

Outlook

Financial Update & Outlook

Winter 2011

Last July I reported that the share market for the first half of the financial year was brilliant. Then the concerns of China slowing, European Debt, a weak US and the impact of the proposed Resources Tax took the shine off what was looking like a bumper year.

This year's report feels a little like the movie "Groundhog Day" with me feeling like I am seeing exactly the same set of circumstances unfold. Our market performed well for most of the year, until the last quarter when concerns about China, Europe and US caused a sell off. The same issues that I highlighted last year have come back to haunt us again this year! Despite this we have still had two years of positive returns and I have elaborated on this in my economic commentary later in the newsletter.

In previous issues, I have raised some of the limitations associated with investing in industry superannuation funds. They are often portrayed in the media as the safe, high performing alternative that always ensures that the investors funds are used for investment and not for fees. They tend, however, to invest in illiquid assets such as direct property and infrastructure projects and as a result have relatively low exposure to listed equities.

Of course when the Global Financial Crisis (GFC) hit, such funds continued to perform well because of this investment strategy. The performance of other super funds, primarily invested in shares that are valued daily, fell sharply in comparison. This all changed when the economy rebounded from the GFC slump and as a point of interest one of the industry funds that was on the top of the table has now settled much closer to the bottom. Interestingly, the same fund has now attracted criticism when two union officials made an application for it to be included in the Fair Work Australia approval

list without any disclosure that they were also trustees of the fund. Unfortunately these industry funds do not come under the same ASIC disclosure regime that the funds FINPAC Financial Advisors recommend. We have seen and will continue to see a barrage of advertisements on TV promoting these funds and their low fees. Remember cheap however does not always equal the best option.

In this edition of Outlook, Tony Muller from FINPAC Insurance discusses the Natural Disaster Insurance Review and summarises the reasons behind it. He will continue to provide updates on any submissions as well as their outcomes in future issues. Tony also does a comparison between the premiums for Life and Income insurance offered by those direct insurers "as seen on tv" and those offered by the reputable companies that are used by FINPAC Insurance.

The FINPAC group work as a team to offer you the best service to suit your individual needs and objectives. Our advisers have been a part of the FINPAC family for many years. Tony Muller has been with us for 17 years, with Petrina Rinaldo and Julie Ramage having just entered into their 13th and 12th years respectively. I am celebrating over 30 years in the investment industry and am extremely lucky to have built some great relationships and helped so many wonderful clients and their families throughout this time. If there are members of your family who are considering seeking financial or insurance advice, the staff here at FINPAC are more than happy to assist you.

Remember, if you have any questions please contact the relevant advisor listed below. Alternatively, if you have any feedback on our updates or articles you would like covered please give me a call or send an email to gricks@finpac.com.au.

Andrew Gricks

Andrew R Gricks
Managing Director
FINPAC Financial Advisors
AFSL 237820 ABN 74 010 494 489



FINPAC Insurance Advisors Pty Ltd
ph 07 4771 5600
p o box 2362, townsville qld 4810

Tony Muller Life, Trauma & Income Insurance
Julie Ramage Life, Trauma & Income Insurance

Karen Giannopoulos
Account Manager - Commercial Insurance

Danielle Turner
Account Manager - Claims

Alison Barton
Account Manager - Personal Lines

Sarah Deal
Administration - Life & Disability

FINPAC Financial Advisors Pty Ltd
ph 07 4772 5655
p o box 1577, townsville qld 4810

Andrew Gricks Managing Director
Tony Muller Personal Financial Advice
Petrina Rinaldo Personal Financial Advice
Tricia Gricks Client Relationship Manager
Nikki Taylor Client Services

wealth creation

economic growth looking SOLID

Despite a weak last quarter in the financial year, the Australian stock market finished the year up around 7%, our second financial year of positive returns. If you factor in dividends, stocks returned 12%. It comes as no surprise that the resource sector was still the strongest and retail stocks struggled the most.

Growth (GDP) fell in the March quarter largely due to weather related disruptions and households spending at conservative levels. Mining has however resumed and is expected to drive growth above trend over the next few years.

Our higher interest rates and the subsequent rising Australian dollar has seen our market under-perform when compared to other global markets.

The US market was the strongest up 25%. It was driven by strong corporate earnings which were helped by a weak dollar and favourable government monetary policy. Germany was up 22%, broader Europe up 9%, and Hong Kong up 11%.

Unfortunately the strong Australian dollar took most of the returns in international stocks away from Australian investors. The index for international shares in \$A only produced 3%.

The US economy has slowed in the last two quarters. Some of this is due to the unavailability of parts from the Tsunami affected areas of Japan (particularly auto and IT parts), a rise in oil prices and once again bad weather. The good news is that Japan's manufacturing is returning to normal levels and should boost auto production in the next quarter, making up for lost production. In addition oil prices have decreased.

China is still implementing policies to slow their economy down and constrain inflation but China's economic rise looks to have many years left to go. It will continue to industrialise and modernise and millions of people will continue to move from the poor rural areas into more productive cities. Due to Australia's substantial supply of minerals and other natural resources to China, we are well positioned to benefit from this expansion.

The extent of Europe's debt crisis is still unknown, with some economists believing it will be contained to Greece, Ireland, Spain and Portugal which only account for around 13% of European growth. The concern is will it set off another global credit crisis like Lehman's failure did in 2008? The general belief is no, as the issue is known, and is slowly being managed through the restructuring stages. The debt issues in Europe are however going to be around for some time and will continue to be a source of volatility in financial markets.

Despite all the worry and subsequent volatility of the past few months the reality is that global economic growth is looking solid.

Australia's economy in particular is structurally strong and our companies have solid balance sheets. Unfortunately this positive situation has not translated into exceptional share price gains. It seems our share market is being held back by the economic and financial issues in the US and Europe, interest rate increases and political uncertainty.

Uncertainty may continue over the next few months, but most economists believe that the current economic slowdown are **temporary impacts and the global economic recovery will continue, with better conditions through the second half of this year.**

work and still get the pension - it's a BONUS

what is it?

The Work Bonus is an incentive for pensioners over Age Pension age to participate in the workforce and it operates in addition to the Age pension income free area.

how does it work?

From 1 July 2011, the first \$250 of employment income earned by pensioners over Age Pension age in a fortnight is excluded from assessment under the income test.

If you earn less than \$250 in a fortnight, the remainder of the Work Bonus accrues in an employment income concession bank.

Then, if in a later fortnight you do have employment income that exceeds \$250, it will be further discounted by the balance in your concession bank. The balance cannot drop below \$0 or exceed \$6,500 at any time.

what are the benefits?

The benefits include a greater incentive to work for pensioners. Those who earn less than \$250 per fortnight will have no wages assessed. Pensioners who do not work and

therefore build up a bank (up to \$6,500) will then be able to take on work and earn this amount without it affecting their payment.

The major advantage of the Work Bonus is that it depends on the amount of income earned and not whether the wages are constant, variable or sporadic.

example:

Joe is an age pensioner who has not worked since December 2010. From 1 July 2011, his Work Bonus balance increases by \$250 each fortnight and by October 2011 is approximately \$2,100.

He then works as a Santa earning \$600 per fortnight. Each fortnight, his Work Bonus reduces these earnings by \$250 to \$350. Then his Work Bonus balance is reduced by \$350 per fortnight so that no earnings are assessed.

His opening balance was such that it would be six fortnights before the balance is fully depleted and wages are assessed. Once the work stops, the balance starts to increase again.

should i have a Self Managed Super Fund?

The answer to this question is yes and no.

A Self Managed Super Fund (SMSF) is your own personal superannuation fund that gives you total “hands-on” control over how you invest your superannuation benefit and can be tailored to suit your specific investment needs.

They are suited to those people who have enough assets (minimum of \$500,000), time and the appropriate skills to make the best investment decisions as well as to meet all the legal obligations.

Like public offer super funds, SMSFs only pay a **maximum 15% tax** and they also provide full control of your risk profile, increased flexibility of investment choices and asset allocation, estate planning benefits as well as the ability to own your own business’ property.

They are not, however, a suitable investment option for everyone as the **administration, management and compliance can be daunting especially when legislation changes so regularly.**

The owners of the super fund are also responsible for the funds investment strategy, asset allocation, fees, record keeping, reporting and auditing obligations. Violation of these laws could make the super fund non-compliant and can result in the **loss of tax concessions, from 15% to 45%, plus there is a risk of incurring criminal penalties.**

The management can be passed onto professional SMSF administrators or accountants, but ultimately the responsibility rests with the owners of the super fund.

A common issue with SMSFs is that trustees often put the investment strategy in the “too hard” basket. This results in a SMSF with **very poor diversification**. The Australian Bureau of Statistics found that around 26% of SMSFs are invested in cash products, including term deposits and there is little-to-no international exposure.

There is this preconceived idea that SMSFs should be investing in direct assets, such as shares. An investment in managed funds can however complement a SMSF by providing the opportunity to gain international exposure and therefore better diversification. **Managed funds within a Wrap Account provide an additional benefit of consolidated reporting, ultimately reducing the amount of time spent on administration and making it much easier for trustee.**

If you have a SMSF or are considering establishing one, FINPAC Financial Advisors can assist you in the administration and investment strategy of your fund. For more information on SMSFs please feel free to contact your FINPAC advisor.

Report by Andrew Gricks and Petrina Rinaldo, Representatives of FINPAC Financial Advisors PTY LTD (Australian Financial Services Licence 237820). This bulletin contains general information only and has been prepared without taking into account your individual financial needs, circumstances and objectives. Reliance is not to be placed upon this material, and you should assess your own financial situation before making an investment decision based on it. You may wish to consult your advisor. Any representation or statement made or implied in this material whether by way of opinion or advice or otherwise, is made in good faith, but on the basis that FINPAC FINANCIAL ADVISORS shall not be liable to any person in respect of such representation or statement whether by reason of negligence, lack of care, or otherwise save where liability cannot be excluded pursuant to law.

television direct insurance

We seem to be bombarded with offers of Life/ Funeral and Income insurance on the television at present. This proliferation of direct insurers has roused my interest as to the cost and also scope of cover of these policies.

I have obtained quotes from two of the direct insurers, Real and Insurance Line, to compare with one of our major providers, CommInsure. The table below gives premiums for 1) an age 50 accountant for \$500,000 Life Insurance and \$4,000 per month Income Insurance with a 30 day wait benefit payable to age 65 and 2) an age 30 carpenter for \$500,000 Life Insurance and \$4,000 per month Income Insurance policy with a 30 day wait benefit payable for two years.

	Policy	CommInsure	Real	Insurance Line
1) Age 50 Accountant	Income \$4,000 per month Life \$500,000	\$101 per month \$67 per month	\$157 per month \$127 per month	\$116 per month* \$140 per month
2) Age 30 Carpenter	Income \$4,000 per month Life \$500,000	\$32 per month \$25 per month	\$102 per month \$46 per month	\$118 per month* \$60 per month

*2 year benefit available only

These are indicative premiums only but they certainly give an insight into the difference in premiums. No wonder Real Insurance can afford to give back 10% of your premiums after three years!

Some of the direct insurers policies are obviously inferior with exclusion clauses that are of significant concern (i.e. the small print). The scope of cover contained in policies vary from insurer to insurer, but I can categorically state that **none of the “direct insurers” offers policy benefits that are superior to comparable policies that we at FINPAC Insurance use.**

natural disaster insurance review

Inquiry into flood insurance and related matters

Following the series of storms, floods and cyclones that affected many parts of Queensland and some parts of Victoria in late 2010 and early 2011, the Assistant Treasurer, the Honorable Bill Shorten MP, announced on 4 March 2011 the Natural Disaster Insurance Review. Submissions to this review have recently closed.

It was the absence of flood insurance for many policyholders, particularly in Brisbane and Ipswich, that was the primary stimulus to the Review. The theme of the Review, is the availability and affordability of insurance offered by the private insurance market, with particular reference to flood and other natural disasters. **This acknowledges that the insurance industry cannot solve the flood insurance problem on its own.**

What is the flood insurance problem?

There are probably only about **50,000 homes subject to high flood risk**, less than one per cent of Australia's estimated 6.2 million homes, but if their insurance included flood cover, their premiums would reflect the high risk. There are probably a further **three to six per cent of properties subject to modest flood risk.**

What is the flood insurance solution?

The Review Panel has identified two alternative models of flood insurance for the future:

1. that flood cover be provided automatically as part of home insurance, just as it provides cover automatically for bushfire and storm; or
2. that flood cover be provided automatically but that homeowners be able to 'opt out' and have home insurance that includes cover for other causes of damage but not flood.

The other main possibility is to retain the status quo whereby insurers remain free to offer full, partial or nil flood cover for home insurance and homeowners are free to decide whether or not to include flood cover in their home insurance policies.

Both models require three steps to give some form of assistance to owners of homes exposed to high flood risk so that their premiums become affordable:

- identifying the homes with high flood risk;
- providing discounts to some or all of these home owners; and
- funding these discounts.

Another possible approach is for the whole risk to be retained by the insurer, with the insurer receiving a contribution or subsidy from the Pool to meet the cost of the discount. A "source of funding for the discounts" means the discounts have to be funded and therefore need to be subsidised by someone. The main possible sources of subsidies are governments, councils and insurers. In these cases, the subsidies would ultimately be met by, respectively, taxpayers, ratepayers or policyholders*.



*We will continue to monitor this review and update our clients as the outcomes are crucial to how we arrange insurance in the future.

Report by Anthony W Muller, Director & Representative of FINPAC Insurance Advisors PTY LTD (Australian Financial Services Licence 252590). This bulletin contains general information only and has been prepared without taking into account your individual financial needs, circumstances and objectives. Reliance is not to be placed upon this material, and you should assess your own financial situation before making an investment decision based on it. You may wish to consult your advisor. Any representation or statement made or implied in this material whether by way of opinion or advice or otherwise, is made in good faith, but on the basis that FINPAC Insurance Advisors shall not be liable to any person in respect of such representation or statement whether by reason of negligence, lack of care, or otherwise save where liability cannot be excluded pursuant to law.

what's happening at finpac?

Andrew Gricks has been a member of Rotary in Townsville for **30 years** and has just taken on the role of Club Secretary. He is a dedicated Rotarian and this is not the first time he has been Secretary. Other positions he has held include President, District Governor Assistant and the District Chairman of Australian Rotary Health just to name a few. **We are proud of Andrew & Tricia's commitment to their Rotary service.**

One of the latest fundraisers that Rotary have organised is the **14th Annual Art Union Raffle**. Funds from the raffle will be donated to Ronald McDonald House Charities Australia and The Salvation Army. To purchase tickets please call our office.

Tony Muller from FINPAC Insurance Advisors celebrated his **50th birthday** in February with a holiday to New Zealand. Tony and wife Selena enjoyed days on the South Island, sampling the local wines from Christchurch through to the Marlborough Sounds and across to Wellington. Tony and Selena arrived home safe and sound missing the earthquake in Christchurch by days.