

BOUTIQUE FINANCIAL PLANNING GROUP PTY LTD
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Share Markets fall – but no Bear on the horizon

Share markets have had sharp falls from their recent highs. These range from falls of around 10% in Japan to 6.0% in the US. Australian shares are down about 6%. The big question is whether this is just another correction within a still rising trend or the start of a major bear market.

After strong gains from their lows last October the markets were due for a correction. Australian shares rose 13% year to date to their recent high, global shares as measured by MSCI were up 7.5% and Asian shares (ex Japan) were up 16.5%. Since their last major correction in October last year, Australian shares rose 25% to their recent high and Asian shares rose 32.5%. It is normal for shares to have corrections after such strong gains.

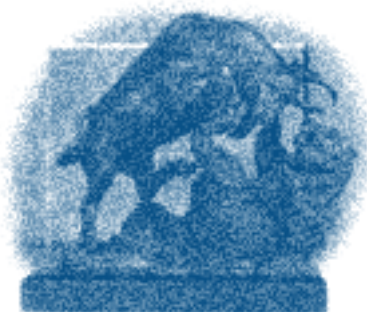
A trigger for the correction was the higher than expected April CPI rise in the US and the renewed fear of an inflation break and higher interest rates pushed by high energy prices. This would mean a slower economic and profit growth ahead. Adding to the nervousness was an unsustainable rise in commodity prices in the past quarter, which left them – and mining stocks - vulnerable to any change in sentiment.

These concerns may persist and the correction may have further to go, especially as historically the May to October period tends to be more difficult for shares than October to May.

Nonetheless, **the current share market correction is likely to be a bull market correction, just like those around April and October last year, rather than the start of a new bear market.** These corrections saw 8% falls in the Australian shares and similar falls in global shares on the back of inflation and oil related fears – very similar to those driving current jitters – only to then see markets resume their rising trend as nervousness died down.

There are several reasons why the current weakness is unlikely to be a start of a bear market:

- **Share markets are not overvalued.** The ratio of share prices to earnings for Australian and global shares is not out of line with its long term average, whereas at the end of the IT bubble in 2000 they were well above. For example, Australian shares are trading on a ratio of share prices to consensus 12 months ahead expected earnings (i.e. the forward PE) of 15 times, compared with a ten year average of 15.2 times and a 1999 high of 18.3 times.



- **Inflation is likely to remain low.** The global pricing environment is extremely competitive, as cheaper goods from China and other emerging markets continue to put downwards pressure on prices and strong productivity gains limit the flow-on of wage rises. While many argue that the surge in gold prices is a sign of imminent inflation, we would note that gold has not been a good indicator of inflation since the mid 1980's and its more recent surge owes more to a falling US\$, geopolitical tensions regarding Iran and commodity strength generally.
- **If inflation remains benign interest rates are unlikely to surge.** Our assessment is that US rates are near the top as a slowing housing market will lead to slower consumer spending and take pressure off interest rates. Australian rates are essentially on hold, with recent data confirming that

overall wage growth remains benign and that consumers have been more affected by higher petrol prices and interest rates than the Budget's tax cuts. Rate hikes are likely to remain slow in Europe and Japan, as inflation remains benign and their authorities want to avoid a sharp rise in their currencies. Overall, global interest rates are likely to remain relatively low and shouldn't pose a major or lasting problem for share markets.

- As a result **global growth is likely to remain solid**, helping to ensure reasonable profit growth.
- Finally, **the strength in commodity prices is not over.** Solid growth in industrial countries and China will ensure that demand remains strong and the supply response is likely to remain constrained. It should also be noted that the prior bear market in commodity prices lasted around 20 to 25 years, so it would be surprising if the subsequent bull market ended after just five years. The post World War II commodity bull market driven by industrialisation in Japan and South East Asia lasted approximately 30 years.

Conclusion

The correction in shares could extend further over the months ahead. However, this should not be seen as the start of a bear market. The low inflation global economic expansion is likely to remain intact, interest rate rises globally will remain modest, commodity prices are likely to remain high and share markets are not overvalued. In fact, a correction to let off a bit of steam before the rising trend resumes should be seen as a favourable development.

(This article is based on 'Oliver's Insights', a commentary by Dr Shane Oliver, Head of Investment Strategy and Chief Economist, AMP Capital Investors, 19 May 2006)

Andrew Bolingbroke joins Boutique Financial Planning



Andrew Bolingbroke

Andrew is a Certified Financial Planner (CFP) and has been involved in the Financial Services Industry for 15 years.

Andrew will be providing Financial Planning advice to new and existing clients.

Andrew specializes in the areas of Wealth Creation, Retirement Planning strategies and Investment advice.

“As well as maintaining a ‘business-like’ client to adviser relationship, I really enjoy getting to know people, which has resulted in some valued friendships”

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Boutique Financial Planning

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

2006/2007 Federal Budget

On 9 May 2006, the Federal Government delivered its budget for 2006/07 and its plans for the future of Australia. This budget delivered more than expected, especially regarding the future of the Australian Superannuation system.

Here is our brief summary of the proposed Federal Budget changes:

Personal Tax Reform - Effective 1 July 2006

The Government has provided tax relief to individuals through changes to the thresholds at which individual marginal tax rates change. In addition the Government has reduced the actual marginal rate of tax, cutting the 42% rate to 40% and the 47% rate to 45%.

These threshold and rate changes will be implemented from 1 July 2006 as detailed in the following table:

Current for 2005/06		Proposed for 2006/07	
Tax Rate	Income Range	Tax Rate	Income Range
0%	\$0 - \$6,000	0%	\$0 - \$6,000
15%	\$6,001 - \$21,600	15%	\$6,001 - \$25,000
30%	\$21,601 - \$63,000	30%	\$25,001 - \$75,000
42%	\$63,001 - \$95,000	40%	\$75,001 - \$150,000
47%	\$95,001 +	45%	\$150,001 +

The increased savings through reduced taxation may enable personal mortgages and other debt to be repaid more quickly, or free up additional capital for investment purposes, particularly in relation to investment for retirement.

Other Taxation reforms:

- Increase in the low income offset from \$235 to \$600 if your taxable income is below \$21,600 and receive some benefit up to \$40,000.
- Modification to the ‘small business capital gains tax concession’ which may make it easier for you to qualify for concessional treatment from 1 July 2006.
- Amending from 1 April 2006 the fringe benefits tax rate from 48.5% to 46.5% in line with the personal income tax changes.

Lisa Turner joins Boutique Financial Planning



Lisa Turner

Boutique Financial Planning would also like to introduce Lisa Turner (pictured left).

Lisa began in the Financial Planning industry in 2004 as a personal assistant to a Financial Planner with duties including customer service and office administration. Lisa joined Boutique in February this year.

Lisa's main role is to assist Brad Scally by conducting client reviews, liaising with clients and fund managers and assisting with administration and marketing tasks.

Lisa has a university degree in Multimedia Design and has recently commenced studies for her Diploma of Financial Services.

Social Security & Welfare Reforms

Increasing its focus on the family, the Government has announced the following changes:

- A tax-free one off bonus of \$1,000 or \$600 will be paid to you before 30 June 2006 if you are in receipt of a Carer payment or Carer Allowance respectively
- From 1 July 2006, the income threshold at which your entitlement (if any) to Family Tax Benefit Part A will reduce will be \$40,000 (currently \$33,361).
- From 1 January 2007, it is proposed to extend the principal residence asset test exemption beyond two hectares provided you have owned it for more than 20 years and other criteria are met.

Superannuation Proposals

1. No Tax on End Benefits

From July 1 2007, the Government proposes that no tax will be paid on superannuation benefits paid from age 60 (either as a lump sum or as a pension). Superannuation payments will not have to be included in a person's tax return. Tax will still be paid on benefits paid to a person aged less than 60, although the rules are to be simplified. The preservation age for accessing super will not be changed, and a person below age 60 would be taxed on their super benefits as they are now. However it is expected that the number of components that are tax exempt would be increased.

2. Reasonable Benefit Limits (RBL) to be abolished

From 1 July 2007 RBLs will be abolished. This means there is NO limit on the amount of money you can have in superannuation – the taxation of your final benefits will only depend on your age.

3. Compulsory cashing on retirement abolished

Over 65s can stay in the accumulation phase of super indefinitely, doing away with the current onerous test requiring the member to have worked 240 hours in the previous financial year.

4. Age based limits abolished

The Maximum Deductible Contribution (MDC) limits are to be abolished from 1 July 2007 and replaced with a new annual contribution limit of \$50,000. There is to be a transitional period for those 50 and over who currently have an MDC of \$100,587. More details are to follow. The ability to make deductible contributions has been extended to 75 (up from age 70)

5. Undeducted Contributions are to be limited

Undeducted or post tax contributions will be capped at \$150,000 a year which is three times the pre annual contributions level. The Government will consider whether the cap should be averaged over three years to accommodate larger one-off payments. This proposal took effect on budget night, 9th May 2006

6. Contributions and earnings tax to stay

The minimum 15% tax on earnings and contributions will remain unchanged, with the ability to reduce this via imputation credits.

7. Assets Test improved

Wrapped up in the super changes is a proposal to reduce the pension assets test taper rate to \$1.50 per fortnight for every \$1,000 from the current \$3 per fortnight from 20th September 2007. The government estimates that, based on the current age pension, a single retiree homeowner could have an additional \$165,000 of assets before losing the age pension, while a couple could have around \$275,000 of additional assets.

In exchange for the reduction in the assets test taper rate, the current 50% assets test exemption for complying income streams will be removed from 20 September 2007. However, the 50% exemption will still apply for complying income streams purchased prior to 20 September 2007, and a 100% exemption for those purchased before 20 September 2004.

8. Self Employed

Self-employed contributions are to be treated in the same way as contributions made for the benefit of employees:

Self-employed people would be able to claim a full deduction for all superannuation contributions up to \$50,000 per year. The current rule where a tax deduction can be claimed for 100 per cent for the first \$5,000 and only 75 per cent of any contributions above \$5,000 would be abolished.

Self-employed persons would also have access to the Government co-contribution scheme on the basis of an adjusted income test.

Remember that for the time being, these proposals are just that – proposals – the Government is requesting feedback before they are implemented.



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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End of year superannuation & investment strategies

Your Boutique Financial Planner would have discussed end of year superannuation and investment strategies with you throughout the year. As the end of the financial year is fast approaching we thought we would confirm some of these strategies. If you are at all unsure of whether these strategies apply to you, please contact your Boutique Financial Planner as soon as possible for clarity.

A few good reasons to act now:

- Reduce your tax
- Accumulate wealth for the future
- Realise immediate gains in the new tax year
- Utilise tax-effective income streams
- Take advantage of the free money from the government

End of Year strategies which you may consider:

1. Government Co-contributions – let the Government boost your super savings.

The Government will match on a three-to-two basis any eligible contributions you make to your super fund. The maximum co-contribution amount available is \$1,500, which is based on a personal contribution of \$1,000 for those with a total income of \$28,000 or less. The Government's maximum co-contribution will reduce by 5c for every \$1 of total income above \$28,000. No co-contribution will be made once your total income reaches \$28,000.

2. Salary Sacrificing – reap the benefits of reduced tax immediately

Salary Sacrificing consists of an agreement with your employer to contribute some of your salary, wages or a bonus payment directly into your super Account before tax is deducted at your marginal rate. By implementing this strategy you can reduce your tax liability while making a larger investment for your retirement.

3. Spouse super contributions – boost your spouse's super and save

By making a contribution with after-tax monies into your spouse's superannuation account you may be able to claim a tax offset of \$540. This is based on a contribution of \$3,000 for a spouse with assessable income and reportable fringe benefits of \$10,800 or less. This offset gradually reduces and your spouse's income increases and phases out totally once your spouse's assessable income and reportable fringe benefits reach \$13,800. The offset is also reduced if the contribution you make is less than \$3,000.

4. Personal super contributions – reduce tax and accumulate wealth

By making a deductible contribution to superannuation you can reduce your taxable income and therefore your personal income tax liability. You may also offset any personal income tax that would have been payable on any capital gains you made during the year. This strategy applies to individuals under age 70, self-employed or recently retired.

5. Pre-retirement pensions – work less, same income

If you've reached (or are approaching) your preservation age you can contribute additional funds to your super before the end of the financial year, knowing you'll be able to access them in the near future – even if you're still working.

6. Pre-paid interest – claim a tax deduction this year and save

By pre-paying the interest on any gearing or any other deductible expenses you have before the 30th June 2006 you may be able to claim a full tax deduction for that interest in the current year. You can also gain the benefit of getting a tax deduction in this year before the marginal tax rate changes come into effect from 1 July 2006.