

VIEW

Looking forward to a better year



From the Desk
Ros Johannesen,
Director - Sydney

Most investors will be pleased to see the 2009 financial year end. Let's hope the worst of the investment market turmoil is now behind us and the 'green shoots' of recovery continue to grow.

A year of negative returns

Over the coming months you will receive end-of-financial-year investment statements. Unfortunately, most investors will see double-digit negative returns as a full year under the global financial crisis is reported.

While negative returns can be unsettling, they are a normal part of the investment cycle and it is important to look at your investment return with this in mind. In the lead up to the global financial crisis, the Australian sharemarket experienced years of growth and prosperity – with some investment returns in double figures over consecutive years. History shows us that negative returns are part of the economic cycle, and positive returns outweigh negative returns over the long-term.

We encourage you to continue to view your investment performance with a long-term perspective. Most economists advise that 5 to 7 year returns for most investments are a better indicator of actual investment performance.

Where to from here?

With the global economy in recession, economists are focused on leading economic indicators or 'green shoots'. These show how the economy is tracking and whether a recovery is on the horizon.

The good news is that many economic indicators such as consumer confidence, the housing market, manufacturing orders and financial market conditions point towards a likely economic recovery.

Consumer confidence suffered last year over concerns regarding job losses, falling wealth and bad economic data. However, with lower interest rates and various government spending packages, confidence has slowly improved in countries like Australia and the US. However, consumer confidence could suffer later in the year as early indications suggest unemployment may rise into 2010.

In the US, the housing market was the first sector of the economy to collapse with falling house prices, rising foreclosures, and sharp drops in both home sales and construction activity. In Australia, the First Home Owners Grant has seen a large increase in demand for housing leading to an increase in construction activity which is likely to help economic growth over time.

Since April, there has been a lift in new orders for machinery and other equipment – particularly in the US and China. This manufacturing activity will be important for stimulating economic recovery.

In addition, since April, signs have indicated a return to confidence in the financial system which is vital for economic recovery. US banks have found it easier to raise capital which is an indication of improvement in debt markets. Further, Australian banks have started to issue non-government guaranteed debt. This also suggests that confidence is being restored to the overall financial system.

Continued page 2

Budget 2009

This year's Federal Budget saw some more changes, particularly to superannuation.

The superannuation concessional (pre-tax) contribution limits were reduced from 1 July 2009. If you are under 50, your annual contribution limit has halved from \$50,000 to \$25,000 (indexed each year). If you are over the age of 50, this limit has reduced from \$100,000 to \$50,000 per annum. Please note that these transitional concessional contribution limit arrangements that apply to those over the age of 50 will end in June 2012.

Non-concessional (after-tax) superannuation contribution limits have not changed and are to remain at \$150,000 each year (if you are under 65). The 'bring-forward' rule of contributing non-concessional superannuation contributions of up to \$450,000 within any three year period also remains.

In view of these superannuation changes, you should review your salary sacrifice and personal tax-deductible superannuation contribution

arrangements to ensure that you do not breach the new limits commencing from 1 July 2009. In addition, if you have implemented a Transition to Retirement strategy, you will need to review your pension payments as well as your superannuation contribution amounts. Please note that the government has extended the pension drawdown relief provided for the 2008/2009 financial year and will continue to halve the minimum payment amounts for the 2009/2010 financial year.

Finally, some good news for recipients of the Commonwealth Seniors Health Card (CSHC) – the Government will not proceed with an element announced in the 2008/2009 Budget to change the CSHC income test to include gross tax-free superannuation and pension income in the Adjusted Taxable Income Test. This means that if you are presently entitled to the CSHC under the current Incomes Test i.e. \$80,000 pa (for a couple) and \$50,000 pa (if you are single), you will continue to enjoy the benefits of the CSHC.

If you have any queries regarding any of the above or wish to discuss your financial planning matters, please contact your FMD Adviser.



Richard Dahl,
Director - Adelaide

Q: I am age 48 now and will be 50 in November 2010. With the latest Federal Budget changes what amount can I salary sacrifice into super over the next few years?

A: In the Federal Budget the concessional (pre-tax) super contribution limits were halved from \$50,000 to \$25,000pa. For those who are age 50 or older, the transitional limit which applies until June 2012 will be reduced from \$100,000 to \$50,000pa.

Super contributions which count towards the concessional (pre-tax) limits include most employer contributions, employee salary sacrifice contributions and tax deductible contributions for self employed people.

To determine the amount of salary sacrifice super contributions you can make in the 2009/2010 financial year, you will need to estimate the amount your employer will contribute to your super fund this year and deduct this from your \$25,000pa limit. Assuming your employer pays a 9% super contribution then these should be close to 9% of your annual salary, depending on timing of your pay and any changes to your salary during the year.

If you are a member of a defined benefit super fund, a notional employer contribution amount

is determined and in this case you should speak to your super fund contact to clarify this amount.

As you will turn 50 in the 2010/2011 financial year (November 2010), you will be eligible for the higher \$50,000 transitional concessional super limit for the 2010/2011 and 2011/2012 financial years. Therefore depending on any changes to your salary and employer super arrangements, you may be able to increase your salary sacrifice contributions by up to an extra \$25,000pa in those years.

Unless future legislation is introduced to increase the super contribution limits, from 2012/2013 onwards your concessional super limit will change back to \$25,000pa, thus reducing the amount of salary sacrifice contributions you can make from that time.

If the Australian Taxation Office (ATO) determines that your concessional super contributions exceed the above limits, then the excess contributions will effectively be taxed at the highest marginal tax rate and the ATO will send you a bill for the additional contributions tax in excess of the 15% super contributions tax. In addition the excess super contributions will count towards your \$150,000pa non-concessional (after-tax) super contribution limit

Q: Will I still be eligible for the Government Co-Contribution by reducing my income by salary sacrificing into super?

A: From 1 July 2009 the Australian Taxation Office (ATO) will be using Adjusted Taxable Income (ATI) to calculate various tax offsets and obligations such as the Government Co-Contribution. As part of these changes

the ATO is going to include reportable super contributions (including your salary sacrifice super contributions) in your ATI when determining your eligibility for the co-contribution. If your ATI is over \$61,920 you will not be eligible for the co-contribution. If your ATI is below \$61,920 there is a phasing out of your eligibility for the amount of co-contribution between \$31,920 and \$61,920.

In the latest Budget, the Federal Government also announced that it will temporarily reduce the matching rate and maximum co-contribution that is payable from the current 150% (up to \$1,500 co-contribution maximum for a \$1,000 member contribution) down to 100% between 2009/10 and 2011/12. From 2012/13 to 2013/14 the matching rate will increase to 125% then increase back to 150% from 2014/2015 onwards.

Q: What do you suggest I should do with my contributions to super following these changes?

A: As the amount you can contribute to super tax effectively is being reduced, the general message is to start contributing to super what you can afford early. Unless the proposed contribution limits are eased in future years, they will limit the amount of money you can contribute to super tax effectively (by salary sacrifice or with the Government Co-Contribution) particularly in the later years of your working life when most people can afford to increase their contributions to super.

Given the changes to super contribution limits it is a good time to contact your FMD Adviser to ensure that you maximise your super savings.

An insight into the FMD Investment Committee

The past 18 months has been one of the most challenging times for investment markets, investors and investment professionals. The FMD Investment Committee (FMD IC) has not been immune to these challenges and to provide you with an overview of the FMD IC we have outlined below the purpose, people and processes involved in the running of the FMD IC.

Purpose

The primary role of FMD IC is to provide robust investment solutions for the management of our client's wealth that stand up to the challenges of the investment cycle. Just as individuals are different, investment solutions have to be designed to match individual client goals and tolerances to investment risk.

People

The FMD IC voting members are made up of 6 FMD Directors with each FMD office having at least one representative, bringing together more than 110 years of combined experience in the financial services industry, along with Brad Matthews (Head of Economics & Investment Research at Hillross).

Member	Position	FMD Location
Richard Dahl (Chairman)	Director/Adviser	Adelaide
Greg Fagan	Director/Adviser	Melbourne
Ivan Rados	Director/Adviser	Melbourne
Mike Reynolds	Director/Adviser	Melbourne
John D'Alessandri	Director/Adviser	Sydney
Martin Hawkins	Director/Adviser	Queensland

A key contributor to the FMD IC is our investment research provider, van Eyk Research. vER were selected as a research partner as they pride themselves on the independence of their ownership and of their actions, and have been voted the most credible and respected investment research house in Australia.

vER specialise in:

- Qualitative investment research.
- Asset consulting services to institutions, with over \$50bn assets under our advice.
- Advising financial planners in selecting fund managers, constructing portfolios and asset allocation for their clients.
- Direct share research and model portfolios.

Brad Matthews, Head of Economics & Investment Research at Hillross, has an

active role on the FMD IC. Brad has 22 years of industry experience, with extensive experience in the economics and finance industry including roles working with AMP, St. George Bank and Visa International.

In addition to holding various Economist responsibilities, Brad has acted in Executive Management positions and worked in the money and foreign exchange markets. Now specialising in Investment Research, Brad has managed the Hillross Economics & Research team since 2004.

For the past 14 years, Brad has also been the editor of a publication known as Plain English Economics, which is subscribed to by most Australian high schools studying economics.

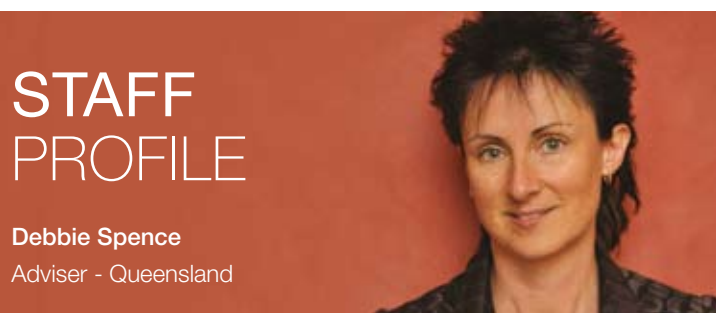
To listen to Brad's podcast go to our website www.fmd.com.au and visit – Insights by Brad Matthews.

Process

Our portfolio construction process is paramount to the value FMD provide to all of our clients. The two fundamental components of portfolio construction are asset allocation and fund manager or stock selection. The aim is to achieve a portfolio that will perform consistently in all market conditions, and remain competitive relative to peers over a long-term.

To get this right the FMD IC reviews research, from van Eyk and the Hillross Research team, and critically considers this in conjunction with investment reviews and presentations directly from professional fund managers. The outcomes of this research are recommended investment portfolios for our Active Management Service (AMS) portfolios, direct share portfolios and self managed fund portfolios.

The combination of rigorous independent research, and practical input from FMD Advisers, who work with clients on a day to day basis, provides FMD with a unique framework to make the right decisions for our clients. On an ongoing basis, van Eyk and Hillross prepare investment portfolio monitoring reports to analyze the performance of FMD portfolios and provide ongoing portfolio recommendations.



Debbie recently joined FMD after spending four years as a Senior Financial Planner with a self-licensed financial planning firm.

Debbie has been involved in the Australian financial services industry for more than ten years, and thoroughly enjoys working with clients from all walks of life.

Assisting people, through strategic planning, motivates Debbie, and provides her with significant job satisfaction.

Debbie is a keen fitness enthusiast, plays badminton, enjoys her Ce Roc dancing, and is a raving All Blacks supporter (yes she does hail from the other side of the ditch).

Her leisure time is spent enjoying the company of family and friends around the barbecue.

Debbie looks forward to meeting new clients, as well as welcoming those with whom she has had a previous working relationship.

New website features

Insights Podcast

By Brad Matthews, Chief Economist, Hillross

Listen to Brad talk about the economy this month.

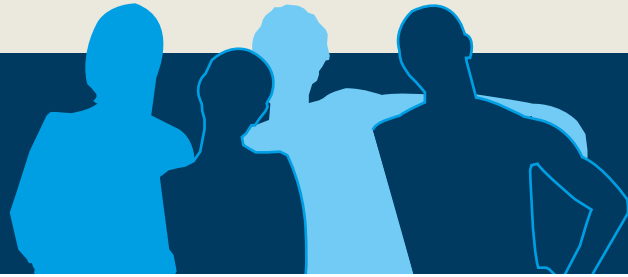
Digital Insights

By Dr Shane Oliver, Chief Economist, AMP Capital Investors

Watch the latest market update by Shane, on the causes and implications of movements in the Australian and global economy as they unfold.

www.fmd.com.au

FMD in the community



Mother's Day Classic

The Mother's Day Classic fun run/walk for breast cancer research attracted over 80,000 people nationally, the highest ever number entry in the event's 12 year history. The early start didn't deter the eager 41 runners and walkers from FMD nationally who donated their time to participate in this worthwhile cause on 10 May 2009.

"It's fantastic to see so many staff, family & clients up early on Mother's Day to support such a good cause, and paying tribute to family and friends that have been affected by breast cancer."

Nannette Box, Client Service Officer - Melbourne



This year Geelong joined the national Mother's Day Classic family and Renee Pascall, Client Service Assistant - Melbourne (pictured above, no. 346) and Aaron Hitch, Associate Adviser - Melbourne, took the opportunity to run in the first event held at Eastern Park, Geelong Waterfront.



Pictured above: Martin Hawkins, Renae O'Donnell and Max Hardy.

"It's a real buzz, to give your time and energy for such a positive and worthwhile cause."

Renae O'Donnell, Client Service Manager - Queensland

City to Bay Fun Run 20 September 2009

This September Daniel Arcadiou, Megan Freeman and Richard Dahl from the FMD Adelaide office will again be participating in Adelaide's annual City to Bay Fun Run. After being questioned why they chose to run just 6km last year, Daniel and Richard have taken up the challenge to run the 12km course this year! By participating in the event the FMD Adelaide team will provide financial support for their chosen charity, the Asthma Foundation of South Australia.

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