

The Key

Issue 20 of the latest market insight
from Financial Services Partners



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Market Commentary

Should insurance be compulsory?

Super is compulsory for most of us - should insurance be compulsory too?

Over the last month there has been some debate in the media following the government's recommendation that superannuation providers need to do more to ensure their members understand the insurance they provide.

The government has raised this issue because – while compulsory super usually includes an insurance component - some super providers allow their members to 'opt-out'. This means that unless members elect to cancel their cover, they automatically receive it (and of course, are charged an insurance premium).

Some members of superannuation funds complain that they didn't know they had insurance cover, what it was for, what they were paying, or what it means to them.

So what insurance is available in super?

The range of personal insurances available can seem very confusing.

Total and Permanent Disability Insurance (TPD) provides a lump sum payment if you become totally and permanently disabled. Depending on your policy, you may be covered if you can't work again in 'any occupation', or in your 'own occupation' (this means your usual occupation or chosen field of employment).

Income protection insurance replaces a portion of your income for an agreed period – after a 'waiting period' - if you are unable to work due to injury or sickness.

Trauma (or critical illness) insurance provides a lump sum benefit if you are diagnosed with a specified illness or injury. This type of cover usually

pays out if you suffer a major illness or injury such as specified cancers, or a stroke. The number of conditions covered can vary, so it is important you understand what your insurance covers.

Term life insurance pays a lump sum upon death of the person insured. This is especially important if you have dependants; it can provide your family with funds to repay debt and maintain their lifestyle.

Underinsurance – it's a big issue

According to a recent study by the large insurance company CommInsure, 67% of working Australians have either no income protection insurance or they have income protection cover for up to two years as a part of their superannuation.

The study also found that 2 out of every 3 Australians aged between 24 and 49 would rely on government welfare if the unexpected occurred. More than half also said they would turn to their family for help. Yet many people in this age bracket have families, mortgages and children.

A single person on a disability pension is entitled to a maximum of just \$273.40 week. We expect that - regardless of where you live - this really isn't much to live on.

Many in the industry aren't offering personal solutions

Many superannuation funds including industry funds may say that information about insurance is on their website or in their Product Disclosure Statement (PDS). Often though, this information is lengthy, confusing and hard to translate into your own situation.

Superannuation funds are not required to give you a 'Statement of Advice'. They don't have to



take the time to consider your situation, needs or circumstances. The outcome is that you could be left with inadequate cover should the unexpected occur, while paying for insurance cover that doesn't meet your needs.

So is it a question of responsibility if you're the income earner?

At Financial Services Partners, we believe it's your responsibility to identify your insurance needs; and the needs of your family, if appropriate. By seeking advice you'll ensure you understand the cover you already have (if any) and match your cover to your needs.

And unlike others, we don't believe it is right to provide you with anything other than advice that suits your needs.

Consumers should be aware that there are others in the market place that will continue to sell insurance through superannuation, without giving you personal advice.

At Financial Services Partners we're proud to be different

We will provide you with the facts. We will assess your situation. We will work with you to help you realise a brighter future. And should the unexpected occur, we'll be there beside you to help you through the claims process.

Our campaign to make a difference starts in July and we feel it is important to make it part of our ongoing business rather than just being a one-off special event. We're encouraging all of our clients to review their insurance, especially if it is in a superannuation fund where they've automatically received cover.

Tell a friend

We're also asking our clients to tell their family, friends and colleagues about this issue and to seek personal advice. By doing this, they won't be under prepared or taken by surprise should the unexpected occur.

TIDS AND TADS

Tax cuts

Most taxpayers are set to benefit from tax cuts flowing from proposed changes to income tax thresholds that took effect from 1 July 2008. The threshold at which the 30 per cent marginal rate begins to apply was increased from:

- \$30,001 to \$34,001 on 1 July 2008

Education tax refund

Parents will be able to claim a 50% tax refund on eligible education expenses (but not school fees) for their children after 1 July 2008. The refund will be a maximum of \$375 for a primary school child and \$750 for a secondary school child. Make sure you hold on to all your education expense receipts.

Increase in Medicare levy surcharge thresholds

The Medicare levy surcharge applies to certain people who are not covered by private health insurance. Currently, a surcharge of 1% is payable on top of the 1.5% Medicare levy if your taxable income and reportable fringe benefits exceed \$50,000 for singles or \$100,000 for families.

However, for the first time since the surcharge was introduced on 1 July 1997, the thresholds increased on 1 July 2008 to:

- \$100,000 for singles
- \$150,000 for families.

Child care benefits

On 1 July 2008 the Baby bonus increased to \$5,000. The Government will also increase the Child Care Tax Rebate from 30% to 50%.



Merry Makers appear on Enough Rope

We're delighted to let you know that our charity, Merry Makers Australia was recently featured on Enough Rope ABC1. Andrew Denton presented a cut version their multi-award winning documentary, 'The Music in Me'. This inspiring story follows the Merry Makers as they prepare for the performance of a lifetime, alongside Marcia Hines, Todd McKenney and John Paul Young.

Due to the overwhelming response, the full length version of this multi-award winning documentary film plus

additional never-before-seen footage will be available on DVD through ABC Stores in October. So please keep an eye out for it.

To find out more about the Merry Makers, visit www.fspartners.net.au and click on Who we are, then Our Community or visit www.merrymakers.com.au.





Like the seasons, markets change.

Although markets may drop, we know that quality assets – whether property or shares – will eventually recover. In times of market volatility or weakness many people may be tempted to move their money out of the share market – however it is important to remember that peaks and troughs are an integral part of investing. If you move out of the market in the downtimes, there is a chance that you won't be there when the market rises again.

Throughout any market cycle, those who remain dedicated to their long-term strategy are most likely to reap the benefits.

Markets move – up and down

The best approach to investing is to be comfortable with market volatility. You need to have a strategy in position and you need to stick with it. It is important

not to panic - exiting the market when it's down could see you losing some of your longer-term returns.

If you look back to the past performance of the Australian share market you can see how it moves. This enables us to see the market's ups and downs into a realistic perspective. Past performance indicates that the share market always recovers.

It's all about time in the market

Because of the short-term unpredictability of the sharemarket, it is a good idea to have a long term strategy to capture its full benefit. Having *time in* the market allows you to ride out market fluctuations – remember, be patient!

Diversification can help

One way to manage risk is to diversify your portfolio. Placing investments across a range of assets can help minimise the impact of market movements.

Diversifying prevents the value of your portfolio from being dependent on the performance of a single asset type. If one investment falls it may be compensated by the increase of another.

So, where to from here?

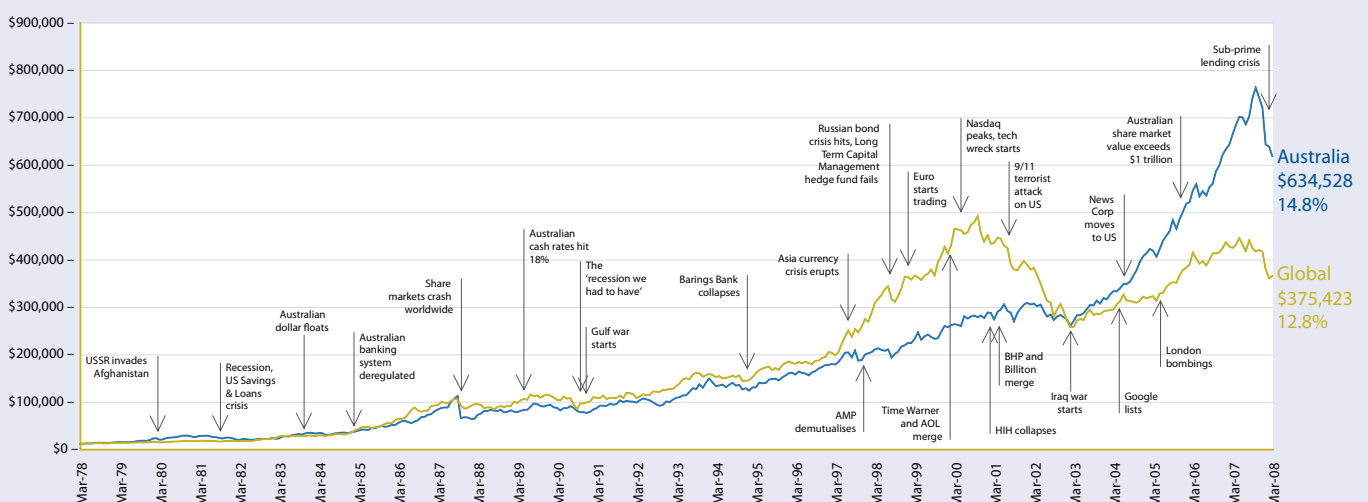
Sometimes it's hot....and sometimes it's not. It's important to keep your cool and stick to the strategy your financial adviser has put in place. You may find now is a good time to invest. While the market is down you may be able to purchase more for your money – meaning you will benefit when the market rises again.

If you are looking to invest, talk to your Financial Services Partners adviser.

You can never get enough good advice during volatility. Equipping yourself with the facts and strategies that are right for you will help you make the most of your opportunities.

Talk to a Financial Services Partners Adviser.

Australian and global shares (shows \$10,000 growth over the past 30 years)



Source: Fidelity International, 30 years in Australian and Global shares, March 2008

Important information: FIL Investment Management (Australia) Limited, ABN 34 006 773 575, AFSL No. 237865

Source: Mercer, RIMES. All returns are shown in AUD terms (assuming currency exposure is unhedged) and assume dividends are reinvested. Returns are average annual returns over the periods shown. Indices used are: Australian shares: S&P/ASX 200 (All Ords before 1/4/2000), Global shares: MSCI World. Past performance is not a reliable indicator of future performance. Index performance does not take account of management costs, operational and transactional costs or tax. Index performance does not reflect the performance of any individual portfolio of stocks. This chart is intended as a general information only and does not constitute a recommendation. This chart may not be reproduced or transmitted without the prior written permission of Fidelity Australia. Fidelity makes no guarantee, representation or warranty and accepts no responsibility or liability as to the accuracy or completeness of any information in this chart. The information in this chart is derived from sources Fidelity reasonably believes to be reliable but which have not been independently verified. Fidelity International is a registered trademark licensed to various companies in the FIL Limited group. © 2008 FIL Investment Management (Australia) Limited

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Market Commentary

Australian shares

June was not a good month for Australian shares. The S&P/ASX 300 Accumulation index fell 7.6% to be down 13.7% for the financial year. In price terms it was the worst June since 1940. Driving the market lower were the impact of high interest rates, bad news from the United States and rising petrol prices.

Higher interest rates are making an impression. Consumer spending is slowing and that spells trouble for companies who sell non-essential or discretionary consumer items or services. It also adds costs to companies with debt. Higher fuel costs are hurting both consumers and businesses. Either way, company earnings are under pressure and share prices have fallen.

Everyone will get a clearer picture during the profit reporting season, which is not until August. The market is expecting companies to announce profit downgrades and in some cases, cuts to dividends. Transurban was the highest profile company to cut its dividends and saw its share price tumble 25.7% in the month.

While petrol prices are hurting consumers, some sectors are positive. The energy sector (+1.6%) was the only sector to see positive returns in June. Santos rose 1.8% in the month; Woodside Petroleum was up 3.9% while Oil Search rose 10.8%. The energy sector rose 41.7% over 2007-08 with Woodside Petroleum rising 49.8% during the year.

Over the financial year, the small resources sector rose 20.1% while small industrials were down 36.5%. It was a difficult month and a difficult year. Earnings can grow in the energy and mining sectors and this should support the market in 2008-09. At the same time, the current level of interest rates will make earnings growth more difficult for many companies in other sectors.

Global shares

All major international sharemarkets fell during June and most were down over the financial year. US banking woes continued to take their toll as did the rising cost of raw materials. The MSCI World index, a broad measure of global shares, fell 8.1% in USD and was down 8.2% when measured in AUD. Over 12 months, global shares were down 12.5% in USD terms and have fallen 22.3% in AUD terms.

European markets were also pushed lower in June. Oil prices, talk of higher official interest rates, weakening business sentiment and ongoing concerns over bank losses all played a part. The German market was down 9.6%, in France it fell 11.6% and the Italian market fell 10.9%. In the UK, the FTSE 100 index fell 7.1% to be down 14.9% in 2007-08. All European markets were down over the financial year.

Asian markets fell. Japan fell 6.0% in June, Hong Kong was down 9.9% and Singapore fell 7.7%. The factors affecting Asia were similar to those facing the rest of the world except that in Asia, economic growth is slowing from a higher level. China's Shanghai B market fell a further 13.8% to be down 46.2% since October 2007. Japan's Nikkei index was down 25.7% in 2007-08.

The strongest global sectors in June and over 2007-08 were once again energy and materials. High prices for oil, gas and iron ore have lifted earnings for the likes of Apache Corporation and Devon Energy of the US and Vale of Brazil, all of which rose by more than 50% over the year.

The global economy and global markets have many issues to resolve. Inflation, oil prices, trade and savings imbalances as well as food pricing are all impacting on investors. The global economy is still expanding but not at a pace that engenders much excitement.

Fixed interest

The Reserve Bank of Australia (RBA) left its official cash rate unchanged at 7.25% in June. In discussing the outlook, the RBA board noted that there remained considerable uncertainty in the forecasts for demand and inflation, due to strongly opposing forces operating on the



economy. If demand does not slow, the RBA will be inclined to lift rates still further.

Australian government 10 year bond yields moved marginally lower during June leading to small capital gains. They began the month at 6.53% and ended it at 6.45%. The UBSA Composite Bond index returned 0.29% in June for a return of 4.42% over the past 12 months.

Listed property

The listed property sector followed its heavy fall in May with another decline in June. The sector continues to face debt refinancing issues in a higher interest rate environment. The S&P/ASX 200 Listed Property Accumulation index fell 10.9% to be down 36.4% over 12 months.

At the end of June, the estimated distribution yield on the listed property sector was 8.40%, compared with the 6.45% yield on a 10 year government bond. This difference in yield, combined with ongoing growth in the economy, may provide some support for the sector over the remainder of 2008.

Global property markets also moved lower in June.

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