summer 2012

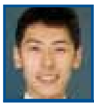
empireadvisor

EMPIRE FINANCIAL PLANNING

Helping you build yours.®

A Quarterly Newsletter for Clients and Friends of Empire Financial Planning

2011 in review and the outlook for 2012



Dan Wang
Analyst

Little went right for the developed economies in 2011. With the U.S. growing at an anaemic level, and Europe balancing on the brink of recession, we are yet to see signs of meaningful recovery from the global financial crisis. Negative headlines continually rattled the markets with few positives to cheer about, except for perhaps resilient corporate earnings and moderating inflation. We think in 2012 every basis point of return will be hard fought. Regional diversification will need to be firmly in place, as the economic centre of gravity will continue to shift eastward. As returns from traditional investments remain flat, alternatives will rise in importance and volatility, while certainly causing market stress, will also bring opportunities for dynamically-managed portfolios.

On a positive note, we think 2012 will see some improvement in economic growth in the U.S. Our central forecast, predicated on Europe avoiding a full-blown financial meltdown, is for 2.5% GDP growth compared to 1.7% this year. Nonfarm employment gains are projected to reach a plateau level between 190,000 and 200,000 jobs per month in mid-2012. This would be better than in 2011, but with the labour force naturally increasing by about 150,000 people per month, the unemployment rate is not poised for a sharp drop any time soon.

Inflation expectations in the U.S. and the developed markets appear to be more firmly anchored around 2% than they were at the start of the year, when speculative bidding and political events in the Middle East drove up commodity prices. Next year, Libyan oil exports will probably come back online and the supply-chain problems that followed the disastrous tsunami in Japan will likely be resolved. Unfortunately, the most serious impediment to a strong 2011 – lack of political clarity regarding the European and U.S. debt problems – is set to continue in 2012.

Call this continuous policymaker injection of uncertainty. In fact, policymakers never missed an opportunity to inject uncertainty in 2011, as they raised expectations for definitive measures and then continually fell short. The August 2011 debt ceiling debacle, followed by the do-nothing budget Super Committee in the United States Congress and, more importantly, the European Big Bazooka proposals to resolve the crisis in November 2011, clearly failed to contain market jitters.

[story continues on page 2]

Happy holidays!

In this newsletter we look at the year past and what could be installed for 2012. We also welcome back to our team Frans Walschots. Frans was a founding partner of Empire Financial Planning back in 1997. Frans has returned to our team to assist those clients who have (or are seeking) investment properties (please refer to page 2).

As the year draws to a close, once again we wish you a very blessed and happy festive season!

From all our team (as drawn below), myself, Carol, Dan, Gail, Janine, Ming, Julian, Frans and Alicia, we thank you for your support and we look forward to continuing our relationship in 2012!

Please note our office hours over the Christmas period will be as follows:

Closed from:
12:00pm Thursday,
22nd December 2011

Re-opening:
8:30am Monday, 9th January 2012

For urgent matters during this period, please telephone **02 6239 6141** for further instructions.

Happy Christmas to you and yours!

Dominic W. Kelly
Managing Director

Welcome back Frans

Written by

Frans Walschots
Property Adviser

It's good to be back!

Property is an area that I have enjoyed advising on and successfully investing in both professionally and personally throughout my life.

In order for you to achieve your financial goals, investing in an investment property may be a suitable and appropriate investment for you. If we (working closely with you) have determined this to be the case then generally speaking you will have two choices:

1. You find a property to invest in and we will happily assist you in analysing the suitability of that property. In other words we will be more than pleased to educate you on what you need to look for when seeking an appropriate investment property given your financial circumstances and goals.

OR

2. You may prefer that we source the property for you. If this is the case then we will add you to our property watch list and refer you to our property referral service. We will assist you in finding the most suitable investment property to match your circumstances.

If you choose option 2 we will manage the whole process for you.

Our aim is simple:

"To provide clients with well researched and well located investment property."

We look forward to assisting you or anyone you may wish to refer to us.

[story continues from page 1]

A European recession seems inevitable in the first half of 2012 but Europe's leaders can still act to prevent financial collapse and a deeper downturn. We believe they will. Given the heterogeneous nature of economic conditions across the European region, it is not easy to set GDP growth forecasts. However, we think that in the event of a political resolution to the sovereign debt crisis core Europe should at least return to positive – albeit very weak – growth by the end of 2012.

We imagine a political solution to the European debt crisis as a "three-legged stool". The first leg would be a central fiscal authority with much more financial firepower than the current arrangement. The second leg would take into account that investors have lent more money to European peripheral countries than can reasonably be expected to be paid back; therefore, some debt restructuring will be required. The third leg recognises that peripheral countries, if they wish to remain in the Euro-zone, need to reform their economies to become fiscally sustainable as well as internally and externally competitive with core countries. Supporting the three legs, the deep pockets of the European Central Bank will need to be tapped to shore up illiquid, but inherently solvent entities, be they countries or banks. Our guess is that one way or another this pivotal issue confronting financial markets in 2012 will have to be resolved quite soon. Spain, France, and Italy alone require close to Đ650 billion in new funding in 2012, much of it early in the year, as previously issued debt needs to be retired. European banks are estimated to require a further Đ144 billion in short term funding in 2012. The current state of half-measures cannot linger deep into 2012, based on arithmetic alone.

For Asia-ex-Japan, 2012 will be a year of dealing with external threats after dealing with the internally generated threats of inflation and overheating in 2011. The main danger for 2012 is a significant slowdown in export demand as Europe slides into recession. This could be exacerbated by tighter credit conditions as European banks restrict lending to maintain capital ratios. The positive news is that inflation appears to have peaked across the region. China, in particular, has scope to significantly ease monetary conditions. We see a gradual economic slowdown in China with downside risk to the consensus forecast for 8.5% 2012 GDP growth. China's central bank has already started easing monetary policy and will likely to continue easing in early 2012. With attractive share market valuations, Asia-ex-Japan has potential for strong outperformance once the crisis in Europe is resolved. The rebuilding process from the tsunami will provide a significant boost to economic activity and Japan is likely to be the only major economy to post above trend growth in 2012.

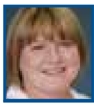
Making gains this year will require an active, global, multi-strategy approach and identifying outperforming managers in every sector and region will count more than ever. Gaining access to non-traditional securities through alternatives will also be a key potential return enhancement strategy. This is why we are working closely with Russell Investments and Lonsec*. Volatility is here to stay, but a dynamic approach to investing will make it possible to take advantage of opportunities as they arise.

As always we will take all the necessary steps to keep you appraised of any new developments.

*Russell Investments and Lonsec provides Empire with Investment research.

Government Mid-Year Economic and Fiscal Outlook (Mini-budget)

Written by



Janine M. Scott
Senior Financial Planner

The Government's Mini-budget released on the 29th November contained a number of superannuation and taxation proposals that will impact the financial planning industry. The proposals are summarised below.

Importantly, these proposals will need to be passed by Parliament before they become law.

Superannuation

Extension of the pension drawdown relief

The current 25% reduction in the minimum pension income payment requirement for account-based, allocated and market-linked pensions is to be extended and will continue to apply for the 2012-13 year.

Reduced Government Co-contribution concession

The matching rate and maximum annual payment amount applying to voluntary non concessional member contributions under the current Government Co-contribution concession will reduce from 1 July 2012.

For the 2012-13 year and onwards the matching rate will only be 50%. This means the maximum Government Co-contribution will be $500pa based on a voluntary $1,000 non concessional contribution made by eligible members with incomes up to $31,920. The co-contribution amount will phase down for higher incomes and cuts out at $46,920.

Government Low Income Superannuation Contribution (LISC)

The Government has previously announced and introduced legislation to effectively provide a refund of 15% contributions tax for low income earners from 1 July 2012. Taxpayers with adjusted taxable income of up to $37,000 will receive a low income superannuation contribution (LISC) up to a maximum of $500.

The Government intends to simplify the process for eligible individuals. There will be no requirement to lodge a tax return and the ATO will use available information to determine an individual's eligibility. This is an important measure as the tax-free threshold is proposed to increase from 1 July 2012 to $18,200.

Only individuals who receive at least 10% of their income from employment or business income will be eligible for this contribution. Temporary residents will not be eligible for this payment. The maximum payment is $500 and minimum $20. It is calculated as 15% of concessional contributions.

Superannuation Guarantee (SG)

The legislation to gradually increase the SG contribution percentage from 9 to 12 per cent and to abolish the SG age limit has also now passed the House of Representatives.

If passed through all stages of Parliament, the legislation will, from 1 July 2013, require eligible employees age 70 and over to also receive SG contributions. That is, there will no longer be a maximum SG age limit.

The current age 75 maximum contribution limit for non-mandatory employer and personal contributions will however continue to apply.

Concessional contribution caps

There is going to be a pause to the indexation of the concessional contribution caps for one year in 2013-14.

For example, the under age 50 cap will remain at $25,000. Indexation of the cap will now be deferred until 2014-15, when the cap is expected to rise to $30,000.

The pause in indexation of the under age 50 concessional contribution cap will also result in a pause in the indexation of the concessional contribution cap for individuals aged 50 and over and the non-concessional contributions cap.

Contribution caps — clarifying the operation of certain superannuation trust deed clauses

The Government is aware of arrangements involving the insertion of certain clauses in fund trust deeds where it is argued the clauses can disallow the acceptance of contributions and avoid what would otherwise be excess contributions from being counted against the caps.

Amendments to the law will be made to ensure the superannuation contribution cap rules operate as intended, notwithstanding these trust deed clauses.

The start date for this change was not announced.

Taxation

Deferral of 50% tax discount for interest income

A 50% tax discount on interest income within threshold limits was due to start from 1 July 2012. This start date is to be deferred until 1 July 2013.

Other deferrals

The Government also announced the deferral, until 1 July 2013, of the standard deduction to be allowed when individuals claim work related expenses in their tax return.

Dependant Spouse Tax offset

This offset is to be further restricted so as to only apply for spouses without dependent children where the spouse was born before 1 July 1952.

This change won't impact those whose spouse is an invalid or a carer, or who receive the zone, overseas forces, or overseas civilian tax offsets.

Other

Baby bonus reduction

The Baby Bonus payment is to be reduced from $5,400 to $5,000 from 1 September 2012. There will be no indexation of this payment for three years from 1 July 2012.

More detailed information will be provided once the amending legislation to implement these changes is released.

Empire milestones

Since leaving the Brumbies last year, Julian Salvi has been playing flanker for the Leicester Tigers (the most successful English club since the introduction of league Rugby - typical match attendance is over 40,000). With two tries and a man-of-the-match award under his belt he is off to a stellar start.

While in the United Kingdom, Julian remains an integral member of the "Empire Team" as he assists our ex-pat clients.

Our Services - By Referral Only *

We ensure our clients are maximising their current position through tax planning, superannuation and investments by taking a holistic approach to financial planning.

Your first appointment is at no cost and provides an excellent opportunity to review your current position and discuss successful financial planning strategies.

We provide specialist financial planning advice in the following areas:

- Retirement Planning
- Social Security (Centrelink & DVA)
- Aged Care

- Advice on How to Increase Your Personal Wealth
- Advice on Direct Shares & Managed Funds
- Investment Property Advice

- Business Planning & Employee Share Advice
- Salary Packaging Advice
- Redundancy Planning Advice

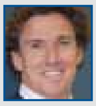
- Superannuation Advice
- Rollover Advice
- Self Managed Superannuation Funds

- Estate Planning (Wills, Trusts, Powers of Attorneys)
- Personal Insurances (Income Protection, Trauma, Death and TPD)

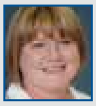
- Budgeting, Cashflow and Taxation Planning, Debt Management, Loans

["By Referral Only" means: We invest 100% of our time and energy to delivering premium service to our clients. As a result, our valued clients, suppliers, and friends refer their family, friends and work associates to us for financial planning advice. We're interested in building strong life long relationships one person at a time.]

Contact Us



Dominic W. Kelly
Managing Director



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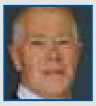
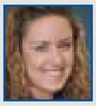
Senior Financial Planner

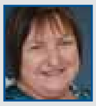


Frans Walschots
Property Adviser

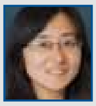
Your support team:



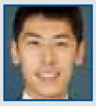
Alicia Ermini
Office Manager



Gail Grady
Client Service Manager

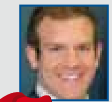


Mingjie Qin
Analyst



Dan Wang
Analyst

Carol Loke-Nichol
Client Service Manager



Julian Salvi
Analyst

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