



expert.

a newsletter from Investment & Planning Services

issue 09

The upside of a slow economy

The Wrap

Welcome to the ninth issue of **expert**. We are already half way into 2009 and tax time is here. It's also an opportune time to review your current financial situation and make any necessary adjustments to your investment portfolio or savings plan as you move into the new financial year.

In this issue we explore the upside of a slow economy and identify the major advantages and how you could be profiting from them. We also provide some insight into how you can shelter your superannuation during the downturn.

We outline some strategies that self-funded retirees could consider to help weather the storm of the global financial crisis and take a closer look at how the 2009-10 Federal Budget can positively affect you.

With unemployment continuing to rise, we review the varying affects it will have on different sectors of the property market and provide points to consider in order to gain a clearer understanding.

We hope you enjoy this issue of **IPS expert**. We welcome all feedback and questions on any of the topics covered in the newsletter and look forward to assisting you in planning an exciting and profitable new financial year.

Paul Plummer
CEO

The prospect of a slower economy leaves most people with a sense of dread. There are, however, some benefits which if used wisely can serve to safeguard or even improve your financial prospects.

We've identified four advantages of a slow economy and how you could be profiting from them.

1. Decreased cost of living

Under a slow economy, like we have now, market opportunities reduce and people tighten their belts over concerns about unemployment. This leads to less demand in the economy, which drives prices lower as producers vie to attract sales.

This lack of demand has already seen the price of petrol drop significantly which has a flow-on benefit of contributing to a reduction in food prices, as the cost of trucking fruit and vegetables to supermarkets is decreased.

The other big decrease in the family budget has been the Reserve Bank's heavy interest rate cuts designed to free up cash flow. So with all the additional cash, you may consider maintaining your current mortgage repayments, get your personal debt under control or you may

even consider consolidating debts into one, lower-interest loan.

2. Government rebates

Another hallmark of a slow economy is increased Government spending and rebates. While the Reserve Bank lowers interest rates to encourage us to spend, the Federal Government has the power to hand over cash to taxpayers and those on welfare payments.

The Federal Government's increase to the first home buyers grant combined with the record low interest rates is great news for those looking at entering the housing market for the first time.

While the recent fiscal stimulus bonuses are intended to encourage Australians to spend on things like electrical goods, clothing and holidays; you may want to consider how you could use the bonus to pay off credit card debt, decrease your mortgage or top up your super.

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Welcome Back Joanne

Joanne Streater joined the IPS team in August 2004 as our 'Client Service Manager'. After two years she sadly farewelled her clients and colleagues to relocate to Brisbane with her family.

The great news is that in February this year Joanne made her return back to the 'Gong' to be closer to her extended family and stepped back into her position as 'Client Service Manager' for IPS on 14 April. We're thrilled to welcome Jo back and wish her all the best.

Supporting Clergy Golf Day

The Thirteenth Annual Clergy Appreciation Golf Day was held on Monday, 25 May at Port Kembla Golf Club. A total of 110 Clergy and Laity attended the luncheon and attracted a field of approximately 84 golfers.

Paul Plummer and his team had their golfing skills on display, finishing up in 3rd place. IPS is a proud sponsor of this special yearly event and hope that it was a rewarding and fun filled day for all.

Hats off to the Graduate

After just over four years of study, our Paraplanner, Ashley McSweyn's hard work has finally paid off. She completed her final subject this month and will be graduating from the University of Wollongong on 22 July with a Bachelor of Commerce degree majoring in Financial Planning.

As part of her graduation and reward to herself, Ashley will be going on a well-deserved holiday around Europe on 1 August and will return to the office on 9 November 2009. The IPS team would like to congratulate Ashley and wish her a safe and wonderful journey.

The upside of a slow economy (cont.)

3. Sale of the century

The global financial crisis of 2008 has resulted with almost every superannuation fund reporting negative returns and many industries suffering significant reductions in their earning expectations.

This has been particularly tough for investors, especially those who have retired or are looking to retire, and depend on investment returns to live on. However, for those investors still accumulating money for their retirement, the bear market represents what could be the greatest buying opportunity in a generation.

One of the best ways of reducing your investment risk is by dollar cost averaging. This process involves drip feeding a set amount of funds into the sharemarket at regular intervals. For example with managed funds, or your superannuation fund, you could invest a fixed amount on a monthly basis. When markets go down, you will be buying more units in the fund at a lower cost. And when markets go up, while you will

be buying units at a higher price, the overall average price paid will be somewhere between the high and the low, thus reducing the impact of volatile markets.

4. Remembering what's important

In boom times, it's easy to get caught up in the lifestyle of spending big, taking advantage of easy credit and investing in overvalued, even risky products.

A bear market coupled with a slow economy is an opportunity to re-evaluate what's really important. What are your long-term goals? What's most important about your current way of life? What are your biggest concerns when it comes to the welfare and future of your family and yourself?

There's never been a better time to speak to your advisor, Paul Plummer, about your own financial map; a compass to ensure you make the most of whatever opportunities 2009 provides.

Protect your super during the downturn



Superannuation makes up a very important part of most people's retirement savings.

Being hit by the global financial crisis and the related slump in the world's sharemarkets hence negative returns, is a strong reminder it may be time to review how your super is being invested.

This is important to ensure your current investment strategy is right for your needs which in turn helps you to be psychologically better placed to handle performance setbacks.

For those who can understand that most super is invested in growth assets like shares and property, whose value can go up and down, will be less likely to panic when investment markets fall.

The recent investment setbacks should prompt everyone to take a closer look at how their money is invested. Going through your investment structure with your financial advisor is important so as to understand exactly what your super is invested in and, if necessary, make adjustments if the strategy isn't suitable.

Try to remember that when sharemarkets eventually bottom, the bounce back is likely to be very substantial and very sharp. If you aren't in the market you could miss out largely when the sharemarket eventually recovers.



Paul Wright,
Director
IPS Home Loans



How will unemployment affect the property market?

Yes, unemployment will rise in 2009 and 2010 but it will have varying affects on different sectors of the property market.

To gain a clear understanding there are four points you need to consider.

1. According to research done by Prof. Bill Mitchell at Newcastle University, levels of unemployment will vary significantly from suburb to suburb. For example, Fairfield in Sydney currently has an unemployment rate of over 15%, three times the national average while Bondi has a rate of only 3.7%. The research clearly shows some areas will feel the brunt of unemployment and as a result the property markets in these areas will be affected.
2. Different industry sectors will be affected in different ways. The mining and manufacturing industries will be hit hard and areas that have an economy underpinned by these workforces are more likely to fall in value. Health, education and public service industries on the other hand will have a low risk of rising unemployment and workers in these fields have more certainty around their income.
3. Unemployment has come off a historically low base hitting a low point of 3.9% in early 2008. Most economists predict unemployment will grow from its current level of 5.2% to around 7% to 8%. In 2001, the start of the last property boom the unemployment rate peaked at 7.1%.

4. Rising unemployment will continue to put downward pressure on interest rates continuing to make property more affordable.

Although it is terrible for people who are unemployed, the reality is if 7% to 8% of the population is not working then over 90% of our population is, and nothing changes except interest rates are cheaper, petrol is cheaper and their level of disposable income is significantly boosted.

Source - Property Planning Australia - Mark Armstrong



Property market update

BIS Shrapnel, Australia's leading provider of industry research, analysis and forecasting services, have just released their latest residential property forecasts and predict that property prices are looking up.

Sydney, Melbourne and Adelaide median property prices are predicted to rise by 19% over the next 3 year period, while Canberra and Brisbane are not far behind on 17% and 16%, respectively, Hobart 15%, Perth 12% and Darwin 11%.

While some investors might get excited by the prospects of capital growth, BIS Shrapnel point out that the recovery will be slow at first (with unemployment peaking in 2010/11) and then

prices moving into double digit growth around 2011/12.

The NSW Government recently announced it would provide a 50% discount on stamp duty for all new properties purchased in NSW up to a value of \$600K. Contracts must be entered into between 1 July and 31 December 2009 for newly built properties, and for off-plan purchasers the building must be completed by 31 December 2011. Current stamp duty on a \$600K purchase would be \$22,490 which will be cut in half to \$11, 245 under the scheme.

This is a very welcome initiative that will help incentivise both home buyers and investors back into the market.

What next for self-funded retirees?

Self-funded retirees who are invested in the sharemarket have arguably been the hardest hit by the global financial crisis.

Many may now be wondering if they should move their account-based pension into a more conservative investment portfolio, which contains less growth assets such as shares and property.

Here we outline some strategies you could discuss with your financial adviser to help you weather the storm.

What is an account-based pension?

An account-based pension enables you to invest your superannuation savings and receive a tax-effective income to help meet your living expenses.

By law, you must draw a minimum income from the pension. This is calculated as

a percentage of your account balance based on your age at 1 July each year.

Most people elect to receive the minimum payment, but it is possible to draw a larger income depending on your needs.

What other options do retirees have?

It's understandable if you are concerned about the impact the global financial crisis is having on your retirement savings.

There are, however, other strategies you could consider discussing with your financial planner that could help improve your long-term prospects. For example, you may now be eligible for greater Centrelink benefits because of the reduction in the value of your assets. As a result, you could consider reducing the income payments you receive from your account-based pension if you are currently drawing more than the minimum.

Alternatively, if you are already receiving the minimum income, you could spend

less and save the difference, in a unit trust for example.

Both these strategies can leave more of your money in the sharemarket to participate in the eventual recovery. You may also be able to contribute more into super and build up your retirement savings.

Paul Plummer is the best person to help work through your personal circumstances and determine which strategies may be right for you.



The winners from the federal budget

We take a closer look at how the budget will affect you. Are you a winner?

Retirees - Pensioners are the budget's biggest winners. They pocket an extra \$32.49 per week for singles, while couples will get a \$10.14 a week increase.

Infrastructure - \$22 billion will be spent on major road and rail projects.

Unemployed - \$1.5 billion on jobs and training to help the jobless become employed.

Tax Cuts - already on the cards will go ahead from 1 July. The tax savings will range from almost \$3 per week on a salary of \$30,000 up to a weekly saving of \$10.58 for someone earning \$100,000 a year.

New Parents - 18 weeks of government-paid parental leave for those earning less than \$150,000 from the start of 2011.

First Home Buyers - First home owners grant boost to be extended for another six months, but at a reduced rate after three months. From October until December this year the grant will be reduced from \$14,000 to \$10,500 for established homes, and from \$21,000 to \$14,000 for newly built homes.

Carers - will receive a \$600-a-year supplement, per person under care.

Small Businesses - will get a \$2.7bn temporary tax break.

Environmentalists - will support the \$4.5bn clean energy initiative.



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