

Winter Edition

As the end of another eventful financial year draws to a conclusion, at HPH, an increasing number of clients are approaching us seeking advice about their end of tax year options. If you have specific needs at this time of year, now is the time for action !

Thank you to everyone that joined us for our Double Feature event with Dr Chris Caton, followed by the movie "Miss Pettigrew Lives for a Day". There were around 150 in attendance on the night and we certainly appreciate all the positive feedback we've been getting. We look forward to letting you know about the next event !

At HPH it is important to us to maintain correct contact details for you, so please let us know should your address, phone or email details change.

We hope you enjoy this edition. Please contact us if you have any feedback or would like to know more about any of the topics.

Cheers, Rob, Adam and the HPH Team

Small steps today can take years off your mortgage

For many Australians, mortgage repayments are a big (and getting bigger!) part of the family budget.

But with just a few focused strategies, you can potentially save thousands of dollars and make a huge difference to the timeframe of your loan:

- **make more repayments** – definitely easier said than done. But even small amounts will add up over the long run.
- **switch to fortnightly repayments** – rather than making 12 monthly deposits, make 26 fortnightly ones. You'll effectively make the equivalent of 13 monthly repayments.

- **take out a 100 per cent offset account** – any earnings deposited to your account will be treated as a deduction from the principal when interest is calculated, reducing the interest accruing.
- **consider a line of credit** – channel additional funds directly into your home loan, reducing the principal and the interest charged. A credit card with an interest-free period can be used to meet monthly expenses, which are then repaid from the line of credit at the end of the month. But take care – discipline and a high degree of organisation are essential for this kind of product.

For more information on reducing your debt, speak with your financial adviser.



The HPH Hotline Newsletter Make an Informed Choice

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Up, down and up again – a tale of time and stock market investments

Right now, investment markets are front-page news. And, if the daily headlines are to be believed, you'd think the bottom had fallen out of the stock market.

The truth is that over the past year markets have experienced a significant rise in volatility. This is the extent of movement, both up and down, in share prices. But volatility is hardly a new thing for stock markets. As anyone with a broad knowledge of sharemarket history knows, changes in stock prices, both positive and negative, are a necessary part of market activity.

The secret to successful investing is to understand the context of price movements, learn the lessons of history and, as difficult as it is, make calm and rational investment decisions rather than those based on emotional headlines.

Context is king!

Looking back at the history of stock markets, one thing we know is that on average, over long periods of time, shares have out-performed cash and fixed interest investments by around 5 to 7 per cent annually.

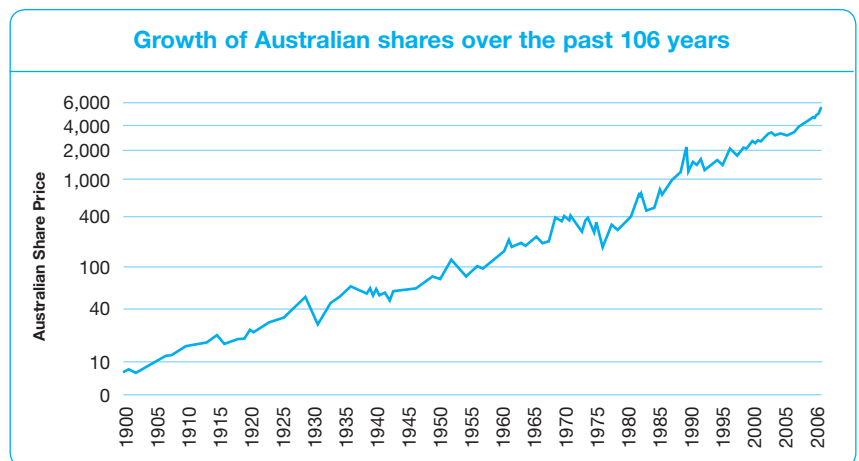
This is despite periods of intense volatility. Some of the most famous periods of market volatility are briefly covered below:

Tulipmania (1634 – 1637)

- Before the sharemarket we know today, people traded commodities such as flowers. In Holland during the 17th century, the price of tulip bulbs catapulted to a ridiculous level.
- At the height of the market, a person could trade a single tulip bulb for a house alongside Amsterdam's finest canal. But when doubts about the true value of tulips emerged the market plummeted to the point where, at the bottom, one tulip was the price of a common onion.

South Sea Bubble (1711 – 1720)

- Stocks in the South Sea Company were traded for up to £1,000. But when profits for the company failed to live up to expectations, management sold its stake. The news spread like wildfire and prices fell quickly. Even one of the world's greatest minds, Sir Isaac Newton, fell victim to this market mania.



The Great Crash (21 – 29 October 1929)

- From all-time highs in September 1929 the market spiralled downwards. Stocks that were initially seen as a sure thing saw their value evaporate. The Great Crash started the Great Depression and the market continued to decline. By July 1932 it bottomed out, losing nearly 90 per cent from its 1929 highs.

Black Monday (19 October 1987)

- The market fell 22.6 per cent in one day – \$500 billion was lost. This was the largest one-day percentage drop in history. Over a period of weeks it had fallen by more than 50 per cent. Prior to Black Monday, markets had risen strongly and people blindly believed it would only go higher. But when the reality started to set in, there was an avalanche of selling.

Doomsday for dotcoms (March 2000 – October 2002)

- During the period the NASDAQ Composite lost 78 per cent of its value as it fell from 5046.86 to 1114.11.
- Like the Tulipmania that preceded it, investors had clambered to be a part of the 'new economy', with little regard for investment fundamentals. When investors woke up from the dotcom dream, many had lost their fortune.

What is important to remember is that, despite periods of volatility, over the long term stock markets will generally deliver excellent positive investment returns that outperform other asset classes, such as property, cash or fixed interest.

The graph above shows the trajectory of the Australian Stock Exchange over 106 years, from 1900 to 2006.¹ Despite some obvious bumps in the road, it's a tale of up, down and up again.

Two simple investing rules: stay long and be diverse

While volatility is an unavoidable part of stock markets, there is no denying that it can cause some emotional discomfort for investors. Fortunately, there are two broad rules that can help mitigate the effects of sharemarket volatility:

- Don't put all your eggs in one basket – the investment term for this is diversification. It's a simple theory that, by spreading investments over several different types of assets, aims to avoid a dramatic impact if one type experiences a fall.
- Forget 'timing' the market. It's time in the market that matters – attempting to pick stock price 'tops' and 'bottoms' and to make timely investment switches is a difficult exercise. Investing for the long term using a regular savings and investment plan, can help you achieve healthy market-linked growth.

To help you plan a diverse, long-term investment portfolio that can ride out market volatility and deliver market-linked growth returns, speak with your financial adviser.

¹ Getting started in shares, Australian Securities Exchange (2007), p.5.

10 tax tips for a better bottom line

With the end of the 2007 financial year fast approaching, now's the time to examine your financial situation and ensure that your finances are as tax-effective as possible.

Here are 10 tips that can potentially boost your financial bottom line.

1 Salary sacrifice

Salary sacrifice can be a great way to boost your superannuation and effectively pay less tax.

The big incentive for salary sacrifice is the tax savings that result from putting pre-tax salary into superannuation rather than having it taxed at your marginal tax rate. Note that salary sacrifice may not be beneficial in all cases and your employer must agree to make the contributions on your behalf.

2 Losses to offset capital gains

Tax is normally payable on any capital gains made throughout the year.

To lessen this obligation it may be possible to realise investment losses on non-performing assets.

Note that capital losses from previous years can also be carried forward. Likewise, any capital losses incurred in the 2007/2008 financial year can be carried forward.

3 Move assets into a lower tax rate ownership

This strategy involves changing the ownership of certain assets from a higher income tax name to a lower income tax name. For example, if a husband works part time and his wife earns a higher wage from full-time employment, it may be tax-effective for certain assets to be in the husband's name.

However, be aware that putting this strategy into action can trigger capital gains tax and other transactional costs.

4 Make contributions into your superannuation fund

Whether you contribute pre-tax (concessional) or post-tax (non-concessional) contributions, putting money into superannuation can be very tax effective. This is because earnings on superannuation assets are taxed at a concessional rate (up to 15 per cent), compared to earnings on your personal investments, which are taxed at your marginal tax rate.

• Pre-tax (concessional) contributions

If you are under 50, you can now make contributions of up to \$50,000 in the financial year. If you are over 50, you have until 30 June 2012 to use the higher annual limit of \$100,000 each year. Generally, provided your marginal tax rate is higher than 15 per cent, there is a benefit in making a pre-tax (concessional) contribution.

• Post-tax (non-concessional) contribution

A limit of \$150,000 each financial year applies to these contributions. However, this amount can be averaged over a three-year period to allow for a larger one-off contribution of up to \$450,000 if you are under 65.

5 Contribute to your spouse's superannuation

You can claim an 18 per cent tax offset on superannuation contributions of up to \$3,000 made on behalf of a low-income or non-working spouse. The maximum offset allowed is \$540. To be eligible for the full tax offset, your spouse's income must not be more than \$10,800 in the financial year.

Note that a reduced tax offset is also available if your spouse's income is less than \$13,800 in the financial year.

6 Government co-contributions

Depending on your income, you may be eligible for a \$1,500 superannuation co-contribution from the Federal Government. The scheme matches eligible personal superannuation contributions by \$1.50 for each \$1 made by an individual and the maximum co-contribution is \$1,500.

To be eligible for the maximum co-contribution, your total income* must be less than \$28,980. The maximum co-contribution is reduced by five cents for every dollar of income above \$28,980. This means that eligibility for the co-contribution cuts out if your total income* is more than \$58,980 in the 2007/08 financial year.

7 Pension Bonus Scheme

The Pension Bonus Scheme (PBS) is available for people who reach Age Pension age but continue to be employed. Under this scheme, you may be entitled to receive a one-off bonus payment, which is paid as a tax-free lump sum.

To receive the payment, you must register for the scheme when you reach Age Pension age, delay retirement and continue working for at least 12 months.



8 Income protection insurance

Income protection insurance can be an important part of securing your financial future. It provides a replacement of up to 75 per cent of your salary if you are unable to work due to sickness or an accident.

The tax benefit comes because the insurance premium is tax deductible, potentially reducing its cost. And you now have cover for one of your greatest assets – your ability to earn an income.

9 Life insurance

Normally the cost of personal life insurance premiums is not tax deductible. However, if this insurance is held within your superannuation fund, the premium is paid by the fund. This can effectively make the cost more tax effective, as well as providing peace of mind.

10 Imputation credits

This is an important tax benefit that comes from investing in the Australian stock market. When Australian companies pay dividends to their shareholders, they will often have already paid company tax on the profits that are being distributed.

Because the company has already paid some tax, an imputation credit will be attached to the dividend. Shareholders then claim an imputation credit for the amount of tax paid by the company. And if you pay no tax already, the imputation credit is returned to you as a tax refund by the Australian Taxation Office when you lodge your tax return.

Contact us to find out how you can invest in a more tax-effective way.

* Total income = assessable income plus reportable fringe benefits less certain business deductions.

Business succession planning

Without a business succession plan, the death or disablement of a business partner could be catastrophic. However, many small businesses fail to address succession planning believing that such a catastrophe will not happen; considering the process too long or too expensive; or putting succession planning off until things 'quieten down'.

Case study

The following case study illustrates how things can go wrong without a business succession plan.

Gary, aged 45, and Richard, aged 52, are directors and equal shareholders in a consulting engineering firm with an estimated net market value of \$3.6m.

Tragically, Richard dies leaving behind his wife, Alice, and two young children. Other than the family home, his interest in the business was his main asset, which passes to Alice under his will.

Prior to death, the business had relied heavily on his involvement. As a result of his departure, significantly less revenue will be generated. Gary knows he should employ someone to replace Richard but is concerned about cash flow.

Richard and Gary provided personal guarantees of \$600,000 to cover the debts of the business. Under the terms of the loan agreement, the outstanding debt is immediately repayable following Richard's death. Gary has managed to refinance the debt, albeit, at a higher interest rate. This is fortunate for Alice as Richard's estate would have been jointly and severally liable due to the personal guarantee he provided.

Alice needs cash urgently as she is having difficulty meeting living expenses without Richard's salary. Alice and Gary previously had a good relationship but this has deteriorated following ongoing disagreements over the amount she will receive for Richard's share of the business.

In addition to the pressure of managing the company without Richard, Gary realises he is now in business with Alice, as she now controls 50 per cent of the company – a situation likely to result in further conflict.

The above scenario could have been avoided by appropriate planning. Let us assume that Richard and Gary had consulted a financial adviser who had recommended the following:

- key-person insurance; and
- an insurance funded buy/sell agreement.

Key person insurance

The cost of replacing Gary or Richard in the business, together with the expected loss of profits as a result of the disruption to the business, was estimated at \$500,000. Gary and Richard also intended to protect their families from any liability due to the personal guarantees each of them had provided for the business debts (currently \$600,000).

Accordingly, Gary and Richard were advised to take out key-person insurance for \$1.1m over each of their lives. This would provide a lump-sum benefit to the business in the event of the death or disablement of either Richard or Gary as key persons.

In the above case study, key-person insurance would have allowed Gary to employ someone appropriately qualified to replace Richard. It would also have cleared the business debts and replaced the short-term loss in revenue as a result of Richard's departure from the business.

Buy/sell agreement

A buy/sell agreement is an arrangement for the transfer of a deceased or disabled owner's interest in the business to the remaining owners. This ensures that the departing owner (or their family or estate) receives fair market value for their interest in the business. It also ensures the remaining owners have exclusive ownership and control of the business.

Insurance is commonly used to fund the purchase of the business interest under a buy/sell agreement. This is because

an insurance funded buy/sell agreement avoids the need for the remaining owners to finance the purchase of the business using additional debt or using other resources.

Following advice from their financial planner, Gary and Richard entered into a buy/sell agreement funded by insurance policies covering death, disablement and trauma.

In the above case study, pursuant to the buy/sell agreement, Richard's 50 per cent shareholding in the business would be transferred to Gary following his death. Alice would receive \$1.8m which was the amount of the insurance policy taken out to fund Richard's side of the buy/sell agreement. In essence, the buy/sell agreement would have ensured Alice and Gary received what they needed at the time of Richard's death.

Implementing a business succession plan

The first step involves talking to your financial adviser who will often need to work closely with your solicitor and accountant. While your solicitor will be involved in drafting the buy/sell agreement and updating your wills, your accountant will typically be involved in determining the financial impact of the loss of a key person and the price to be paid under the buy/sell agreement. In addition to helping you through the entire process, your financial adviser can help you identify the most appropriate key-person insurance and help to arrange the buy/sell agreement.

