

BOUTIQUE FINANCIAL PLANNING GROUP PTY LTD

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Economic & Market Update

Australian Economy

Economic news and developments during June quarter suggest the overall underlying tone of the economy is weaker. Building activity is slowing, retail sales are soft and economic growth is below trend. Unemployment remains stable – for now. The economy grew by 1.9% for the year to March. This is a far cry from the 4.1% growth a year earlier. The slower growth means the pressure is off interest rates for now. The Reserve Bank of Australia (RBA) has downgraded its outlook for inflation, saying the risks are now more evenly balanced. The RBA has left interest rates on hold at 5.5%.

The outlook for Australian economy remains reasonable. Exports should improve in response to higher iron ore and coal prices and increased mining sector investment. Expectations for a weaker AUD will also support export growth, but the drought remains an unknown. Tax cuts and a solid surplus in the May Federal Budget should provide confidence that Australian growth won't collapse.

Global Economy

The **US economy** has slowed from a growth rate of 5% in 2004 down to 3.7% in 2005, with high energy prices and uncertainty surrounding the economic outlook denting investment and spending. Recent evidence suggests still solid underlying strength however. The housing market continues to move to new highs and retail sales have bounced back strongly. Inflationary pressures remain. The US Federal Reserve (Fed) will therefore maintain its current tightening approach to policy, albeit at a "measured" pace. The Fed funds rate was raised in early June to 3.25%.

The **Japanese** economy took a positive leap forward with the release of exceptionally strong GDP results for the March quarter. Underlying indicators suggest the economy could continue to improve.

In contrast, **Europe** remains disappointing with lacklustre growth. German factory orders, consumer confidence and industrial production all declined in the March quarter. Business conditions in both Germany and France fell in April. In the **UK**, the Bank of England downgraded its expectations for UK growth over the next few years.

The **Chinese** economy continued to power along in the March quarter with year-ended GDP growth of 9.5%. The pressure on the Chinese authorities to change its economic and trade policies continues to intensify.

Equity Markets

Global share markets were unremarkable in June and during 2004-05. In June the world index MSCI rose 0.7% in USD but was up only 0.1% when measured in AUD. Over 2004-05, the MSCI was up 8.1% in USD but fell 1.4% in AUD.

The Australian equity market shrugged off record oil prices and several profit warnings to finish the financial year on a positive note. The S&P/ASX 300 Accumulation Index rose 4.8% in June to be up 26.0% over 12 months

Outlook: Global shares are not expensive, and a reasonable profit growth (especially US) and interest rates remaining relatively low should support global equity markets moving higher in the remainder of the year. Australian shares are also expected to produce positive returns this year, reflecting a solid dividend yield, reasonable growth prospects and strong investor demand. After a strong June the Australian market

has moved from slightly underweight to around a "fair value", with a dividend yield of around 3.5% and a price to future earnings ratio of around 16.5. In essence it is providing a solid yield at a historically reasonable price.

Fixed Income

The Reserve Bank left the official cash rate unchanged at 5.5% following its June board meeting. Ten year Government bond yields ended the month at 5.11%, below the cash rate. International bond yields have also fallen pushed down by an increase in corporate savings and strong demand from pension funds and Asian central banks for US bonds. Short-term outlook: Both international and Australian bonds remain unattractive on a six to twelve month view. Valuations remain poor and bonds are vulnerable to periodic inflation scares.

Listed Property Trusts

Benefiting from a decline in bond yields, the S&P/ASX 200 Property Trust Accumulation index price index rose 4.8% in June to be up 18.1% for the financial year. The listed sector still provides solid dividend income with a yield of 7.2%. However, the price increases of the past three years have made listed property expensive by historical standards and vulnerable to any interest rate increases. The increased gearing in many listed property trusts also implies an increased risk profile of this sector.

Currency

The Australian dollar rose against the US dollar during June, finishing the month at US 76.18 cents. Our belief remains that the Australian Dollar has limited upside potential and is more likely to end the year lower, given the deteriorating Australian current account deficit, rising US interest rates and slowing momentum in commodity prices.



Julie Jones

Julie Jones Joins Boutique Financial Planning Group

Boutique Financial Planning Group welcomes new Financial Adviser Julie Jones to our business. Julie has been in the Financial Advising Industry for 15 years and attained her Certified Financial Planner Status (CFP) in 2001. Julie came across from her previous role as Senior Financial Adviser at HOME Financial Planning where she had started in 2000 with Boutique Managing Director, Gary Hasler.

Julie's interests include travelling and bush walking. Julie has recently walked the 8 day Overland Track in Tasmania carrying a 19kg pack with all her food and camping gear. Locally, she has nearly completed every section of the 965 km Bibbulmun Track from Kalamunda and Albany. The Inca Trail in South America is next on her list.

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Property Markets Generally

We had a very interesting client recently who wanted some specific details about the advantages and pit falls of investing in the property market. We have provided this overview as it is very relevant given the current market conditions.

The main advantages of investing in direct property are:

- the value of the property will generally grow at least in line with inflation (although a capital loss is possible)
- overall, property tends to have lower volatility of returns (mostly due to not being valued as frequently as other investments like shares)
- provides you with your desired lifestyle (and a roof over your head)

The main disadvantages of investing in direct property are:

- direct property investments are illiquid because they cannot be readily converted to cash. Selling the property can take time, and the whole investment needs to be sold to access your capital
- transaction costs – stamp duty, real estate agents fees, settlement fees & finance restructuring – can be a high percentage of the property value
- there are ongoing costs of maintaining and upgrading the property
- rental income is not guaranteed and reliable tenants can be hard to find and difficult to keep
- there is a lack of readily accessible information on property values and trends in the property market generally
- direct property investment requires a large lump sum investment, exposing the investor to just one stage of the property cycle & little chance of diversification

The property market within WA has enjoyed very good returns in recent times – with the median house price experiencing an average annual growth rate of 12.2% over the 5 years to March 2005. This performance has been fuelled by a variety of factors:

- a structural decrease in the level of interest rates since the early to mid 1990's has provided a tailwind for property values. Home buyers usually work back from their disposable income to determine how much they can afford to pay

for a given property. The rate of interest they have to pay affects their house affordability, and a lower rate means they can afford to pay more. In December 1990 the overnight cash rate was at 12% pa, and it now stands at 5.5% pa.

- a trend shift in consumer preferences, whereby property improvement & DIY programs have entered the popular culture. This can be witnessed by the proliferation of housegoods stores & warehouses in the suburbs, and the high exposure afforded to property improvement in the popular press & electronic media. This fashion trend has penetrated the public psyche to an unprecedented level.
- a change in demographics, on two fronts. Firstly, as our population ages, those areas and regions that offer the promise of a seachange in lifestyle have benefited from strong growth. This has typically been the coastal strip in Perth's metropolitan area as well as several attractive regional areas in WA, such as the South West. The second demographic change has been from the next generation down from the baby boomers – which represent another substantial bulge in the Australia's age profile – have entered the property market for the first time.
- a recovery in equity markets worldwide, as the equity market and the property market act as substitutes in the minds of investors. The run in property prices in Australia commenced with the Tech-wreck on the share market in April 2001. The rebound in Australian share markets in 2004 – with the ASX 300 posting a 28%

Senior Australians

Senior Australians eligible for the senior Australians Tax Offset and the low income tax offset currently pay no tax up to the annual income of \$20,500 for singles and \$33,612 for couples (depending on the income earned by each member of the couple). The effect of the reduction in the lowest marginal tax rate to 15% is to lift these income levels up to \$21,968 for singles and \$36,494 for couples. The Government will ensure that the Senior Tax Offset will phase out only once income exceeds the effective tax free threshold for each eligible individual or member of a couple.



gain – has heralded the end of the property run.

- prosperous economic times, especially in WA, have led to an increase in employment and income levels, and has attracted a number of new residents to the State.

However our view is that these property gains are not sustainable going forward. Even industry participants, who have an interest in promoting the benefits of property investment, are now acknowledging that the market has reached its peak. This has certainly been the case on the eastern seaboard. Of the factors mentioned above, it is only the last which is likely to contribute further price momentum behind property valuations for the foreseeable future.

This is not to imply that property prices are over-inflated, and drastic corrections in property prices are imminent. It is only to suggest that property prices are likely to flatten, reducing returns. Our view is that alternative investments offer better prospects in the short to medium term, and a diversified portfolio provides more security under all scenarios.

Brad Scally – Financial Adviser, Boutique Financial Planning Group

Super Update

Easier Access to Super

The regulations governing access to Superannuation savings are changing from July 1. Previously for those born before 1960 you had to be fully retired or partially retired and aged 60 to have access to retirement monies. Changes will allow those reaching preservation age – age 55 for those born before 1960, partial access to super monies in the form of a pension. This is to help those who want to only partially retire and want their income subsidised from retirement monies. Anyone born after 1964 has a preservation age of 60 years. For those born in between 1960 and 1964, there is a phase-in period up to the higher preservation age. Further details of this when legislated will be provided in our next edition.

Super Surcharge to be abolished

The government will abolish the surcharge payable on individual's surcharge able contributions and termination payments, with effect from 1st July 2005.

Currently, the surcharge is payable on individuals surchargeable contributions where the adjusted taxable incomes exceed \$99,710. The termination payments surcharge is also payable on parts of certain employment related termination payments that are not rolled over into a superannuation fund.

The Government previously announced an intention to reduce the surcharge to 10% in 2005-06 and 7.5% in 2006-07. The Government in its wisdom has now decided to abolish the surcharge completely rather than continue to phase it down.

Just recently this bill to abolish the surcharge was defeated in the senate however it will be re-introduced when government has the voting numbers after the 1st of July. It is expected that it will still commence retrospectively from the 1st of July 2005.

ASGARD Investors - Income Distribution Processing

You may notice that the value of units in some of your investments falls just after 30 June 2005. This is because the processing of year end fund manager income distributions has commenced. The first step of the income distribution process involves adjusting unit prices from cum price (inclusive of distribution) to ex price (exclusive of distribution) for managed investments making income distributions. The remaining steps in the income distribution process include receipting, reconciling and processing the income distribution to each investor's Account.

How this affects you

ASGARD processes distributions on a cash basis. This means that income distributions are only reported in Investors' Accounts after the income distribution has been processed. The processing time for income distributions is dependent upon when ASGARD receives the required information from underlying fund managers.

For a short period, depending on when the income distribution is processed, the total value of your holdings will decrease by the income distribution amount that has not yet been processed by ASGARD. If you have any queries on this, please contact your Boutique financial adviser.



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 CHESS 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 !