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Improve your life, save money and help the environment.



# Autumn Newsletter

## Economic update

Nothing has happened to the national economy that has hit Australia as hard as the tragic bush fires in Victoria and floods in Queensland – after all, what is financial security worth when life itself seems so cheap?

Yet the past trimester has indeed been a period of serious economic threats and all-out efforts to contain them - starting with admissions by Reserve Bank chief Glen Stevens in December that the world economy could take years to rebuild and that the Chinese economy was in deeper trouble than was first thought, leaving Australia even more exposed.

On February 3 the Reserve Bank struck a major blow against the financial crisis by reducing the official interest rate by a substantial 1%. The rate now stands at 3.25%, lower than it has been at any time since the economic troubles began. The government also responded quickly to the growing threat by announcing a second rescue package, worth more than \$42 billion, passed in amended form by Parliament on February 13. The intention of this package is to stimulate consumer spending and contain future job losses through a mix of family cash rebates, environmental subsidies and infrastructure development at state level. The outcomes of this rescue package will only become clear as the year unfolds – but the fact that it echoes similar initiatives in the USA and other Western countries is reassuring. The economy may be smouldering and will be scorched even further by the cost of rebuilding our communities - but like the states of Victoria and Queensland, it is not beaten yet.

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**General Advice Warning:** This advice may not be suitable to you because it contains general advice that has not been tailored to your personal circumstances. Please seek personal financial advice prior to acting on this information. **Investment Performance:** Past performance is not a reliable guide to future returns as future returns may differ from and be more or less volatile than past returns.

# Hindsight is always 20:20

Why didn't you tell me  
the end of the financial  
world was nigh?



**Are you wondering why nobody told you a year ago that the financial crisis would get this bad? The answer is simple. Nobody knew.**

"How can this be?" you ask. "Why could no one predict this would happen?" But who could actually predict a year ago, or even 6 months ago, the sub-prime crisis would snowball into losses now estimated at well over three trillion dollars?<sup>1</sup>

It's like the old Aussie TV commercial for tough overalls. A man is suspended on a platform painting a bridge. His hammer drops out of his pocket and bangs his knee. His knee reflexes and kicks his lunch box. The lunch box skids into a paint pot that drops over the side. On the way it snares the rope holding up one side of the platform and pulls it loose. The platform ends up dangling from one side high in the air and our man slides off the other end – only to be saved by his overalls, which hook onto the edge of the platform.

The current financial situation is a lot less amusing than this kind of slapstick chain reaction, but it does have something in common with it, because every unexpected thing that happens sets something else off and the situation just keeps on getting worse in unpredictable ways.

More than a year ago, the sub-prime mortgage crisis started off as America's problem. Then it became the world's problem. Then banks that were household names in the USA started going broke

and had to be rescued. That set off a worldwide panic that took the US and Europe into recession. This unexpected development affected our most important trade partner, China. That caused the end of the mining boom that might have saved Australia if it had continued. This in turn caused the rate of growth in our economy to fall, the budget to go further into deficit and the unemployment rate to rise.

The most worrisome thing about this chain reaction of calamity upon calamity is that it has been virtually impossible to predict and therefore very difficult to deal with. You can see this just by following the reactions of our own RBA to the crisis. The Reserve Bank started off a year ago by raising interest rates several times in order to curb demand for credit and hose down the economy. Then they suddenly realised that things were much worse than they thought and far from needing to rein the economy in, they had to keep it from stalling. Thus, interest rates were suddenly slammed into reverse, with a 1% cut last October followed by further cuts, the latest being another sizeable 1% reduction in February. As Reserve Bank Chairman Glen Stevens himself pointed out as recently as last December, no one could have forecast how severe the downturn would be, and this is the real reason there were no early warnings of how bad things would get.

The big question is, of course, whether or not things will get worse before they get better, and how long it will take before they do get better? The important thing to remember is that Australia is largely a victim of poor economic management of

the US economy, rather than the agent of its own misfortune and even in these dark times there are some positive signs.

One important difference between Australia and the rest of the world is that although we too have borrowed too much against the security of inflated house prices, we can largely afford our debt and keep on servicing it – as long as we remain employed. (Or, to put it bluntly, if the Australian Government wants to stimulate the economy with a big financial package, at least there is something left to stimulate!)

The other slightly good news is the worst outcomes have already largely been priced into the share and property markets and, as a result, price/earnings ratios in many cases are now at multi-decade lows! And of course no matter how bad things get, quality companies and assets will generally outperform the rest of the market over the long term.

As Chris Caton of BT pointed out recently, one way to look at the current situation is to see it as the beginning of a transfer of wealth from the current generation of shareholders and home owners who are selling out, to the next generation, who are taking advantage of the opportunities. If you are one of the current generation, his advice is simple: "if current shareholders are also prepared to be future shareholders, then the hit to their wealth is mainly temporary".<sup>2</sup>

<sup>1</sup> The Age January 20th 2009

<sup>2</sup> [www.priog.org/10164936-thats-the-end-of-that.html](http://www.priog.org/10164936-thats-the-end-of-that.html)



Holding income protection in super could still be a smart move.



## Memo to self: must pay less tax this year!

**It has been a tough year financially – so why make it even tougher on yourself? Here are half a dozen ways to reduce your tax bill, or get the tax man to reduce the cost of big ticket items such as life insurance premiums and high medical bills.**

**1. Will it help me if I pay next year's interest bills this year?**

If you have an investment loan against shares, property or a business, have you considered pre-paying your interest bill for up to 12 months in advance? This strategy generally enables you to bring forward the tax deduction and pay less income tax in the current financial year. How much will you save? That depends on your tax bracket. But you do need cash in hand before June 30 to pay next year's interest bill in advance.

**2. How can I get cheaper life insurance and income insurance from the tax man?**

You can often make a significant after-tax saving on life insurance premium costs by holding the policy in your super fund instead of paying it separately. And if your marginal tax rate is above 15%, income protection insurance – which protects your most valuable asset, your future earnings – can be more beneficial if held separately (outside of super) because it's fully tax deductible for most individuals. Of course if cash flow concerns are an issue, holding income protection in super could still be a smart move. You should be aware that there are other consequences of holding insurance within superannuation that we can tell you about.

**3. Are there less common ways to use my investment property to reduce tax?**

You're probably already taking full advantage of the negative gearing provisions, but did you know that you could possibly reduce this year's tax bill by pre-paying expenses such as water and council rates, body corporate fees and repairs and bringing forward the tax deduction? And have you ever considered the tax advantage of claiming against a depreciation schedule prepared by a qualified quantity surveyor for an investment property?

**4. Will it pay me to sacrifice some of my salary into super this financial year?**

Yes, super fund earnings with exposure to shares and property have been hit by falling investment markets, but they are expected to eventually recover, and of course super still remains one of the most tax advantaged strategies in Australia. By choosing to salary sacrifice, (i.e. setting aside a portion of pre-tax salary and asking your employer to contribute this amount into your super fund), you reduce your taxable income by the same amount, and it's a great way to get ahead and increase your nest egg. How much tax will you save under this strategy? That depends on your tax bracket.

**5. Will I qualify for a gift of up to \$1,500 from the government as a super co-contribution this year?**

Yes, providing you satisfy certain criteria. If your taxable income is less than \$30,342, the government will contribute \$1.50 to your superannuation for every \$1 you contribute up to a maximum of \$1,000. And if you earn between \$30,342 and \$60,342, the government will give you a lower super co-contribution based on a sliding scale – check out what it is worth to you!

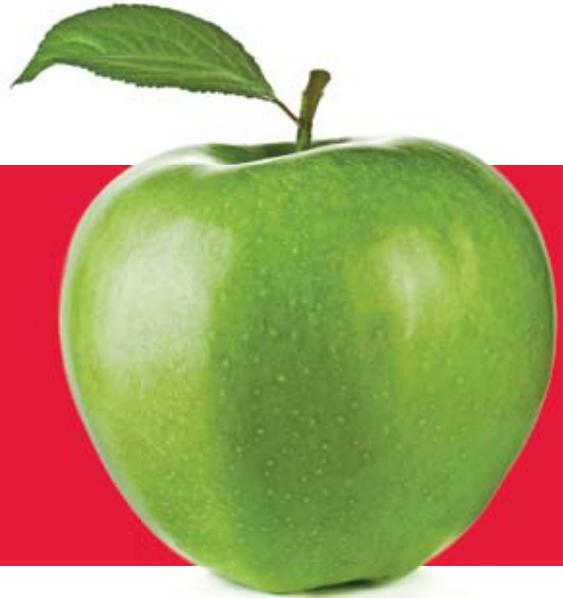
**6. How do I claim a 20% rebate on out of pocket medical expenses in spite of all the health fund changes?**

You can claim a 20% tax offset for 'out-of-pocket' medical expenses (i.e. payments not covered by Medicare or a private health fund) if these costs exceed \$1,500, so keep all the receipts, especially if you've had an expensive year health-wise. Tip: You can call Medicare and your private health fund to get a statement of your out-of-pocket medical expenses. Don't forget to claim your pharmacy expenses as well!

Start planning now to save every cent you are entitled to. The better prepared you are, the more you may save.

# It's never too late!

Improve your life, save money and help the environment



**It's Autumn, and your best laid resolutions for the New Year are already gathering dust. You had planned to save water by having shorter showers, but you've already lost the little blue four-minute shower timer.**

You had lectured the kids about recycling, but find yourself putting all your rubbish in the one bin. And a couple of hot days have seen your plan to walk to work melt by the wayside. So you're ready to cut your losses and look ahead to a more proactive 2010 – but we urge you, don't give up! There are many other ways you can improve your life, save money and help the environment all at the same time.

## Going shopping

The supermarket is one place you can start. Rather than just getting the essentials next time you're there, why don't you plan ahead and stock up. There are a number of benefits in doing this. Did you know that a full freezer uses less energy than a half-full freezer? By buying in bulk you also reduce the number of trips you'll have to make. Who would have thought going on a shopping spree would be beneficial for the environment.

## Going driving

On the topic of trips, next time you get in the car there are a few simple things you can do to save a few pennies for yourself and help the environment at the same time. The first thing you can do is slow down. Wind resistance increases dramatically at higher road speeds. At 100 km/hr, for example, approximately 20% to 25% more fuel is required than at 90km/hr.

Then there's the old dilemma of whether to use the air conditioner or not. Generally it's best to not use the air conditioner if you can help it as air conditioners increase fuel use by about 10%. However, at speeds of more than 80km/hr,

light use of air conditioning is better than an open window that increases wind resistance.

Keeping your tyres pumped up to the recommended figure is another easy thing you can do. Low pressure tyres increase rolling resistance and fuel use.

## At home

Finally, there are a few savvy things you can do about the house that will cut your electricity bill and help the environment. You can start by switching to a laptop. Believe it or not, laptops are 90% more energy-efficient than desktop computers. Most laptops have some great energy-saving features like low-energy display screens and automatic sleep modes. If you don't already have a laptop, remember you can salary sacrifice to buy a laptop computer in pre-tax dollars. Pay less tax and help the environment while you're doing it.

If you have central air conditioning and heating, you might think it energy wise to close off vents in any unused rooms. The bottom line is that closing off vents actually makes your cooling/heating unit work harder, your energy bill will increase and the life of the unit will decrease – far better to just close the blinds or curtains and shut the doors in unused rooms thereby decreasing the heating/cooling load for those particular rooms.

Another thing you can do at home is plant more trees. Shade trees outside your home can reduce the temperature inside by 10 to 20 degrees, and save you \$100 to \$250 a year in electricity. While you're at it, twenty-seven million trees a year are destroyed to support our paper towel addiction. So clean up your spills with cotton kitchen towels.

So there you have it, a few simple pointers that can improve your life, save money and also help the environment. Now's the time to make it happen. Carl Bard a Scottish Theologian said "Though no one can go back and make a brand new start, anyone can start from now and make a brand new beginning." Good luck!