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Paysafe Advisory Services



Newsletter
Autumn 2009



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Paysafe Advisory Services understands the intricacies of the ESSSuper and the value of CPI pensions

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ECONOMIC COMMENT

The most commonly asked questions so far this year by investors is, “When will we start seeing some increase in our portfolio?” “What are your predictions for 2009?” “Is this year going to get any better?” “Are there any signs the worst is over?” There are predictions for 2009/2010 in the investment market place. Caution and prudence in investment should be the watchword in going forward.

Recently the Australian Financial Review (March 7-8, 2009) ran a “Perspective Special” on “the recession” thus pre-empting argument about whether there will be one. The “Perspective” could best be characterised as gloom and more gloom, rather than gloom and doom. However whether all the gloom is justified is probably too early to say.

The Government’s stimulus package still needs time to work its way through the economy. The Australian economy is still in the enviable position of having further options via policy available to it, should the need arise. Whether you believe the market forces should be left to run their own course or the Government intervention and regulation is a must, the stimulus package has been the largest and fastest in Australia’s history. The still contracting economies of our trading partners and the length and breadth of debt in American Corporations, is still not known.



However there are predictions for 2009 and 2010. Felix Stephen, Senior Investment Strategist with Advance Asset Management in the February 2009 ‘Advance Investigate’ news, agrees that risks still remain but, “... the economy will begin to show signs of gaining traction in the second half of 2009, before a stronger recovering 2010”. Dr Shane Oliver, Head of Investment Strategy and Chief Economist, AMP Capital Investors also urges caution but notes that some economic indicators have turned a bit more positive. Dr Oliver states “...that growth will start to stabilise/improve later this year and through 2010, which would be consistent with shares getting back onto a sustainable recovery path this year”. (Oliver’s Insights, 21 January 2009)

Predictions for 2009/10 should be viewed in context. In late February, early March 2009, the Dow Jones and the S&P indices registered their lowest figures in more than ten years. Further, the American International Group (AIG) announced a quarterly loss of \$US61.7 billion (\$A96.94 billion) – the biggest in American corporate history. The US Government had already put a restructure package in place for AIG worth \$US99.3 billion (\$A156.01 billion) and was planning to contribute a further \$US30 billion. At the time of writing there is still uncertainty about AIG, and GM’s future is problematic. That said, Chinese shares have had some strong gains at the time of writing (May 2009) and Australia will benefit directly by a domestic demand driven recovery in China.

Despite the massive deflation of the value of the International Banking sector, we have had positive ratings from Moody’s for all of the Australian banks which are rated as among the strongest in the world.

Thus caution and prudence in investment should be the watchword in going forward. The ASX took 8 years to reach its all time high in late 2007. It may still go lower and the current low took some 13 months of falling values. Despite attempts to match this downturn to earlier market losses no simple comparison can be made, nor is there any predictive reliability in this approach. Nonetheless, from each preceding crash there was a recovery to a new high. The recovery will happen, but when and how will only be understood in retrospect.

Update for Investors in the Wholesale Premium Income Fund

(formerly the MFS Premium Income Fund & the Octaviar Premium Income Fund)

- The following update is based on the Premium Income Fund Investor Updates dated 11 Dec 2008, 23 February 2009 and 25 February 2009. Updates are available at www.newpif.com.au.
- Wellington Capital announced an unconditional contract of sale for a property owned by the Premium Income Fund, in Melbourne. The sale of this property will clear the balance of the fund's debt. When Wellington took control of the fund the fund had a total debt of \$100 million.
- Wellington is still in the middle of proceedings in the Supreme Court of Queensland regarding the Octaviar entities. The Board of Wellington has continued discussions with the Administrator and are aiming to recover the \$50 million support facility and another \$147.5 million.
- The Premium Income Fund was not able to pay the 3c per unit distribution to unitholders prior to Christmas. Wellington are not charging the Premium Income Fund any management fees until this "milestone" has been accomplished.
- Wellington Capital has been managing the assets of the Premium Income Fund since 2 May 2008. Wellington Capital envisaged a three to five year investment horizon to return value. This is somewhat dependent on a positive move in the property cycle. The timing of improvement in the property cycle is uncertain at this time. That said, the Premium Income Fund is being actively managed by Wellington Capital and they are still confident of a positive outcome.

SAVING FOR EDUCATION AND LIFE



A rash of new grandparents led us to re-assess investment vehicles to serve their needs. Over the years, as a practice serving the education community, we have been approached by parents and grandparents to provide investments for future educational or life expenses, or savings, for their children or grandchildren. Finding the right vehicle for this became an increasingly difficult task as the range of potential investments shrank and the minimum investment sums fund managers required for investment, rose. Similarly to our mind the minimum requirements for savings plans were often excessive.

We need a flexible investment structure so that we can offer broad based advice and investment strategy which can be actively managed if necessary without being limited to a single asset class and or manager, and be able to achieve tax efficiency and flexibility.

We also want an investment structure which we can provide as economically as possible and one we may be confident could deliver over time for the diverse education purposes which arise in the course of children's education.

We believe we have found an investment structure that can provide savings for education. Please let us know if you would like further information or would like some educational material on the investment. The earlier investment is started for a child the better the likely savings outcome.

FROZEN FUNDS UPDATE

The decision by the Rudd Government in October 2008 to offer a guarantee of bank deposits has led to an outflow of funds from the non bank sector back into the bank sector. The Rudd government believed a guarantee was warranted to help Australian banks compete in the international market. Australia's banks are well capitalised and well regulated but the guarantee was adopted by the Government anyway. Under the plan, all deposits in Australian banks, building societies and credit unions, were guaranteed for the next three years.

Clients who have frozen funds in their portfolio continue to be offered "withdrawal opportunities". Fund managers only undertook to payout a proportion of the withdrawal amount, depending on the amount of funds the managers have available. Redemption amounts paid to clients have varied between 15.3% and 7.4% of the withdrawal amount requested.

Newly designed withdrawal forms will allow clients to request in withdrawal opportunities on an ongoing basis without the need to lodge a withdrawal form each quarter.

That time of year again.....30 June 2009 is fast approaching.

Super Co-contribution

If you are eligible and make a personal contribution to a superannuation fund, the Government will match your personal super contribution with a co-contribution, up to certain limits. The maximum co-contribution you can receive is \$1,500. Any amount you contribute to super (post tax) will attract the super co-contribution.

Eligibility for the super co-contribution

You make a personal super contribution by 30 June

Your total income is less than \$60,342

10% or more of your total income is from eligible employment

You are less than 71 years of age before the end of the financial year

You lodge your income tax return

Applying for super co-contribution

You do not need to apply for the co-contribution. Your super fund reports to the Australian Taxation Office (ATO) that you have made a contribution. Once the ATO have received your tax return, the ATO will check your eligibility and automatically pay the co-contribution. It is usually paid into the same super fund that received your personal contribution.

Cut off dates for super contributions

Different super funds have different 'cut off' dates for processing super contributions at the end of the financial year. You should make your contribution to your super fund in May or early June. If you wish to participate in the co-contribution you can check your eligibility at the ATO website and even use the co-contribution calculator. Go to www.ato.gov.au and type super co contributions into the search function. This will give you further information and access to the co contribution calculator.



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