

PRESIDIUM QUARTERLY



PRESIDIUMWEALTHGROUP

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Great Start to a New Financial Year



Welcome to the first electronic edition of our Presidium Quarterly newsletter. July marks the first anniversary of our new name and also marks my 10th anniversary of being a Financial Advisor. We thank you for your continued support and we look forward to sharing new initiatives with you this next financial year.

We are now happily settled into our new premises at 554 Burwood Road in Hawthorn. If you have not already, please drop in for coffee and say hi!

Paul Webb
Founder, Presidium Wealth Group

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2011/2012 Financial Snapshot

Recent strong economic figures surprised Australian commentators and investors expecting gloomy news. There is no denying our economy is in good shape compared with other western industrialised nations, however, this strength is not reflected in the share market where banking and sovereign debt issues in the Eurozone, hesitant growth in the US, and a slowing Chinese economy have meant volatility over the past year.

Here in Australia, GDP jumped 1.3% quarter on quarter, more than double market expectation and over the year to March, the economy expanded by 4.3%, the fastest pace since September 2007 and the fastest in the developed world.



“On almost all fronts, the economy is in much better shape than it was a year ago.”

Snapshot: July 2011 to June 2012

The key numbers

Australian Key Indicies as of 12 June	
GDP Annual Growth Rate	4.30%
RBA Cash Rate	3.50%
Inflation	1.60%
Unemployment	5.10%
Consumer Confidence Index	95.6

Sharemarket from 11/07/11 to 12/06/12	
Australia	-12.50%
US	0.40%
Euro Area	-6.90%
China	-19.80%
Japan	-11.50%

Volatility has been significant in Australian share markets. The key ASX200 index started the 2011–12 year at 4608, tumbled 16.1 per cent to 3863.90 in September before recovering 14.8 per cent to 4435.90. From its peak on May 2, it fell more than 9 per cent by late June. Since the start of the 2011-12 financial year, it has lost more than 12.5 per cent.

In contrast to Australia, US shares managed to stay in the black with the Dow Jones index up around half a per cent at the end of June. But over the same period Europe's FTSE Euro 300 was down around 6.9 per cent, Tokyo's Nikkei down 11.5 per cent, Hong Kong's Hang Seng down 12.9 per cent and China's Shanghai Composite down 19.8 per cent.

Better Shape

On almost all fronts, the economy is in much better shape than it was a year ago. GDP growth, for instance, was only 1.2 per cent in June 2011, weighed down by the swathe of natural disasters including the tsunami in Japan and closer to home, the floods and Cyclone Yasi. A year later, GDP growth is 4.3 per cent. Even if one concedes the current jump is an anomaly, the outlook according to many economists is for 3 per cent plus growth going forward. By comparison, major European economies are struggling to stay out of recession.

Home Sweet Home

This time last year Australians were expecting rates might creep up. Yet interest rates are now 3.5 per cent and heading lower, with at least another cut possible by the end of the year. Of course this is good news for the one third of Australians with a mortgage but unlike earlier times, the low official interest rate has not led to a drop in deposit rates. Indeed, the banks are so keen to have your money to fund their lending that you can still earn up to 5.3 per cent in interest.

For those with mortgages, the lower rates have resulted in greater housing affordability in terms of borrowing. House prices have also dropped, down more than 5 per cent in the year to May.

Disposable Income

While Australians are somewhat pessimistic about the economy, in many ways it is in better shape than we think. Average weekly wages rose just over 4 per cent for both men and women. And while the unemployment rate edged up to 5.1 per cent in May, there were still 46,100 full-time jobs created during the month.



Outlook for the Australian Economy

While Australia is enjoying solid growth, struggles and uncertainty continue in the Eurozone, even with Greece seeming to re-commit to the austerity path in its recent election. In many ways, the turmoil in larger countries like Spain and Italy is even more important. All this uncertainty is causing wild swings on global share markets. Volatility is not going to disappear until this uncertainty about Europe is resolved.

In our view, there will be further cuts in interest rates driven in the short term by overseas developments. An intensification of the euro crisis and/or much weaker growth from China and the US, the impact of both which would be detrimental to financial markets and confidence, will see the RBA move decisively. Also, partial data so far for Q2 implies softer activity ahead. However, some believe shares will be higher by year-end, particularly if there is further easing in interest rates. If these uncertain times raise questions for you, please call us to discuss your concerns. To use Glenn Stevens' line, Australia's cup is half full, so now is the time to be looking at ways to add that extra bit of cream.



Reviewing your Will

We are pleased to announce the services of Mr Angelo Karamanis as our in house legal specialist. Angelo was admitted into practice as a legal practitioner in 2003. He has experience in the following areas:

- Corporate & Commercial;
- Business Law and Contracts;
- Property Law (including conveyancing, commercial leasing, owners corporation matters, building contracts, and licence agreements); and
- Wills & Estates.

During our discussion with clients, we find that many if not most people do not have an up-to-date will in place that reflects their most current wishes.

We would encourage you to make an appointment to have your Wills updated. Having this done as part of the financial planning processes ensures all aspects of your affairs are properly covered particularly as things like Superannuation and company and trust structures do not directly form part of your estate and specific nomination needs to be made with respect of these.

“NRAS is a *tax-free* incentive to induce more private investment in affordable housing; the sector between social housing and full priced private rental accommodation.”



Dying without a Will (known as intestate) means that the deceased has no control over who receives their assets. Whilst ultimately the proceeds of your estate would pass to your next of kin, each state and territory in Australia has different statutory provisions to determine who will inherit the estate.

Putting a will together in most cases does not need to be a difficult or expensive exercise. Angelo will be able to put together a will from as little as \$300.

At present we are encouraging clients to be updating their wills and powers of attorney.

NRAS – A smart way to invest in property

The National Rental Affordability Scheme is an Australian Government commitment to invest in affordable rental housing. The scheme addresses the shortage of affordable rental housing by offering tax-free financial incentives to investors, so that the dwellings can be rented to low and moderate-income households at below current market rates for a period of 10 years.

Who benefits from NRAS ?

NRAS is a *tax-free* incentive to induce more private investment in affordable housing; the sector between social housing and full priced private rental accommodation.

The dwellings are rented to eligible, low and moderate-income households that earn less than a prescribed amount. Currently, a single person can earn up to \$44,128 per annum, increasing to \$104,913 per annum for a couple with three children.

As well as increasing the supply of affordable housing in Australia, it is also a tax-free, profitable investment for participants. To comply with the government requirement, the investor reduces the rent by 20% below the market rental value to qualifying individuals and families, in return for significant tax-free credits, per dwelling, per year for 10 years. The annual incentive is tax-free,

The incentive is currently \$9,818 per annum, a minimum of \$91,810 over 10 years and comprises:

A property needs to be NRAS approved to be eligible for the annual incentive payment back to the investor. We can assist in putting you in contact with the right people to show you NRAS approved properties.



What's on your mind?

with Michael Carter, Co-Founder

What can I salary sacrifice into my superannuation fund in this new financial year? Andrew – Camberwell

Legislation passed at the last Federal Budget that will impact your salary sacrifice contributions this financial year.

Previously, we were working under legislation that would have seen you able to contribute \$50,000 into super including normal SGC contributions and salary sacrifice contributions.

However, the new legislation means that you can't exceed \$25,000 worth of employer contributions (both salary sacrifice and SGC). This means you need to keep a very close eye on just what your employer is contributing into superannuation so you do not exceed this cap.

With interest rates having fallen so far in 2012 is now a good time to fix my home loan rate? Leonard Melbourne CBD

This is a very good question but one without a definitive answer. Certainly those that fixed their home loan rates in early to mid 2009 when rates were around current levels made a good move, as rates rose post that. However, rates are (and where) predicted to fall further so 2-3 year fixed rates could come down a little more.

However, my personal opinion is that if you are able to fix at a rate below 6% then you are doing well. You certainly could do better if rates fell further but at least you know for certain that you will be paying an interest rate below the long term average for the period that you have fixed for.

There are other factors to consider however, namely that you can only pay a little extra over your fixed repayments whilst the term is fixed. This is where potentially splitting the loan can help, only fixing a portion.

At the end of the day, your first port of call in this matter should be an unbiased mortgage broker as they are best placed to advise and can talk about specific rates.

If you have a question for Michael, please email him at mcarter@presidiumwealth.com.au

ABOUT PRESIDIUM QUARTERLY

We value our relationships with our clients and strive to present relevant information that might be useful to their financial situation. This newsletter will be published every quarter and distributed to our clients. If there is any financial news that you would like us to cover or comments, please feel send us an email at info@presidiumwealth.com.au

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