On The Horizon

HORIZON
WEALTH MANAGEMENT
Helping you achieve financial independence

Edition: Winter 2007

"Creating wealth requires time, patience and a plan."

THIS ISSUE

Should you require further information, please do not hesitate to contact our office on 02 9392 8700 or info@horizonwealth.com.au. We will gladly provide you with further details.

Recent Client Successes

The period from February this year through to the end of June has been incredibly busy and productive. We dealt with a range of varying cases and clients. We thought we would share some of these with you.

- ✓ We transferred a number of clients UK Pensions to Superannuation in Australia.
- ✓ We advised certain clients not to borrow money to invest into Superannuation and at the same time advised other clients to embark on this strategy. Why the perceived inconsistency in advice? The key point is that each client's personal circumstances were different.
- ✓ We have invested money in Australia on behalf of clients currently living abroad. In this regard we have a full understanding of the various issues that need to be addressed to ensure a successful investment experience.
- ✓ A number of clients transferred their personal investments into Superannuation and will continue to do so over the forthcoming years in a managed and tax effective way. In this regard, we were able to analyse and minimise the capital gains tax on transfer.

In a number of these cases, we were able to work successfully with the client's tax accountant. Our clients' financial affairs are now better organised, with lower investment expenses. They now have a clear and defined plan to ensure that they retire comfortably.

News

Horizon Wealth Management launches its web site at www.horizonwealth.com.au

You can now access your portfolio, whether it's with Macquarie Wrap, Colonial First Choice, BT or MLC from our home page. Just drop down from the **Portfolio** button located on the top right hand corner of the screen.

Why not make www.horizonwealth.com.au your default web site. You can do this by logging onto www.horizonwealth.com.au. Click on Tools, select Internet options. In the **General** tab, under **Home Page**, click on '**Use current**'. Click on **Apply** and then **OK**.

Our newsletters are also archived under **Educational Resources** and we will be using this section to direct you to some interesting articles and information in time.

What our clients say

You may also wish to read what some of our clients have to say about us, both with respect to our Corporate and Wealth Management business. Go to **Our Philosophy**, **What our clients say**.

Case Study

A client with $2 million to invest, was considering taking advantage of the $1 million Undeducted Contribution. They were in their early 40's. Liquidity was not particularly relevant as the client did not require access to the money for a number of years which extended to age 60 or at least to age 55.

We modelled 4 scenarios using the latest taxation and superannuation legislation to highlight the cash flow, taxation and net asset position. The scenarios were:

1. Invest $2 million in a Trust.
2. Invest $2 million as an Undeducted Personal Contribution into Superannuation ie, $1 million into each of the 2 spouse's Superannuation accounts.
3. Invest $1 million as an Undeducted Personal Contribution into the one spouse's Superannuation account and $1 million in the Trust.
4. Invest $1 million as an Undeducted Personal Contribution into the one spouse's Superannuation account, borrow $1 million and invest $2 million in the Trust.

Net Financial Position

Date	Jun-2007	Jun-2020	Jun-2025
1. Trust $2M	2,000,000	2,914,847	3,345,622
2. Trust $1M + Super $1M	2,000,000	4,246,784	5,962,510
3. Super $2M	2,000,000	5,525,839	8,438,342
4. Trust $2M (Loan $1M) + Super $1M	2,000,000	5,650,280	8,221,984

We used the following assumptions (where relevant) in all 4 scenarios above to evaluate the alternatives.

- The interest rate on borrowed funds was 7.85% pa, fully deductible.
- Marginal tax rate at 46.5%.
- Investment Returns – Growth rate 5.5%, Income Yield 3.4% (franking rate of 45%).

The conclusions that could be drawn was that it was preferable to invest in Superannuation, than in an after tax investment account, discounting liquidity i.e. the need for the money before age 55 or 60.

This is due to the concessional taxation treatment on superannuation investment earnings, i.e., 15% on income distributions and the 10% CGT rate (if held for greater than 1 year).

Although this was not reflected in the results above, the client would be entitled to a tax free Pension after they reach age 60.

Further, borrowing to invest (or gearing) has a favourable impact on your overall financial position in the long term.

Thus Scenario 4 provided the client with the best of both worlds:

- Access to the money before a condition of release in Superannuation.
- Potential capital growth at a higher rate as the client has leveraged his balance sheet.
- A shield on his income distributions which in the short term have been neutralised by the interest incurred on the loan.
- A significant tax free income stream from age 60.

News

Horizon Wealth Management sponsors Maccabi Swimming

Sport is integral to keeping healthy and in the work force. Swimming is a sport which requires a significant amount of self discipline and hard work which are some of the key characteristics to investing successfully.

Horizon Wealth Management will continue to align itself with those sports that embody this spirit of perseverance in their search for excellence and improvement.

Nobel Prize winner in Sydney

Brian was privileged to be invited to an investment conference last month for an elite group of wealth advisers at which Myron Scholes, the Nobel Prize winner in Economics in 1997 was one of the guest speakers. Myron Scholes won the prize for his work on a new method to determine the value of derivatives.

HORIZON WEALTH MANAGEMENT
Helping you achieve financial independence

Edition: Winter 2007

Investment Commentary – Financial Year July 06 – June 07

Currency

The Australian dollar (AUD) rose 2.8% against the US dollar (USD) during June. It started the month at US 82.66 cents and ended it at US 85.01 cents. A year ago the AUD stood at US 74.22 cents.

Australian Shares

The All Ordinaries share price index set a new record of 6421 points but finished the month at 6310.

Share prices were volatile during June. The market was up or down by close to 1% on eight days during the month. In most cases it was the US market which set the tone. Interestingly the Australian market saw smaller movements than the US. This makes sense given that our market has a greater sensitivity to resources and does not have the home lending problems seen in the US.

Upsetting both the US and the Australian share market were rising bond yields. Higher bond yields in the US had the potential to make their lower quality or 'sub-prime' home lending situation worse. It would also reduce the attractiveness of private equity takeover schemes and it was hurting a number of US hedge funds who had borrowed money to invest in the sub-prime lending market. While these problems are of less relevance to Australia, the dips in the Dow and the S&P500 unsettled some Australian investors.

Over the course of 2006-07 the smaller companies sector returned 44.4% with small resources up 63.9%. Returns from Australia's top 100 companies were 27.4% with the industrials sector (+40.6%) performing well.

After a very strong year there is cause to reflect. Earnings have risen and the global economy is strong. But asset prices have risen and debt continues to rise. Recent events in China and the US should alert everyone to the fact that risk is not dead. While the medium term outlook is positive we need to be prepared for intermittent short term setbacks. Caveat emptor!

Global Shares

From an Australian perspective, global shares struggled in June against the backdrop of a rising Australian dollar and rising bond yields.

Over the course of 2006-07, the MSCI World index is up 6.0% in AUD terms. This compares with negative 1.4% in 2004-05 and 17.9% in 2005-06.

US markets hit new records again during June but could not maintain the momentum. The Dow reached 13,676 before falling back to 13,408 at the end of June for a monthly decline of 1.6%. The S&P 500 was down 1.8% while the NASDAQ fell 0.1%.

For 2006-07 the Dow was up 20.3%, the S&P500 rose 18.4% while the technology laden NASDAQ index was up 19.9% (in US $ terms).

The MSCI Emerging Markets index, measured in AUD was up 23.8% over 2006-07.

Higher bond yields and rising cash rates, in parts of the world, are expected to slowly stem the tide of money that has fuelled share market booms around the world. The world economy is in reasonable shape but parts of its financial system are frayed around the edges. The frayed ends need not unravel but they do need to be watched closely.

Fixed Interest

During the month of June both bond yields and ninety day bank bill yields moved up with domestic and global issues at play.

Ten year government bond yields began the month at 6.02% and ended it at 6.26% as inflation concerns in the US affected most markets. With the US, Australian and global economies still growing, it remains possible that the US Federal Reserve and the Reserve Bank of Australia (RBA) will have to raise their cash rates.

The RBA acknowledges that inflation is more likely to rise during 2008 than to recede while the US Federal Reserve noted that its predominant policy concern remains the risk that inflation will fail to moderate as expected.

Ninety day bank bills rose from 6.36% at the end of May to 6.44% at the end of June. The UBSA Bank Bill index returned 6.37% over 2006-07. The UBSA Composite Bond index returned negative 0.47% in June for a return of 3.93% over the financial year.

Listed Property

The Listed Property sector fell 5.0% in June as bond yields moved up and the broader equity market weakened. However, in 2006-07 the S&P/ASX 200 Listed Property Accumulation index still posted a gain of 25.9%.

At the end of June, the yield on listed property sector was 5.70% compared with a 10 year government bond yield of 6.26%.

Global property markets were also weak in June. The S&P/Citigroup World Property index was up 21.7% over 12 months.

An overview of investment markets provided by Hans Kunnen, Head of Investment Markets Research for Colonial First State (edited by Horizon Wealth Management).

Keeping Focused on the Big Picture

The recent market turmoil provides a timely reminder about the keys to having a successful investment experience—**staying diversified, keeping disciplined, retaining a long-term view and focusing on your overall portfolio returns.**

When extreme greed or fear is generating volatility in financial markets, it is natural for people to be concerned about the individual components of their portfolios and how they compare to various industry benchmarks.

Worried about underperformance, investors may be tempted to start tinkering with their asset allocation or to deconstruct their portfolio entirely. As horizons shrink, emotions take over and bad decisions can ensue.

This is an opportunity, then, to refocus on the core principles of asset class investing, which aims to deliver the long-term returns of asset classes through strategic allocation of capital.

Backed by solid academic evidence and applied rigorously, this is a highly diversified, low-cost and tax-efficient approach to investment and avoids many of the risks associated with active management.

Using this approach, **the best chance of success is by keeping focused on the long term and looking at the overall return of the portfolio** rather than the individual components and how they compare with benchmarks.

These strategies aim to capture in the most efficient way possible, the long-term premiums available from equities over fixed interest, from small cap stocks over large cap and from value over growth stocks.

But while those dimensions of return are clearly evident over the long term, **they can come and go over the short term.** What's more, there is no predictable pattern of when they are available. **This means the only reliable way to capture them is maintain your exposure through good times and bad.**

Over the past four calendar years, the best performing asset classes have been, respectively, Australian small cap stocks, Australian value stocks, emerging markets and Australian listed property. But at the turn of the decade, those asset classes were among the poorest performers.

The other point to remember is that an asset class portfolio is structured to deliver returns greater than the sum of its individual parts. At any point, some parts will perform poorly and some will perform well. **But it is the diversification that produces a more consistent result over time.**

It is the nature of markets to go up and down. Returns are variable. But if you have realistic expectations, remain diversified and disciplined and focus on capturing long-term asset class returns, you maximise your chances of having a successful investment experience.

It's a simple approach; some might say even a boring one. But it works.

Horizon Wealth Management Pty Ltd ABN 90 115 657 693 is an Authorised Representative (No. 297253) of FYG Planners Pty Ltd ABN 55 094 972 540 Australian Financial Services Licensee No. 224543.
Registered Office : Level 1, 10 Wilson Street, Burnie TAS 7320.