in 1991 (34%)
- Worst Asset Class in 1992 (2%)
- Best Asset Class in 1993 (45%)
- Worst Asset Class in 1994 (-9%)

International Shares

- Best Asset Class in 1995 (27%)
- Worst Asset Class in 1996 (7%)
- Best Asset Class in 1999 (17%)
- Worst Asset Class in 2000 (3%)

Cash

- Best Asset Class in 1994 (5%)
- Worst Asset Class in 1995 (8%)

Last year's worst can be next year's best

Various investment markets can perform poorly for several years in a row, however it is not unheard of that the worst performing asset class can become next year's best. In hindsight, it would often have been a smart decision to invest in the worst performing asset class. An analysis shows that seven times in the last 20 years, the worst performing asset class has turned around to become the best in the following year. In other words, just as frequently, the worst has become the best, rather than the reverse. Here are the numbers:

Australian Shares

- Worst Asset Class in 1987 (-8%)
- Best Asset Class in 1988 (18%)
- Worst Asset Class in 1990 (-18%)
- Best Asset Class in 1991 (34%)
- Worst Asset Class in 1992 (2%)
- Best Asset Class in 1993 (45%)

International Shares

- Worst Asset Class in 1988 (5%)
- Best Asset Class in 1989 (27%)
- Worst Asset Class in 1996 (7%)
- Best Asset Class in 1997 (42%)

Australian Listed Property

- Worst Asset Class in 1999 (-5%)
- Best Asset Class in 2000 (18%)

Cash

- Worst Asset Class in 1993 (5%)
- Best Asset Class in 1994 (5%)

Living with Volatility in investment markets

Investment markets can be volatile, with strong returns in some years and significant declines in others. For Australian investors, international shares have been the most volatile asset class, experiencing best performance and worst performance more often than Australian shares, property, cash or bonds. Diversifying your money across a range of asset classes can help you ride out the performance troughs in the market and the good returns in some investments can help offset the poor returns in others. Having a diversified portfolio can mean the best performing asset class offsets the worst performing asset class.

At Boutique Financial Planning we ensure our clients diversify their investments across a range of asset classes.



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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Facts and Figures

AGE PENSION ASSETS TEST (FOR FULL PENSION)		
	Single	Couple
Home-owner	\$157,000	\$223,000
Non-Homeowner	\$270,500	\$336,500

AGE PENSION INCOME TEST (FOR FULL PENSION)	
Single	Couple
\$124 per fortnight	\$220 per fortnight

PROPOSED RESIDENT MARGINAL TAX RATES 2005/06 (EXCLUDING MEDICARE LEVY)	
Income	Rate
\$0 – \$6,000	0%
\$6,001 – \$21,600	\$0 + 15% over \$6,000
\$21,601 – \$63,000	\$2,340 + 30% over \$21,600
\$63,001 – \$95,000	\$14,760 + 42% over \$63,000
\$95,001+	\$28,200 + 47% over \$95,000

REASONABLE BENEFIT LIMITS (RBL)		
Lump sum RBL	\$648,946	(formerly \$619,223)
Pension RBL	\$1,297,886	(formerly \$1,238,440)

AGE-BASED DEDUCTION LIMITS (ABDL)		
Less than 35	\$14,603	(formerly \$13,934)
35 but less than 50	\$40,560	formerly \$38,702)
Over 50	\$100,587	formerly \$95,980)

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 CHESSE 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 !