



SMITH COFFEY

# VANTAGE Points

Quarterly Financial  
Commentary  
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## SUPERANNUATION - The Golden Age

The Golden Age of Motoring was, depending upon who you converse with, the 1930s or the 1950s.

This stunning Ferrari 275 GTB/4 Berlinetta, is actually from the early 60s, but exemplifies the spirit of the Golden Age. A brilliant package of performance, handling, excitement and exceptional looks.

Unfortunately, the Golden Age of motoring has passed and will not return. A combination of traffic volumes, computer design, robotic construction and emission controls ensures a sameness and practicality in the vehicles of today.

Although of little solace for the car enthusiast, a number of recent changes may well herald the start of a new golden age of Superannuation. Important changes are as follows:

- Limited choice superannuation options of yesteryear have been replaced by individually tailored solutions, which respond to individual requirements. **The Smith Coffey PPS Link solution enables us to provide a state of the art service for Self Managed Superannuation Funds** in the accumulation phase and also in

the pension phase. For funds in the latter phase all administration is covered, including pension payment, PAYG Withholding, BAS reporting and RBL reporting.

- **Superannuation surcharge reduced to zero with effect from 1 July 2005.** It is useful to note that the surcharge has not been abolished, but the rate reduced to zero.
- Superannuation splitting introduced from 1 January, 2006. As indicated in the last issue of Vantage Points, **100% of after tax superannuation contributions may be split to an eligible spouse** enabling two Reasonable Benefit Limits (RBLs) to be accessed.
- **The Health Department of WA announcing the introduction of 100% salary packaging, available immediately.** It is important to understand that the maximum deductible limit (MDC) on superannuation contributions does not apply to Health Department salaries because it is a non tax paying entity.

Continued page 4

# Market Commentary – December Quarter

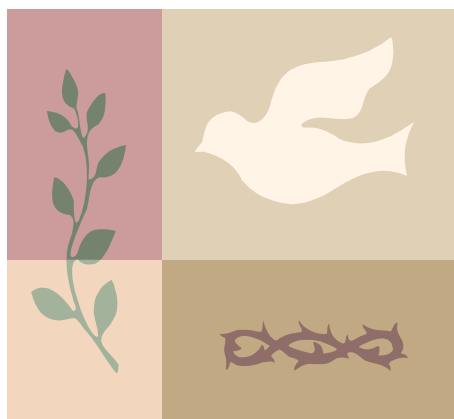
## Global markets

- Yet another quarter of exceptionally high returns for stock market investors around the world despite a sharp drop in October
- Short term interest rate rises continued in the US
- Long term interest rates globally were flat and remained relatively low

## Australian Economy

- Business profits still booming although mostly in resource exposed industries
- Trade performance continues to be terrible
- Interest rates were stable
- The RBA is still watching but the markets do not expect rate rises

Sector	December Quarter 2005	Outlook
Australian Shares	<ul style="list-style-type: none"> <li>• Strong stock prices</li> <li>• Profit growth becoming more narrowly based</li> </ul>	<ul style="list-style-type: none"> <li>• Australian Shares starting to look expensive compared to overseas counterparts after outperforming in recent years</li> </ul>
International Shares	<ul style="list-style-type: none"> <li>• All major markets saw strong price rises, with Asian markets strongest</li> <li>• Falling \$A enhance returns slightly</li> <li>• Overall returns were very strong</li> </ul>	<ul style="list-style-type: none"> <li>• We have increased our generally recommended allocations from relatively low levels</li> </ul>
Listed Property Trusts	<ul style="list-style-type: none"> <li>• Very strong returns</li> </ul>	<ul style="list-style-type: none"> <li>• Neutral outlook</li> </ul>
Fixed Interest & Cash	<ul style="list-style-type: none"> <li>• Bond markets provide moderate returns</li> <li>• US Fed continued to increase short term interest rates</li> <li>• Reserve Bank leaves Australia's rates on hold.</li> </ul>	<ul style="list-style-type: none"> <li>• Long-term fixed interest rates appear unattractive to us</li> <li>• Rates in Australia still preferred to international interest rates</li> <li>• Prefer cash over fixed interest – especially if rates rise</li> </ul>
Alternatives	<ul style="list-style-type: none"> <li>• Continued good performance from recommended funds</li> <li>• Gold bullion price was up strongly.</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain recommendations to reduce risk levels in diversified portfolios.</li> </ul>



**Smith Coffey wish all our clients a Happy, Peaceful and Safe Easter**

# INVESTMENT GEARING STRATEGIES

## Would you like to be IN a market that's going down or OUT of a market that's going up?

- Gearing into direct and managed investments (equities and property) is a compelling investment strategy, provided it is consistent with the investor's risk profile, time horizon and financial circumstances.
- The benefits include:
  1. Leveraging investment returns
  2. Tax advantages associated with tax deductibility of financing and management costs
  3. Franking credits
  4. Tax deferral
  5. Capital gains tax concessions.
- Gearing allows the investor to **achieve capital growth using someone else's money** (the Bank's)
- Investors with high discretionary income, good savings capacity and a positive equity position may find gearing a suitable strategy to accumulate long-term savings.
- Homeowners that have benefited from the recent housing boom may be able to unlock equity in the family home to gear into an investment and further compliment their superannuation and other investments.
- Young professionals who have a high income but little equity in their assets are often well suited to gearing due to the tax deductibility of the loan - consider Smith Coffey's Blue Chip Loan Facility.

### CASE STUDY

- Dr Spock borrows \$500,000, interest only, secured against his home
- Invests in diversified equities portfolio, income yield 4.8%, capital growth 5%
- Portfolio income is reinvested each year, investor pays loan interest and portfolio management costs - net annual cash outflow after tax benefits averages \$37,000 pa
- If sold after 10 years, net investment gain is:

Proceeds of sale	1,260,000
Capital gains tax payable	(94,000)
Repay bank loan	<u>(500,000)</u>
	666,000
Recoup previous cash outflow	<u>(376,000)</u>
<i>Net Investment Gain</i>	<u>\$290,000</u>



### RISK MANAGEMENT

- Consider fixing the interest rate on your loan for a term to guard against unexpected rate increases - currently, 5 year fixed rates are the same as variable rates
- Gearing can be an appropriate strategy for long-term investment - the risk of loss due to market volatility diminishes significantly the longer you hold the investment

### CALL US NOW

- Investment gearing strategies can be very effective for most Smith Coffey clients - we recommend you call to make a time to see your Consultant and review your current financial position and investment objectives
- Consider gearing to enhance your long-term financial security
- Smith Coffey Finance Solutions will tailor a finance package to suit your strategy and security position

# SUPERANNUATION - The Golden Age

(continued from page 1)

In the example which follows we have illustrated the potential benefits arising as a result of the changes to superannuation being accessed.

Practitioner aged over 50 engaged by the Health Department on sessional basis at a remuneration of \$90,000 – package 100% to super	90,000
Practitioner is also employed by their private practice Medical Company which pays the maximum deductible employee contribution.	100,587
Spouse also aged over 50 and employed in the practice on a part-time basis – maximum deductible employee contribution	100,587
<b>Total superannuation contributions</b>	<b>\$ 291,174</b>
Tax payable on superannuation contributions ( 15% )	43,676
Tax payable on the above amount at the marginal rate usually applicable to the Practitioner ( 48.5% )	141,220
<b>Tax saved by contributing to superannuation</b>	<b>\$ 97,544</b>

In summary, **nearly \$300,000 of income is taxed at only 15%, resulting in a saving in tax payments of almost \$100,000.** Not a brilliant package of performance, handling, excitement and exceptional looks, but almost a new golden age!

As usual there are pitfalls and traps for the unwary, including:

- For a spouse aged between 55 and 65, certain conditions must be fulfilled before superannuation splitting becomes available.

- Similarly, before paying \$100,587 in superannuation for an employed spouse the required employment conditions must also be met.
- Large superannuation contributions by a Trust employer cannot be included in a management fee and billed to the practice.
- Questions may need to be answered about RBL implications of a regime of large contributions.

**If you are an employed hospital practitioner, contributions must be made through salary packaging. To maximize your benefits this tax year, you will need to see us soon.**

**Speak to your Consultant to understand the benefits available to you!**

## Winners of the 2006 PIAF Competition



The Winners of the double passes to the opening nights of three of the Perth International Arts Festival events are:

- Dr Tim Inglis
- Dr Ponniah Janaganathan
- Dr Paul Czajko

Congratulations to the winners and thank you to all the clients who submitted entries to the competition.

**For all enquiries call (08) 9388 2833**



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