

FROM THE DIRECTOR'S CHAIR



While Australian stocks have reacted to the American and European debt position and America's credit downgrade, it is important to keep things in perspective and not overreact.

America is faced with a high debt level, which it will need to act upon, however the country's private corporate sector is seeing good growth and companies are making strong profits.

It is important for Australian investors to realise that our economy is less reliant on American and European markets than it is on emerging markets in Asia. Our main trading partner is China – a country which is still experiencing solid growth. In fact, the Chinese government is slowing the economy down to control inflation. Growth in China is still at 8.5% GDP.

Australia has a robust economy and strong exports, with confirmed orders. Our banks are strong and we have very little debt compared to other western nations. We also have low unemployment. The only reason the retail and business sector is suffering is because people have stopped spending. When consumers panic and stop spending, economic contraction follows. Unless Australians want to trigger a recession there is no reason for us to experience a downturn.

For those in the accumulation stage these markets provide opportunities. In fact, I have had a number of clients buying into the markets.

Remember markets go down, but they also recover and go up – sometimes a lot more quickly than expected. The markets will continue to react to overseas concerns and media reports for some time.

Until next time,

John Osborne

CEO

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Quote of the day...

'Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it.'

~ Warren Buffett

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Interest rates...

Current Residential August 2011

Basic Variable Rate Home Loan	< \$300,000 @ 7.12% pa
Smart Pack Discounted Variable Rate	> \$300,000 @ 6.96% pa
Professional Package	> \$500,000 @ 6.89% pa
1, 2 or 3 year Fixed Rate	@ 6.39% pa
4 year Fixed Rate	@ 6.89% pa
5 year Fixed Rate	@ 6.99% pa

UNDERSTANDING PROPERTY INVESTMENT

Property does not increase in value at a steady rate

Australians have a love affair with property, but property is not going to make you rich overnight. It never increases in value at a steady rate and at times, like shares, can perform negatively – sometimes to a point, especially in bad times, where you can owe more than the property is worth. At times property in particular suburbs – even states – may remain negative for years. It is important going into property that you do your homework thoroughly. Property investment, when thoroughly researched and carefully considered, can reward you greatly over the years.



Meet...

Tim Cotton

Financial Adviser Narrabeen Office

Tim Cotton is one of our talented Financial Advisers based in Narrabeen. With extensive training in both financial services and accounting, and over 6 years of experience in the financial services sector, Tim brings valuable technical expertise to Osborne Yuille. His energy, commitment and humour make him a favourite with staff and clients alike.

What are your qualifications?

Bachelor of Commerce (Accounting, Finance) and a Diploma of Financial Services (Financial Planning).

Any specialist areas of expertise?

Life insurance.

Best Money Tip?

Creating wealth is a game of patience. Like luscious long locks, "It won't happen overnight, but it will happen!"

My other interests are...

Sports and activities – surfing, skiing, soccer and hoops. Guitar – serenading Warriewood to the delicate sounds of the six string and off-key harmonies.

I want to make a difference by...

Helping people to use their wealth and income potential to maximise their lifestyles.

I most value...

God, family, friends, enjoying life and making the most of opportunities.

Overextending yourself in property

Too often you see people who have overextended themselves in property. They get caught up with get-rich property books & schemes, and owning a hundred properties in ten years or the like – only to find they have overextended themselves. Perhaps their properties haven't had the growth they expected or were promised. So they find themselves heavily in debt, with a number of negatively geared properties which have become a financial burden and are causing stress. Be careful not to overextend yourself with debt and leave yourself with no surplus cash flow.

Property done properly can be great for wealth creation

Like shares, property can be a great tool to build wealth, as you can effectively use other people's money (the bank) to buy the property and have someone else help you pay it off (namely the tenant). However, as stated before, you need to have surplus cash flow and a reasonable income to meet expenses and interest. In the early days if the property is negatively geared the rental income will only partly meet the costs of running the property.

In retirement, you do not want to be in a negatively geared property. You need income and ideally, by the time you reach retirement, you should have paid off the loan on the property and be living off the income. Often, when retirees reach retirement and assess the rental yield they are getting from the property against subsidising council rates, water rates, strata fees, management fees and maintenance, they conclude it is time to sell and put the profits into their super.

Shares and fixed interest in retirement can offer you a better return because the yield is higher after expenses. The right shares can provide you with a tax-effective income stream. Shares are tax effective because many dividends are franked i.e. the company has paid tax on the profits before distributing the dividends. The resulting franking credits may be used by investors to offset other tax commitments.

So, in summary, use property for wealth creation in the accumulation years along with shares, but possibly look at shares, fixed interest and cash in your super for retirement.

People who own commercial property earning 6-10% per annum may say they are doing very well in retirement with this income. However, it is important to remember that property, like shares, can have cycles. Long periods of vacancy can occur in property, especially in the commercial arena. Stay aware of this and allow for it in your planning.

Buying property – look for return on equity

When buying a property look for return on equity. Buy into areas which offer a good rental return. This will help your property to become neutrally or positively geared more quickly. At times you may renovate or improve your property, thus adding value. This will also improve your equity in property, allowing for further investment.

Buying property in superannuation for wealth creation

As you build up your superannuation you may look at setting up a self-managed superannuation fund, allowing you more control and a wider choice of investments (including property) within your fund. When it comes to wealth creation, property in super can be very effective. Basically the income from rents, Superannuation Guarantee Charge (SGC), dividends and possibly salary sacrifice helps to pay the mortgage on the property. Once you have reached 60 years of age there are no capital gains on the property and if you keep the property, the rental income is tax free.

Important things to watch in property investment

- Buy quality property in quality growth areas.
- Consider whose name the property should be in for tax purposes.
- Check your cash flow and set a budget you know you can afford.
- Do your research not only of the property but the area you are buying into.
- Consider buying property in your super fund.
- Negotiate on the price of the property, be careful at auctions.
- Shop around for finance to get the best rate.
- Check your personal insurances, especially if going into debt.
- Seek professional, qualified and independent advice.

YOUR POWER BILLS COULD DOUBLE OVER THE NEXT FEW YEARS

Because of Australia's growing population and a lack of investment in the area of electricity and energy efficiency we could see our power bills double over the next 10 years. Australians are using more electricity than ever as the number of household air-conditioning units and electrical appliances increases year by year.

In Australia we produce most of our power from coal – much to Bob Brown's and the Green's dislike. The introduction of a carbon tax will also add to the hike of power costs.

In the past electricity costs have been kept low by state governments, but this trend

has come to an end. We are seeing price increases in electricity by up to 20%.

As we move to renewable energy by 2020, the Federal Government has set a target that 20% of Australia's energy must come from renewable sources such as solar and wind. This will not come cheaply. More research (and funding) directed at new sources of renewable energy will ensure a continued hike in power costs.

Already, with the imminent carbon tax trading scheme targets, we are witnessing price increases by coal producers and power suppliers.

Be prepared for different energy providers competing for your business. There are a number of sites you can log onto to check comparison rates and offerings by different suppliers.

Some of these sites are as follows:

www.shoparound.com.au

www.switchpower.com.au

www.infochoice.switchwise.com.au

Do your homework before switching to another supplier. Some of the discounts and costings being offered by suppliers are confusing and at times misleading. Does the price include GST? If the supplier offers discounts for paying on time, using direct debit or switching several services such as gas and electricity, make sure you fulfill all of the necessary discount criteria. Missing one of these criteria could mean even higher costs, so always read the fine print.

Be wary of brokers who represent different suppliers. Check that you are getting a cheaper deal and a competitive offering. Also, that you can exit without penalties.



ASK JOHN – YOUR QUESTIONS ANSWERED

The Global Financial Crisis has hit many small business owners pretty hard. John, do you have any advice for growing your business after the GFC? Hayley from Dee Why

Hi Hayley,

Thanks for your question. I think everybody in the small to medium enterprise area of the business world agrees that business has been more challenging over the last three years since the GFC and will be challenging in the years ahead. Now is a good time to take a step back to work on your business. It will pay dividends. Here are six steps to get you started:

1 Create a unique business

You need to create a business that has a point of difference and sets you apart from your competition. If you don't do this your customers won't see how you are different to your competition and they will decide to buy on the basis of price only and not value.

2 Create passionate customers and clients

It is far more expensive to acquire new customers than to get your previous ones to buy again from you. It is important to stay in touch with your customers, even when they don't need your product or service. By doing this you are adding value and they will refer you to their friends and others in business. Create a customer loyalty system – perhaps a special program for 'A' customers, a networking function, a business newsletter or just delivering a gift with some information on your services.

3 Be passionate about your business

If your business is not creating a lifestyle for you and your family, and you are not passionate about it, it is time to get out. Life is too short to live without a passion. It is this passion in business that will set you apart from your competitors and help drive your business from a successful business to a really significant business that is an industry leader.

4 Keep your eyes on the horizon

A captain at sea is always keeping his eye on the horizon for pending problems, ready to change course where and when necessary. So too, as captains of industry, we need to continuously look at the horizon for change and be ready to alter our course when necessary. We are in an ever-changing world of business – complacency can be dangerous.

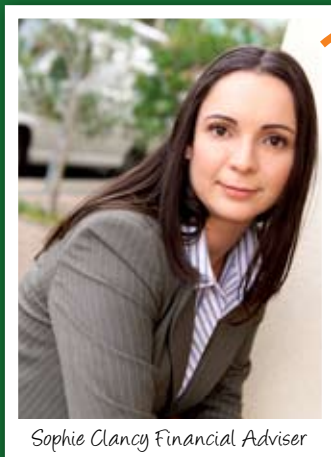
5 Keep up with technology

Before you start any marketing you need to invest in a really good database, one that is tailored to the specific needs of your business. A quality website will also pay dividends. More than ever before your customers, especially X and Y generations, are relying on the internet for information on products and services.

6 Put in systems to drive your business

You may have a great product or service, but it is only a matter of time before someone duplicates your product or service and improves on it. You need to ask yourself - how can we as an organisation differentiate ourselves in our service offering? You need to create a 'wow' service offering, that will give your customers enough reason to walk into your business or pick up the phone to contact you. Do you have the right marketing tools to attract people to your business? Do your staff members have the right selling skills and know the customer service standards of your business? Are you displaying your product or service in the most appealing way? Make sure you document all of the processes that make up your service offering to your clients and customers.

Do you have a question for John? Email it to financial.services@oya.com.au. Please note that not all questions will be answered.



Sophie Clancy Financial Adviser

KEY PERSON AND PARTNERSHIP PROTECTION AGREEMENTS

Sophie Clancy says:

Key man or key person insurance policies are bought by an organisation to protect them from suffering financial losses due to the loss of their CEO or most important employee. These plans pay out in the event a key person in the organisation – be it the CEO or key employee – passes away or becomes disabled and unable to work in the organisation. Such policies help organisations avoid disruptions and enable them to continue operations during the difficult times of readjustment to the loss of a key person. The benefits from the insurance cover are tax free and allow funds to be deployed to cover things such as training of new employees, who have been hired to fill any vacancies created by the death or disability of the key man or key person in the organisation.

What constitutes a key person?

A person is regarded as a key person if the loss of his or her skills in the organisation and the services he or she offers, negatively impacts on the future of the organisation and its earnings. These insurances are often bought by small and mid-sized businesses that are heavily reliant on their personnel. The employer is named the beneficiary.

Calculating for key man insurance

The calculation is similar to life insurance. The business owner (or key person) calculates the debts of the business that would need to be retired in the event of key man death and what lump sum would be needed to maintain cash flow in the organisation for a certain period.

The tax deductibility of the key man cover depends on whether the payout is for revenue purposes or capital purposes. If it is a payment to pay regular ongoing expenses the premiums will probably be tax deductible. If the payment is a lump sum payment then it is unlikely the premiums will be tax deductible, nor will the payout be taxable.

In setting up key person cover it is important to have agreements in place and document the process and the reasons for your key person insurance. Your tax deductibility will probably revolve around these agreements and notes, especially if the Tax Office decides to audit you. It is highly recommended you seek legal advice if setting up these agreements.

Partnership insurance and agreements

Where there are two or more partners in a business it is important to have a partnership agreement drawn up professionally by a lawyer who specialises in this area and look at insurance cover to pay out the remaining partner(s) if one of them should die or be partially or permanently disabled due to critical illness or accident. In this situation you can be assured the deceased or disabled partner's spouse is going to come hand in hand with their lawyer demanding their shareholding be paid out by the other partner(s). The remaining partner(s) then have to find the funds to pay out the absent partner's spouse. They might need to approach the bank for the funds, which might not be looked on favourably due to their present situation. With an insurance and partnership agreement the funds are immediately available to be paid out to the absent partner's spouse.

In calculating the amount of partnership insurance to be taken out on each partner it is important to get a valuation of the business and reassess this from time to time.

In both cases of key person and partnership insurance seek professional advice and have an agreement drawn up by a legal professional who specialises in this area.

For assistance in this area please ring (02) 9970 3111 and ask to speak to one of our advisers.

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By contacting us as detailed above you may request not to receive further communication such as this from us and we will give effect to that request. Please allow two weeks for your request to be actioned.



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