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Lifewealth
Financial Strategies

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Christmas is upon us once again and with it the opportunity to reflect on the year past and to look to the future with hope for a peaceful and caring world. Recent events in India only reinforce the notion that we do indeed live in the lucky country for which we should feel grateful.

While it has been a difficult year we hope that you have had a successful and satisfying year both in your personal and work lives. You will be, no doubt looking forward to spending time with your family during this festive holiday season.

We have continued our practice from the past few years to donate through World Vision rather than send Christmas cards. The World Vision web site is www.worldvision.com.au and it is here you can see how much a very practical donation can help families in less fortunate countries provide for their basic needs.

At Lifewealth we have had a challenging year dealing with all manner of change and not to mention one of the most challenging times ever for the world financial and investment markets. Through all this we have been encouraged and grateful for the continued excellent feedback we receive from both long term and new clients. Change has been a constant over the years and this year was no exception with new superannuation rules coming into effect and new investment challenges following the sub-prime fall-out. We feel very privileged to assist all our clients as we do and trust that as the world continues to change and create new opportunities you will continue to look to us for support.

During the year there have been some changes at Lifewealth. John has continued to introduce Brisbane to Lifewealth's professional approach and is building trusting relationships with a number of new clients.

Closer to home we established a joint venture, ALC Financial Services, with an accounting firm run by Alan Colling and based in Rowville. As a friend and associate of Chris, we have held a long term relationship with Alan in various areas of taxation and audit. The main purpose of ALC Financial Services is to provide valuable superannuation, investment and insurance advice to Alan's existing client base and we were delighted to welcome back Michelle Stevenson as ALC Financial Services principal financial adviser. Michelle has worked for many years in the financial planning/investment advising arena with a number of Financial Planning Practices and she is already developing ALC Financial Services into a successful joint venture.

We welcomed two new staff members this year. Andrew Bottomley joined us in June as our new paraplanner and he is currently studying for his Advanced Diploma in Financial Planning. Ken Yew also joined Lifewealth in June as an Assistant Accountant and he is currently undertaking his Chartered Accountant certification. We welcome Michelle, Andrew and Ken.

Our team at Lifewealth
wishes you and your
families a very happy
and safe Christmas
and a successful
and prosperous year
in 2009.

Melbourne

Level 4, 423 Bourke Street, Melbourne VIC 3000
Telephone (03) 9670 3434 | Facsimile (03) 9670 2828

Web Address www.lifewealth.com.au

Brisbane

Level 7, 320 Adelaide Street, Brisbane, QLD 4000
Telephone 1300 306 933 | Facsimile (07) 3221 2771

ABN 79 100 448 182 Licensed Dealer in Securities, Australian Financial Services Licensee 279615

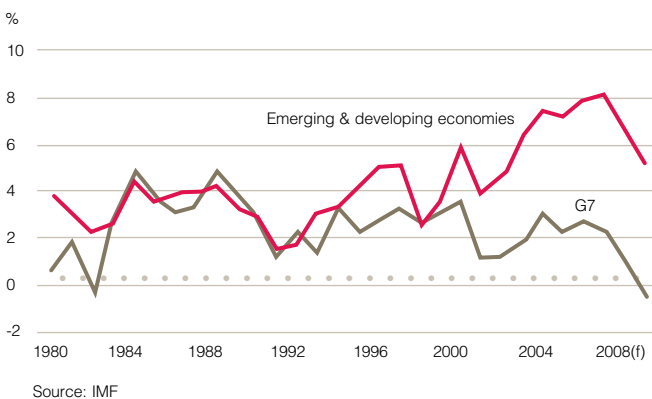
ECONOMIC REVIEW

Where does one start in these extraordinary and difficult times. Who would have thought this time last year that we would be where we are today? Well the fact is that the market and economic outlook is not favourable but let's try to understand the situation as it has developed.

How bad is the current situation? We believe you need to look at the world in two parts: the G7 (being the seven largest economies in the world) and the rest of the world. It is clear that the G7 countries are either in a recession or close to being in a recession and are likely to remain in recession for at least part of 2009. On the other hand the GDP growth of the emerging and developing economies whilst having softened continues to grow at a healthy rate and the forecast GDP growth for 2008 is around 5%. Clearly China remains a driving force behind overall world GDP growth. The recent injection of \$850 billion into the Chinese economy by the Government indicates a desire by the Chinese Government to continue the urbanisation and growth of the Chinese economy.

The following graph describes the situation:

G7 and emerging economies GDP (year-average percentage change)

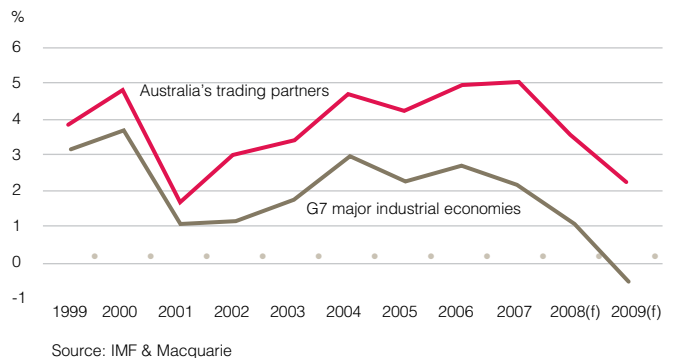


Where does this leave Australia? Clearly Australia is not immune from these global developments. However we are fortunate that we have had an economy which has been significantly more robust than many of the G7 economies.

As a result of this strong base economic position, a \$30 billion stimulus into our economy through interest rate reductions that have occurred and will continue to occur and the significant reduction in the price of oil from US\$150 per barrel to US\$60 per barrel, our economy is better positioned than most to ride out the storm.

Another significant aspect to support our view is that the GDP growth of our trading partners is relatively resilient compared with the G7 economies. Our growth prospects are more linked to the emerging economies. The following graph shows the GDP growth of Australia's trading partners compared with the G7 major industrial economies.

G7 and Australian trading partners GDP (year-average percentage change)



We like our clients are concerned about the state of the markets and the overall financial health of the world. We like you are bombarded with headlines daily and it is often difficult to assess the basis for some of these headlines if indeed there is a basis.

We will no doubt face further bad economic news in the coming months. Only time will tell how much of this bad news has already been priced into the market. On a longer term view Warren Buffett appears to believe most of the bad news is priced into the markets. We all hope he is right.

It is important to recognise that policy makers around the world have acted swiftly and decisively to protect bank deposits, to stimulate economies through interest rate cuts and planned government spending on infrastructure investments. This action is in stark contrast to the 1930's, a period to which our current situation has been compared.

History indicates markets will eventually recover and whilst we all have to deal with the short term market we can expect recovery and when it comes it may be faster than many expect.



INCOME PROTECTION THROUGH SUPER

Funding Income Protection insurance premiums through super is now an even more attractive option.

There are many stages of a client's working life when funding Income Protection through superannuation makes good sense. The most obvious scenario is when your surplus cash flow is limited due to existing liabilities or other commitments. However, a person trying to boost their nest egg at the tail end of their career can be just as vulnerable given their future quality of life can be compromised if they are forced to retire early due to disability.

The sobering fact is that one in three working Australians will be disabled and unable to work for more than three months before age 65*. That's why Income Protection is an essential ingredient in the financial plan of the majority of working Australians, whether they be young people paying off car loans, DINKs (double income no kids) couples saving for their first home, primary breadwinners of young families or empty nesters preparing for retirement.

Unfortunately, the people who most need Income Protection insurance are quite often those with the least disposable income, for whom premium affordability is an issue. The good news for clients in this situation is that recent Australian Tax Office changes have removed the last remaining barrier to holding all your Income Protection insurance through super.

Whereas previously the majority of super members could only obtain disability insurance with a two year benefit period from their super fund – primarily for tax reasons – that's no longer the case. For example, most income protection insurance product providers have recently expanded their policy range to include versions of Income Replacement Insurance with benefit periods of one, two or five years – or even up to age 65.

While there's no net tax benefit difference in paying the premium from within or outside the super environment, the latter has a timing benefit (that is, you don't have to wait until financial year end to claim the tax deduction). In turn, clients experiencing cash flow issues can use their compulsory employer Superannuation Guarantee (SG) contributions to help fund the premium.

There is also the possibility of making a post tax contribution for yourself or your spouse which will entitle your super fund to a Government Co-contribution of up to \$1,500. This 'free' money could be used to partially or fully fund your insurance premium.

Suggested actions

- If you have Income Protection insurance within super and some outside, consider 'combining' the two in super.
- Consider extending the Income Protection benefit period within super from two to five years or to age 65 if you have additional cover needs.
- If you have a self-managed super funds (SMSFs) you could be better off holding the Income Protection within the super environment. (Before making any changes, check whether the Trust Deed allows for the release of benefits without a two-year restriction).
- Ask your adviser if you are eligible to fund your insurance program via a Government Co-contribution strategy.

*Calculations based on data from the Institute of Actuaries Australia Interim Report of the Disability Committee, 2000

TAXATION, CHRISTMAS AND CHILDREN



Amidst all the hustle and bustle, for many the reality and joy of Christmas is experienced through our children and grandchildren. The smile, expectation, excitement and wonder displayed by children at opening presents, decorating the tree and looking at the store displays and nativity crib scene is a wonderful experience for everyone.

The smile for the children could even be a bit broader when they receive a tax refund cheque of \$500 for the school holidays!

To introduce children to the virtues of saving, a possible gift could be opening or contributing to their interest bearing bank savings account (100% Government guaranteed of course), or even buying some shares. Alternatively, a distribution could be made to your children or grandchildren if you have a family trust.

The taxation legislation does not call children 'children' but refers to them as 'prescribed persons', and to keep on side with the ATO this is the term we will use. A prescribed person is generally defined as any person under 18 years of age. (There are exceptions to this rule, as there is in most areas of tax law, but generally speaking if your child is 0 to 17, they are a prescribed minor).

Prescribed persons can earn up to \$1,666 in 2007/08, \$2,668 in 2008/09 and \$3,002 in 2009/10, without paying tax on investment income, such as interest, dividends, capital gains and trust distributions. If the asset is owned for more than a year, 50% of the gain is tax free. The first \$416 of income for prescribed persons is tax free. In addition, as for other individuals, prescribed persons qualify for a low income earner's rebate, which effectively increases the tax free threshold.

This rebate is increasing from \$750 in 2008 to \$1,200 in 2009 and \$1,350 in 2010, and as a result there is more scope for tax free income received by each prescribed person in a family.

As we mentioned above about receiving a \$500 tax refund cheque, if your prescribed person received a fully franked dividend of \$1,166 in 2008, a tax refund of \$500 could be claimed for the imputed credits. This would require obtaining a Tax File Number and lodging a tax return for the prescribed person. The tax refund will be up to \$900 in 2010 because of the increase in the low income rebate.

But beware; if the prescribed person's income creeps over \$1,666 (in 2008), \$2,666 (2009) or \$3,002 (2010), the news is not so good as the taxman's share of the marginal income is up to 66%. Specialist advice is needed here.

It is important to acknowledge ordinary rates of tax apply to prescribed persons for 'excepted income' they derive. Excepted income includes deceased person's estate and employment income. What this means, that over the school holidays you can teach your prescribed person the work ethic by employing them for up to \$14,000 before they have to pay tax (assuming they have no other income).

From the 2009 year there is also a new education tax refund. Eligible families will be able to claim 50% of their eligible expenses. The refund will be limited to \$375 (or \$750 of expenses) for each primary school child and \$750 (or \$1500 of expenses) for each secondary school child. Families will be able to claim for expenses incurred from 1 July 2008. Items such as laptops, home computers, home internet connections, printers, stationery and school text books are all eligible to be claimed. Families should be keeping receipts now to make their first claims through their tax returns at the end of the 2008-2009 year. However, it should be noted that only families receiving family tax benefit Part A with children in primary or secondary studies, or whose children receive youth allowance or other relevant payments, will be eligible for the refund.

Finally, all at Lifewealth wish you, your children and grandchildren (prescribed person if you work in the tax office) much joy at Christmas.

Commitment to our clients

Lifewealth's mission is to focus on our clients' interests, as if they were our own; and to offer a holistic suite of financial services to enhance our clients' wealth, protect their families, and give them peace of mind as they reach their financial and lifestyle goals. We aim to have our clients feel confident that they are being supported by a team of dedicated professionals, who consider integrity, honesty and reliability of paramount importance.

In return, we believe we will be rewarded with loyalty and appreciation for our effort and commitment.

DISCLAIMER

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