

## BOUTIQUE FINANCIAL PLANNING PTY LTD

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### A good year gone, not a bad one to follow...

#### Market Watch - June Quarter

The Australian stockmarket reached record levels during June spurred on by lower oil prices, expectations of continuing low interest rates and by the prospect of good reporting season in July and August. The All Ordinaries Index finished the June quarter at 3,530 points, a gain of 3.3% for the quarter and a far cry from its low of 3025 points in June last year.

Once again, the Australian sharemarket produced a better return than most of its international peers. In the US the technology-laden Nasdaq was the best performer with a 2.7% gain for the quarter. The main US stock market index S&P 500 rose a modest 1.3% for the quarter and the heavyweight DOW Jones Index only 0.7%.

Among European major markets the German Dax posted the biggest gain, just over 5%. The UK market struggled against the Bank of England's third increase in interest rates this year but still managed a rise of 1.8%.

Asian markets were subdued by the talk about slowdown in China. Hong Kong's Hang Seng Index fell 3% during the June quarter. Japan's Nikkei 225 Index rose 1.2%.

For Australian investors in the overseas markets, the relatively weaker results in those markets were more than compensated by the fall in the value of AUD from 75.6 US cents at the beginning of April to 68.8 US cents on June 30th.

#### Investment Outlook

Global equity markets have rallied strongly over the past 18 months but face two major risks going forward: first, a peaking in global growth; second, that global financial conditions tighten as US official interest rates rise to more normal levels (i.e. around 4 per cent) over the next few years. Persistently high oil prices also pose a risk to growth. At the same time, the recovery in employment growth and the rise in business investment indicate that the US economic recovery is sustainable.

#### Australian Equities

Over the coming 12 months domestic demand should moderate and lead to slower profit growth for consumer discretionary stocks (non-food retail), domestic media stocks and domestic building materials stocks. In contrast, stocks with an exposure to global activity are likely to experience strong profit growth in 2004 and 2005. The Australian sharemarket is trading in line with its historical average based on its price-to-earnings ratio. We think the market remains good value relative to bonds and is providing an attractive dividend yield.

#### International Equities

Global equity markets are likely to experience more modest gains over the coming 12 months following strong returns last year. Profit growth should peak in the current quarter (albeit at very high levels) and interest rates will rise, leading to a less attractive environment for global equity market. However, we are confident that the current global expansion is sustainable and that solid employment growth will support consumer spending

and business investment.

#### Listed Property Trusts

Given the merger of Westfield Group with Lend Lease/General Property Trust, the weighting of the combined group in the listed property trust (LPT) sector will increase, and by implication, the weighting of other stocks will decrease. The general outlook for the sector remains positive, however, supported by solid fund flows and good underlying fundamentals for direct property. We believe the sector is fully priced, with a narrow gap between LPT yields and 10-year bond yields.

#### Fixed Interest

As widely anticipated the US Federal Reserve raised the Federal Funds Rate by 0.25 per cent to 1.25 per cent on 30 June. This is seen as the first of many rises over the next 18 months as the Federal Reserve returns cash rates to a more neutral setting. The market views the key risk at present to be the extent of rising inflationary pressures in the US. The Reserve Bank of Australia is not likely to raise official rates as long as household credit growth continues to moderate.

#### Currencies

After retreating below US\$0.70 during the June quarter the A\$ has bounced back in the recent weeks mainly owing to the weakness in the US dollar. However, the prospect of higher US interest rates and market consensus that Australian interest rates are near their peak has reduced the relative attractiveness of the A\$. We think that the A\$ should trade in a 68-72 US cent range through the remainder of 2004, underpinned by relatively strong regional economic growth.

## Anton joins Boutique

Anton Pol and his assistant Brigitte have joined Boutique after 7 years with Securitor Financial Group. Anton has been in the industry for 16 years and brings a wealth of experience to the organization. The introduction of the Financial Services Reform Act has made it less viable for sole practitioners to operate efficiently Anton said. We welcome both Anton and Brigitte to the Boutique Financial Planning Group team.



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## Best Super Changes still to come

Now that the financial year has come to a close and budget changes for superannuation being legislated it is now time to focus on where superannuation stands in the Investment stakes and what proposed new changes could make Superannuation bigger than it is today !

Superannuation in its current form is likened to your ability to hold an Investment in a tax free haven overseas where the Australian taxation Office has limited ability to collect tax. Income tax is limited to 15% (with franking credits reducing this down to nil in some cases) and Capital gains at 10%. If you compare this with assets held in an individuals or company name you can see that there are some savings to be had. The down side is that the money is not accessible until retirement and that the taxation on these monies means that you are better served by drawing a pension income.

Some of the already legislated changes mean that you do not even have to work to put money into your own "tax haven". This change has led to potentially the biggest change which is currently before parliament. If it is legislated it will enable employees to split their superannuation with a non-earning or low-income earning spouse.

As it currently stands you currently cannot split money that is already in a superannuation fund (unless you get divorced) but the new rules will not only allow you to but also will allow you to split all future contributions.

The benefit of this strategy will be the availability of both persons Reasonable Benefits Limits (RBL) as well as being able to maximize both person's lump sum tax free components and the tax thresholds when a pension is eventually paid.

Further changes have also been legislated that include

- the reduction of the Super Surcharge this year down to 12.5% (10% in 2005/06),
- increase in the government co-contribution from \$1000 to \$1500 (as well as increasing the qualifying income),
- and choice of super fund now for all Australians on employer funds from 1/7/2005



## Boutique Investor Briefing

Boutique Financial Planning's Investor briefing was held on the 9th of June at The Pagoda in South Perth. We heard from Mark Carlisle from JB Were (pictured) with a presentation "Investors Behaving Badly". Managing Director of Boutique, Gary Hasler then gave a technical Update followed by a more technical session by Mark on the economy outlook.

It was a well informed evening with some excellent feedback by attendees on the sessions (especially Marks first presentation). We would like to thank JB Were for making Mark available to us for our Client Investor Briefing.

The next one is planned in October so we will keep you informed with dates.



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## Alice in the cold as her home sold

**Alice is 77 and homeless because her Nedlands home of 16 years was sold recently by the Public Trustee without her knowledge while she was being treated in Graylands Hospital.**

Alice (not her real name) is the subject of a community treatment order (CTO) under the Mental Health Act.

Her Nedlands home was sold because the management of her affairs is under the control of the Guardianship and Administration Board, which appointed the Public Trustee as administrator.

She is staying in a private clinic in West Perth and goes out each day, but she cannot be released because she has no home to go to.

She can get her money only with

By GEORGE WILLIAMS

the trustee's permission and in small amounts.

She has to present receipts for lay-bys to get some of her money for winter clothes.

Sue Walker, Liberal MP for Nedlands, said she had been asked to help and had become angry and concerned at the way the elderly woman was being treated.

Ms Walker and friends of Alice are concerned that other people on CTOs could be in similarly powerless situations, losing control of their lives, homes and money.

This week, for the first time since February, Alice was told her bank balance and offered help

‘Her situation is just like the movie One Flew Over the Cuckoo’s Nest and a Kafka play rolled into real life’

to find accommodation ... apparently after pressure from Ms Walker and Alice's friends.

Ms Walker said: "How can authorities say this woman is incapable of handling her own money, but insist at the same time that she must find her own accommodation?"

"How can a government de-

partment charged with protecting her interests sell her home while she is in hospital and then abandon her?"

"She has never seen an offer or acceptance.

"She has to ask the trustee each time she wants her money.

"She bought shoes on lay-by at Claremont then had to go into Perth to ask at the trustee office for some of her money.

"They gave her the money that time, but refused her on another occasion.

"She said that she had to ask for her money from young men at the trustee's office who patronised her as a little, old, frail lady.

"The trust office told me they did not want people to 'take ad-

vantage of her' and that she had earlier wanted money to buy a wedding dress.

"Alice then told me that she had merely told the trust office that if she were to get married again some time then she would want to look nice in a wedding dress.

"Even if she does buy a wedding dress, that is nobody's business but hers.

"Other people spend their money unwisely every day of the week - some gamble, some buy expensive clothes. They are not sanctioned by authorities.

"Her situation is just like the movie One Flew Over the Cuckoo's Nest and a Kafka play rolled into real life."

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## Don't Trust the Public Trustee

We came across the above article in the Subiaco Post on June 5 this year.

An old lady Alice got mentally sick and went to hospital. While in hospital the Public Trustee secretly sold her home. They did not tell her that they were going to sell her home. They did not tell her what it sold for. When the journalist asked if the buyer was known to the public trustee or its staff - they refused to comment.

The public trustee sold her house and "looked after" all the proceeds for her. Alice now has to rent and has been forced to ask for money to furnish her new rental. The Public Trustee even sold her washing machine when the house was sold.

So is this a bureaucratic bungle or more wide spread? Unfortunately it seems that because of her mental ability being tarnished the Public Trustee took control of her affairs without family consultation. This is a real thing that can happen if people do not make adequate provisions within their estate planning. A properly constructed Will together with the use of enduring powers of attorney within that Will can help stop these type of things happening.

Have you reviewed your (and your families) Will recently?

## Boutique Business Synopsis

Boutique Financial Planning 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 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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### 100% Asset Test exempt annuities: your last chance

The Federal Government's much trumpeted overhaul of the superannuation system includes proposed changes to the Asset Test, including:

- Reducing the social security assets test exemption that applies to "complying" income streams from 100% to 50%; and
- A 50% asset test exemption for a new 'market-linked' income stream (this product is not yet on the market).

The changes will not be retrospective and will come into effect from 20 September 2004. Known as complying income streams, they generally come in the form of an annuity purchased from a life office, a retail superannuation pension, or a pension run out of a self managed super fund. The money invested in a

complying annuity or pension is locked in and converted to an income stream for a fixed term of 15 years or more but not greater than the person's statistical life expectancy, or for life.

The amount invested in such an annuity before September 20 will still be exempt from the Centrelink's Asset Test. In practice this means that for every \$1,000 invested in an exempt annuity a pensioner (single or a couple) can gain \$3.00 per fortnight or \$78.00 per annum of age pension (because, the age pension is reduced by \$3.00 per fortnight for every 1,000 above the minimum limit).

For example, by investing \$100,000 in such an annuity, a pensioner couple could become entitled to an additional \$300 per fortnight, or \$7,800 per year, of age pensions (combined). This implies an

instant 7.8% gain on a \$100,000 investment in the annuity - in addition to the annuity income.

It is important to understand, however, that once invested in a complying annuity the money is no longer available to you and there is nothing left at the end of the term as the capital and interest are paid out in full over the term.

As an investment in their own right the fixed-rate annuities are not particularly attractive because the rate of income they pay tends to be modest, currently around 4.5% -5% pa, but combined with the Centrelink benefit they can become very attractive. The new "growth annuities" expected to appear on the market after September 20 will offer a better return potential but will only qualify for a 50% asset test exemption. Thus investors have only a few weeks left to make their minds!

### Pensions increase as income and assets test minimums are raised

The minimum thresholds for both the assets test and the incomes test have been raised with effect from 1 July, 2004. For a single homeowner, the allowable assets limit increases by \$3,500 to \$153,000, while for couples the limit rises by \$5,000 to \$217,500.

As a result, the majority of single homeowners who receive less than the maximum rate of pension because their asset holdings are above the assets test threshold will receive an extra \$273 a year, while most couples in the same situation will get an extra \$390 a year.

Pensioners will also be able to earn a little more income without having their payments reduced. Pensioners will now be able to earn up to \$122 for singles and up to \$216 (combined) for couples before any reduction in their payment occurs. This comes as a result of the increase in Male Total Average Weekly Earnings, upon which these means test thresholds are based. Please refer to the Table on the right for full details of rate and threshold changes.

Age Pension Rates as at 1 July 2004

	\$ Per Annum	\$ Per Fortnight
Single	\$12,069.20	\$464.20*
Couple (each)	\$10,077.60	\$387.60*

\*Pharmaceutical Allowance of \$5.80 per fortnight (single) and \$2.90 per fortnight (each, couple) is also payable in addition to this rate.