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Did You Know?

In 2000/01 financial year, a person with a taxable income of \$100,000 paid \$34,380 in tax, plus Medicare. With the changes to personal tax rates announced for the 2006/07 financial year, that same person with a taxable income of \$100,000 will pay \$27,850 in tax.

Source: Australian Taxation Office & Treasurer

Insights into Successful Investing Don't Panic

Maintain your composure and keep your end goal in sight.

We live in an uncertain world. As the events of Boxing Day 2004 remind us, natural disasters can strike at any time. The World Trade Centre attack on September 11 is now almost 5 years ago. But the threat of terrorism remains.

Economies and markets are often affected by these sudden tragedies. Every now and then, they have crises of their own. The losses sustained in events like the 1987 sharemarket crash and the Asian currency crisis still live in the minds of some investors.

So how should investors approach these events – unexpected economic, political or natural calamities that strike at the value of investment markets?

Stay calm

Don't panic. History tells us that events – however catastrophic – are soon swamped by the longer term trend.

If you were to look at a chart of the long term performance of international sharemarkets since (say) 1986 you would see a whole range of events – the 1987 crash, the Asian currency crisis, the Russian bond market default and September 11. These have all been blips on the long-term ascent of sharemarkets.

It is important for investors to think long term when crisis strikes. There is compelling evidence that panic selling is bad for your wealth in the short term as well.

Plunge, then bounce

After the terrorist attacks on September 11, US markets stayed closed until September 17. In the five days following re-opening, the S&P 500 index fell 11.6%. In a warning against short-term panic, legendary investor Warren Buffett said, "Whatever you thought about the stock market before World Trade Centre is what you should be thinking now".

As usual, he was right. By 15 October, the S&P 500 and the NASDAQ indices were back near their 10 September levels. Investors who panicked simply crystallised losses rather than protecting their capital.

Sharemarkets do react, often sharply, to crisis. Yet they tend to snap back quickly as investors reassess the real economic impact of these events. During the Iraq invasion of Kuwait in 1990, the S&P 500 dropped around 5% within a month. Within 6 months, the market was up almost 16%. Within a year, it had leapt 26%.



Coping with crisis

Economics, nature and human nature being what they are, we will undoubtedly face another market-mauling crisis in the future.

Yet we know that over the long term, the effect of these crises will fade. In the late 1980's, the Asian economies were the scourge of world markets. Today Asia is the key to rising commodity prices, cheaper consumer goods and one of the reasons Australia's sharemarket has been booming over the past two years.

Yet there are still sensible precautions any investor can take to deal with a future crisis. The most important is to have a financial plan - a written document that reminds you why you're investing, what your objectives are and how long you plan to invest for.

Such a plan is the perfect antidote to the tendency to panic, a reminder that long-term investors have nothing to gain from short-term reactions.

getting you from **a** to **b**

Understanding risk

Coping with crises such as those outlined above should form part of your risk management plan. By understanding risk, you will be in a better position to manage it in times of calamity – plus benefit from risk over the long-term.

One way to manage economic and political risk is to diversify your investments across different types of investments. Both the initial impact and the repercussions of a major event will affect each type of investment differently. Property, fixed interest and shares may react differently to the prevailing economic and political conditions. By investing in a number of different markets, you reduce the effect a fall in one market has on your overall portfolio.

Source: BT Financial Group – Abridged extract from “Ten Investing Truths”



Federal Budget - 2006

When the Treasurer, Peter Costello brought down the Budget on 9 May 2006, he announced some of the most significant changes to the Australian superannuation system for decades.

Whilst most of the superannuation changes are scheduled to take effect for 1 July 2007, one of the announcements is planned to take effect from Budget night.

Prior to Budget night there was no limit on the amount that a person could contribute to superannuation as an undeducted contribution. An undeducted contribution is a personal contribution for which a tax deduction is not being claimed. Previously there was nothing to stop a person contributing hundreds of thousands or even millions of dollars as undeducted contributions.

The Budget announcement will see the introduction of a cap on undeducted contributions of \$150,000 per person, per financial year. The capping of undeducted contributions will apply from 9 May 2006 **subject to legislation**

being passed. It is important to note that legislation has not been passed covering the limiting of undeducted contributions as at the time of preparing this article (21 May 2006).

The proposed changes to superannuation announced in the Budget are detailed in a Treasury Paper “A Plan to Simplify and Streamline Superannuation”. This Paper invites public comment. The closing date for submissions is 9 August 2006.

The Treasury Paper also makes reference to the Government who is considering whether the undeducted contribution cap should be averaged over a three year period. This would enable people to make a larger one-off payment. In fact, if averaging is introduced, it would allow a person to contribute up to \$450,000 in one year (with nothing being contributed in the next two years) and still comply with the capping regime. This would effectively give couples an opportunity to contribute up to \$900,000 in one year.

Where a person makes undeducted contributions that exceed the maximum annual cap, the Paper proposes that any contribution in excess of the cap will be returned to the person making the contribution. Any investment earnings on the excessive portion will be effectively taxed at the top marginal tax rate (currently 47%, but reducing to 45% from 1 July 2006). The mechanics of how this will operate are still to be announced.

Whether capping of undeducted contributions in the manner proposed comes to pass remains to be seen. It is possible that capping may be modified following receipt of public and industry submissions. Only time will tell.

Whilst there is nothing to prevent a person making an undeducted contribution in excess of the cap, anyone planning to make an undeducted contribution over \$150,000 should consider seeking advice from a financial planner prior to making the contributions so that they may be fully acquainted with the possible consequences in the event that capping is legislated in the form proposed.

A copy of the Treasury Paper “A Plan to Simplify and Streamline Superannuation” can be downloaded from <http://simplersuper.treasury.gov.au/>
Source: Peter Kelly – Professional Investment Services

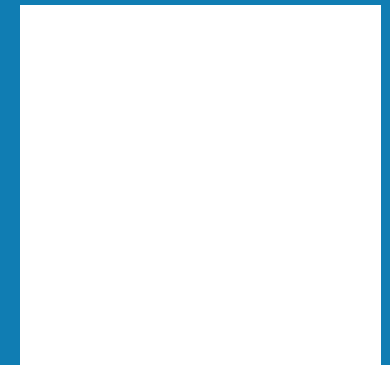
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