

# VIEW



*From the Desk*

*Martin Hawkins,  
FMD Director - Queensland*

## Everything is relative in this world, where change endures. Leon Trotsky

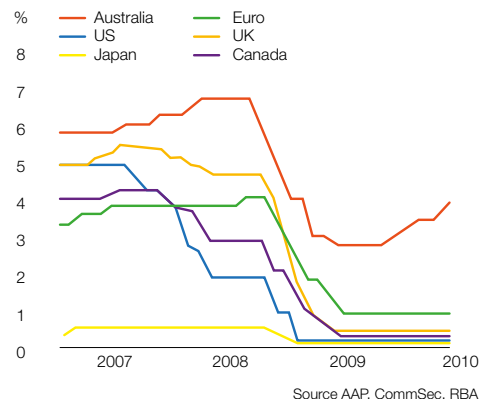
When reflecting on the past couple of years and looking to the near future, this famous quote from Leon Trotsky came to mind. “Everything is relative in this world, where change endures”.

Anyone who has travelled to a European country or the US in the past 12 months must have realised, as I did, that what Australian politicians and the media are telling us is in fact true (for a change!); we certainly have been relatively fortunate here in Australia. You may not have thought so last year, when you saw your savings/retirement funds down by as much as 50% (in some extreme cases) but, in relative terms, we have risen from those depths of gloom of the Global Financial Crisis (GFC) 12 months ago very well compared to others, and we have a lot to be thankful for. Technically we avoided the “recession”, let alone the predicted potential “depression”. Our unemployment didn’t peak anywhere near the Government’s predictions of 8%+ and, although we have had some regional variances, our property prices have not suffered to the extent of most countries. We really are the lucky country!

As I write, the Reserve Bank of Australia (RBA) have increased the cash rate to 4.25%, with the high possibility of further increases in coming months to bring us back to “normal” rates of around 5%. The RBA certainly has confidence in

a sustained recovery to our economy “post-stimulus”, due to the impact they foresee from commodity price increases and another imminent mining boom. Some of course, do not agree with the RBA and believe it is all a “bit too much too soon”, pointing out that we are the only developed country to increase rates, and the RBA is overestimating the strength of the recovery. With the likes of the US, Japan, Canada, UK & Europe still holding rates down at between 0-1% and none having suggested even the smallest of increases yet, we do appear to be “out on our own” on this one. Clearly, we are benefiting from our strong association with two of the stronger Emerging Economies of today - China and India - who have every right to question “Crisis, what crisis?”

### How we compare globally



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I strongly suspect that the Australian market will not sustain growth at the rate we saw last year, although I have cautious optimism for further steady medium to longer term gains, as long as Government policy remains consistent and sensible.

Better opportunities for growth might be expected from International exposure for the remainder of 2010 and into 2011, although confidence clearly remains fragile with the concerns over levels of Government debt, potential taxation increases and spending cuts on the cards to deal with it. If you think the debt the Australian Government has built up is bad, compare it to some of the others!

The FMD Investment Committee is conscious that sector and stock selections provide some diverse performance results between International funds' and we need to respect our managers who avoid following what's "in vogue", just for the quick return. One of our International managers recently advised me that they had no exposure to US or European banking for the past 5 years. Whilst they have

missed out on some significant recovery stories in the last 12 months, they thankfully avoided some even more significant losses throughout the GFC.

Fund managers need to manage risk as much as we all do and cannot be making "wild punts" (unless of course that is their investment mandate!). Having spoken to the managers of three of our four International funds in the last few months I can tell you that no matter what their investment style, they are all after the well managed, safe and steady businesses with long term prospects when they look to invest your money and, whilst they don't necessarily make for the most exciting short term returns, it should mean your money is relatively safe from the extremes, even in the toughest of market conditions.

If you have not sat down with your Adviser for a while, we suggest you do so in the next few months to ensure your strategy and portfolio continue to be right for you, especially if your personal circumstances have changed. Whilst we cannot control the markets, we can control your exposure to them so your expectations may be better served.

# Pension strategies

## Use the rules to your advantage.

Following the Simpler Super Changes that came into effect in 2007, a great benefit of superannuation is the ability to receive a tax free pension (or lump sum) once you reach age 60.



This article outlines a strategy which could make commencing a pension more attractive for clients aged 55 – 59. A Self Managed Super Fund (SMSF) is best suited to this strategy as the structure provides flexibility and control.

Traditionally, clients in the 55 – 59 age range are transitioning towards retirement or are retired. Often they do not require any additional income from their super and due to their marginal tax rate (MTR), they may pay tax on the income stream. In other words, starting an account-based pension before age 60 could worsen their income tax position. Furthermore, the reduction in the concessional contributions cap from \$100,000 to \$50,000 per annum means that the ability to reduce assessable income via salary sacrifice has been limited further.

**Is there a solution?** FMD is exploring strategies that allow eligible clients to receive a tax free super pension before age 60.

Where a superannuation pension is commenced, the minimum pension requirement can be met by an income payment, or where an election is made, by a lump sum payment.

### The key question we have to consider is:

For every \$1 you withdraw from super, under what circumstances is it more beneficial to have the withdrawal taxed as a lump sum rather than income?

Taking the payment as a lump sum rather than as income is most attractive for those aged 55 – 59 on a high marginal tax rate and particularly for those that have not yet exhausted their low rate cap. The low rate cap allows you to withdraw the first \$150,000 (2009/10 limit) of the taxable component from superannuation as a lump sum tax free. Note you can withdraw the same amount as a super income stream and pay tax at your marginal tax rate (less the 15% tax offset).

**What happens if you exceed the low rate cap?** For clients aged 55 – 59 you will pay only 16.5% lump sum tax. There is an immediate tax saving for those on high MTRs when you compare taking the payment as an income stream.

### Key strategy points to consider:

1. You can only withdraw a lump sum from unrestricted non-preserved (URNP) money thus this strategy is generally not applicable for Transition to Retirement pensions, unless a URNP component exists. The URNP component can be accessed at anytime.
2. Even where an income payment or lump sum withdrawal is received tax free, the taxable component within the income or lump sum is included in the individual's assessable and taxable income and may reduce their entitlement to various tax offsets, the Government superannuation co-contribution, family assistance benefits, etc.
3. You can benefit from having your retirement assets in 'pension' phase sooner – any income and capital gains within the fund are now tax free.
4. Superannuation legislation requires the member to notify their super fund that the next payment they wish to receive from their account based pension is to be treated as a lump sum (i.e. the election must occur before payment is made). This 'cash commutation' would then be counted towards the annual minimum pension requirement.

Unfortunately, some pension providers do not have the software to facilitate the last point. Thus from an administration point of view, SMSFs are the preferred structure to manage complex strategies.

In summary, to facilitate the lump sum pension strategy the URNP component needs to be sufficient to cover the annual pension payments to age 60 for the 'pension' to be tax free up to the low rate cap.

*Lauren Clarke, Adviser - Melbourne*

# How much do I need to retire?



Whether you plan to spend your retirement years travelling, starting a new part-time career or visiting your grandchildren, you will need money to ensure security in your retirement.

## FMD Adviser's are frequently asked this question. How much do I need to retire?

The answer depends on a range of different variables, and it's actually not all that difficult to work out how much you will need in retirement – the problem is that some of our clients are too scared to ask the question, for fear that they may not have enough money to retirement comfortably.

Westpac/Superannuation Funds of Australia Ltd (ASFA) Retirement Standard benchmarks the budget needs and the standards of living of retired Australians in their post-work years.

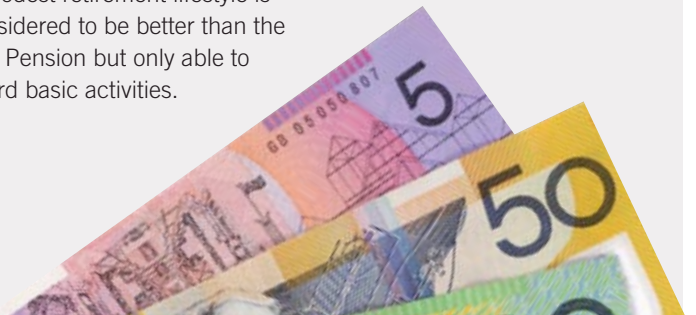
The Retirement Standard Benchmarks, indicated for a couple living comfortably in retirement, increased by 0.9% from the September quarter showing that the costs for a couple to maintain a comfortable or modest retirement are:

**\$51,727 per annum (comfortable retirement)\***  
**\$28,080 per annum (modest retirement)\*\***

\* A comfortable retirement lifestyle is considered by the Westpac/ASFA Retirement Standard as allowing a healthy retiree to be involved in a range of activities and to have a good standard of living through the purchase of various household items and leisure activities. It does not include summer holidays in Europe and/or upgrade of a prestigious car every 2 years.

\*\* A modest retirement lifestyle is considered to be better than the Age Pension but only able to afford basic activities.

*Source: The Association ASFA released the Westpac/ASFA Retirement Standard for the quarter ending 31 December 2009.*



## Q&A

**Greg Fagan,**  
Managing Director - Melbourne

**Q:** FMD's Investment Committee uses a 'Core & Satellite' approach to managing equities, what does this mean?

**A:** The Core/Satellite approach splits a portfolio into two parts – a lower risk 'core' portfolio and a higher-risk, higher-return 'satellite' component. This approach has become popular because it increases diversification and has the potential to reduce volatility without reducing potential return.

The core portion of the portfolio should be comprised of assets with a stable and reliable performance history that are

held for a long time. The satellite portion should be comprised of assets expected to significantly outperform the core portfolio, but with higher risk and volatility. This may involve concentrated portfolios, resources, small caps or emerging markets.

**Q:** What should the core deliver?

**A:** The core is the most important part of the portfolio and needs to be strong, reliable and able to absorb shocks. Investors need to be able to rely on this component for sustainable long-term performance.

The core needs to be uncompromising in its strength to reduce overall portfolio risk and provide protection in periods of prolonged market turbulence.

**Q:** What does a satellite fund look like and can you give some examples of the funds that FMD are using?

**A:** As these funds offer higher risk/high return potential, they typically are the more exciting and volatile funds. The funds usually operate in a niche segment of the market and will more likely require some timing as to entry and exit into the particular market segment.

Currently in the broad Australian equity sector, we are recommending satellites in 'Concentrated Equities', 'Small Companies' and 'Enhanced Income' segments. In the International equities sector we have exposure to 'Long/Short' and 'Emerging Markets'. A definition of each of these styles will have to wait for another discussion topic.

# FMD in the Community



## The Power of Humanity Trek.

Lynn Carminato (FMD Melbourne) recently signed up to participate in a Charity Challenge run by the Australian Red Cross, known as 'The Power of Humanity Trek'. The Charity Challenge comprises of both a 'physical challenge' which will require Lynn to trek the 'Larapinta Trail' over 9 days, and also a 'fundraising challenge' which requires Lynn to raise much needed funds for the Red Cross.

### Who will benefit?

Lynn's participation in 'The Power of Humanity Trek' will be supporting the ongoing work of the Red Cross, raising money to help improve the lives of

vulnerable people in disadvantaged communities around Australia and the Asia Pacific region.

Some of Lynn's fundraising activities include the sale of Entertainments Books (which are available from FMD) and fundraiser chocolates, which have been welcomed by the sweet tooth FMD staff.



For more information on Lynn's journey go to [www.fmd.com.au](http://www.fmd.com.au) click on FMD in the Community / The Power of Humanity Trek.

## Run for the Kids

### Royal Children's Hospital Good Friday Appeal

Aaron Hitch and Nannette Box (FMD Melbourne) both recently participated in Melbourne's biggest fun run of the year, Run for the Kids, in aid of raising funds for the Royal Children's Hospital Good Friday Appeal.

Both Aaron and Nannette completed the challenging 14.6km course in impressive times and now look forward to their next challenge competing in the Mother's Day Classic Fun Run, 9 May 2010. For more information on the Mother's Day Classic go to [www.fmd.com.au](http://www.fmd.com.au) click on FMD in the Community / Mother's Day Classic.

## FMD Community Calendar Events For 2010

If you wish to be part of 2010 community activities, please contact your state office.

Mothers Day Classic (National)	9 May 2010
City to Bay Fun Run (Adelaide)	19 September 2010
FMD Christmas Tree Appeal (National)	1- 23 December 2010



## It's a Girl!

Congratulations to Daniel (Adviser Adelaide) and Megan Arcadiou on their first baby, Ruby Alice. Born 24 February at 2.15pm at Flinders Private Hospital in Adelaide, Ruby weighed 3.57 kg and was 52 cm long. We welcome Ruby to the FMD team.



Congratulations to Carole Harper from the Melbourne office and Jack Harfield on their marriage in Lilydale on Saturday 13 February 2010. Carole & Jack spent 2 weeks travelling and sight seeing around New Zealand. We wish Carole & Jack Harfield all the best for a happy life together.



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