



SMITH COFFEY

VANTAGE Points

Quarterly Financial
Commentary
Spring 2006

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APPOINTMENT OF NEW PARTNERS

Mark Kynaston

Mark has over 11 years experience in the tax and accounting industry.

He has a Bachelor of Commerce degree from Curtin University, majoring in Accounting and Business Law and is a Certified Practising Accountant.

Mark also holds a Graduate Diploma of Financial Planning with the Securities Institute of Australia and is a Certified Financial Planner.

Mark commenced with Smith Coffey in January 2001 after working in the business services division for BDO. He specializes in strategic advice in the areas of taxation, superannuation, investment and insurance.

Away from work, Mark is a player committee member of the Trinity Aquinas Amateur Football Club and also enjoys surfing and spending time with family and friends. Mark's wife Shannon is expecting their first child in September.

Graham Forrest

Graham has over 10 year's experience in the tax and accounting industry.

He has a Bachelor of Commerce from Curtin University, Western Australia and is a Professional National Accountant and Fellow of the Taxation Institute of Australia.

Graham is also a Certified Financial Planner, with a Graduate Diploma in Financial Planning from the Securities Institute of Australia.

Graham first commenced with

Smith Coffey in May 1994 before a stint with Deloitte and returned to Smith Coffey in 2000. One of our Client Service Managers, Graham is a tax and accounting consultant specialising in taxation, asset structures and practice management advice.

A devoted family man, Graham enjoys nothing more than going for a bike ride with his wife Leonie and son Tim, where they are often seen belting around the river on a tandem bike.



AMA (WA) CLINICAL CONFERENCE - SHANGHAI OCTOBER 2006

See you there!

Two Smith Coffey partners, Scott Edwards and Graham Forrest, will be presenting at the inaugural AMA Clinical Conference in Shanghai.



Their topics will be:

- **How much do I need to retire?**
- **What do I do at practice level to achieve these goals?**

Market Commentary – June Half

Global Markets Analysis

- Global investment market returns were subdued over the half year to June, largely due to a sharp pullback in May and June. The Australian market followed the same pattern, but due to the higher content of booming resource stocks, it provided yet another strong performance over the period.
- Weaker Australian Dollar (mainly versus Europe) to June helped boost overseas investment returns.
- Short term interest rates continued to rise in the USA.
- Long term interest rates started to rise from low levels.
- Whilst the sharemarket pullback trimmed returns late in the period, portfolio investors generally enjoyed strong returns.

Australian Economy

- Company Profits remain at high levels.
- RBA increased short term interest rates by 0.25% (and a further 0.25% in August).
- Tale of Two (groups of) Cities-Resource based states and their property markets boomed, whilst South East Australia languished. House price inflation in Perth took median house prices above Melbourne's-not long after an OECD study ranked Australian housing as the most overvalued in the developed world.

Sector	June Half 2006	Outlook
Australian Shares	<ul style="list-style-type: none"> • Strong stock prices 	<ul style="list-style-type: none"> • Prices reasonable if companies can maintain current high levels of profitability
International Shares	<ul style="list-style-type: none"> • Modest gains 	<ul style="list-style-type: none"> • Prices reasonable if companies can maintain generally high levels of profitability
Listed Property Trusts	<ul style="list-style-type: none"> • Good returns with less volatility than stocks 	<ul style="list-style-type: none"> • Prices reasonable to slightly expensive
Fixed Interest & Cash	<ul style="list-style-type: none"> • Rising interest rates saw weak positive returns from bonds and rising returns from cash. 	<ul style="list-style-type: none"> • Cash more attractive than fixed interest
Alternatives	<ul style="list-style-type: none"> • Mixed returns from hedge funds (weak on average) and extremely strong gold bullion prices 	<ul style="list-style-type: none"> • A number of good opportunities exist

INTERESTING TIMES WITH INTEREST RATES



The Facts

- The Reserve Bank of Australia ("RBA") adjusts cash interest rates (i.e. variable rates) in an attempt to keep price inflation within a targeted range
- Since the early 1990's, this target range is the RBA's key mandate above all else
- To try to keep price inflation below its upper target limit of 3%, the RBA increased the cash rate by 0.25% in August, following a 0.25% increase in May
- Variable mortgage rates are essentially determined with reference to this rate and hence tend to move in step with it.
- If a borrower knew that rates would rise significantly in the future, they would generally benefit by locking in or fixing their interest rate
- However, despite significant resources and effort being spent on forecasting interest rates, economists have a poor track record, getting it wrong more often than not
- The current forecast consensus is that interest rates will rise again - however only 12 months ago few economists were forecasting any rises
- Theory and experience both support the view that on average over a period of time, fixed rates will be a little higher than their corresponding variable rates



What Should You Do?

- Smith Coffey takes in many inputs which have views on interest rates and at any time we will almost certainly see conflicting views
- Smith Coffey believes that forecasting interest rates is at best a low confidence exercise and at worst can magnify risks
- We characterise the interest rate environment in terms of risks versus potential payoffs
- We believe the appropriate borrowing structure is about managing risks. Paying a bit extra for fixed rates can be seen as buying insurance.
- Most importantly, we believe that the appropriate structure depends mainly on an analysis of your individual situation
- Fixed or variable - or a combination of both - can be the right answer depending on the risks a borrower faces and their ability to cope with those risks

If you would like an opinion on whether your finance is optimal, call **Kevin Townsend of Smith Coffey Finance Solutions Pty Ltd on 9388 2833**

OFFICE REFURBISHMENT



Stage 1-Almost Complete

Refurbishment of the third floor, which is Stage 1 of a 3 year project is almost complete. Gone are the "green sponged" walls, to be replaced by warm, soothing colours, such as "Orkney", "Kanga" and "Broken Hill". We have updated our furniture as well, to reflect the vibrant, young and motivated group that we are. We hope our clients will enjoy the new ambience.

SUPERANNUATION UPDATE



Proposed changes to superannuation will ultimately reduce the limit for personal contributions to superannuation if you are under age 50 on 1 July 2007, as the limit will include employer contributions.

If you are a hospital doctor or self employed with hospital income, there is a significant opportunity this year to generate additional superannuation and taxation savings.

But you must act now.

If you have not already reviewed this opportunity with your Smith Coffey Consultant, please call for an appointment to do so.

MERCEDES - BENZ E CLASS - FACELIFT



Facelift for a top performer the new-generation E-Class.

Four years after the market launch of the Saloon and three years after the debut of the Estate the 2007 E-Class model range is to receive an extensive facelift. These model enhancement measures will further improve dynamic design, agility, safety and reliability. The new-generation E-Class will make its mark in the executive car segment thanks to a host of new features:

- A far more pronounced, more dynamic exterior design, especially when viewed from the front
- Safety features that have been optimised and enhanced with the standard-fit PRE-SAFE®
- An extensive range of high-performance, extremely agile, latest-generation petrol and diesel engines including, for the first time in the E-Class line-up, the 5.5 V8 producing 285Kw and the amazing E 63 AMG
- The DIRECT CONTROL package providing improved handling dynamics
- Enhanced interior comfort and quality thanks to luxury head restraints (optional), new interior designs for the CLASSIC and AVANTGARDE lines

In short, the new-generation E-Class range has exactly what it takes to maintain its leading status in this category.

DL 17663



Mercedes-Benz

FOR MORE INFORMATION CONTACT YOUR AUTHORISED MERCEDES - BENZ DEALERSHIPS
DIESEL MOTORS 1093 Albany Highway, Bentley 9351 3888 www.dieselmotors.com.au
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