

A Quarterly Newsletter for Clients and Friends of Empire Financial Planning



2010 Stock Highlights and Looking Ahead!

Over the past quarter we have seen the Australian equity market gradually recover from the depths of the European sovereign debt crisis that emerged in June this year, causing global uncertainty into the start of September and beyond.

Domestically, our continuing recovery from the GFC is being underpinned by the large demand for our natural resources, particular from Japan and China; a fundamentally sound banking system; relatively low debt levels in the public and corporate sectors; a stable housing market; low unemployment and a strong Australian dollar.

Rio Tinto has been the standout performer of the Australian blue chip shares in the second half of 2010 with a 1-year annual return to shareholders of 19.1%. While a significant portion of this has been driven by the demand for Australian resources, Rio Tinto have announced a number of exciting investment opportunities in the last few months.

Back in June 2009 Rio and BHP Billiton had announced a joint venture in Western Australia's Pilbara region, however both parties agreed to abandon the plans in October this year. This was a slight positive for Rio, as the terms of the joint venture favoured BHP. Rio have instead agreed to spend an additional \$1.2bn in the region to increase the capacity of their own iron ore operations.

Rio are also looking to further their overseas operations, with a recent announcement that they will be managing a world class gold and copper mine in



By **Nick Howell**
Financial Planner

Mongolia under an agreement with Ivanhoe Mines. With plenty of investment activity in the pipeline for 2011, Rio are looking to continue the strong share price momentum of the last few months.

Internationally, the US has just announced a second round of stimulus measures (labelled "Quantitative Easing 2" or QE2), which while originally viewed with scepticism, have been positively received in the US equity markets. European markets are still on edge and likely to remain so in the short term as the Irish banking system received a bailout from the European Union and the International Monetary Fund. Concern still lingers over the health of the Spanish, Portuguese and Italian financial systems.

With the Australian markets showing strong fundamentals despite trading sideways and plenty of value in International equities due to favourable valuations and a strong Australian dollar, there is strong growth potential for investors holding good quality assets over the long term.

Happy holidays!



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

From all of our team (as below), Myself, Janine, Gail, Julian, Carol, Nick, Alicia and Dan, we thank you for your support and we look forward to continuing our relationship in 2011!

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

Closed from:

12.00pm Wednesday,
22nd December 2010

Re-opening:

8.30am Monday, 10th January 2011.

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

I would also like to introduce to you a new addition to our team, Dan Wang. Dan has recently joined in the role as Analyst and has already proven to being a valuable asset to our Team. You will enjoy meeting him if you have not already.

Happy Christmas to you and yours!

Dominic W. Kelly
Managing Director



Property Investment, The Year in Review and The Year Ahead

Written by



Dominic W. Kelly
Managing Director

Australia has again had a very prosperous year post GFC and the economic adjustments made in late 2008/09. The real estate markets within our expansive and diverse country have provided a year of "markets within markets" or a "tale of many cities".

The performing capital cities throughout 2010 provided outstanding double figure growth, while the non-performers have managed to hold their ground. None of the major markets have shown any real decline in value throughout the year and this provides many opportunities into 2011, not only for the high flying markets, but for the counter cyclical ones where the buyer has much more control.

	HOUSES	UNITS
MELBOURNE	15.88%	14.51%
BRISBANE	-0.40%	0.25%
SYDNEY	8.56%	8.80%
ACT	11.78%	5.35%
PERTH	-0.41%	2.74%

Capital growth 12 months to Oct 2010
Source: RESIDEX www.residex.com.au

There has been limited growth in rents throughout 2010, and this is expected to change early in 2011. With the interest rate increases experienced during the calendar year and affordability once again an issue, pressure is placed back on the first home buyers. There is less first homebuyer activity than last year with only 12 per cent of new loans going to young purchasers nationally, according to Australia's largest mortgage broker AFG.

With the interest rate increases many will now need to spend more time in the rental market before being able to make their first purchase.

This process was artificially short wired with the First Home Owner Grants in 2008/09 and enticed a portion of renters into purchasing prematurely. We expect the owner occupied / renting balance to return in 2011 and this will bring an increased rental return to landlords and improve yields, further enticing investors back into the market.

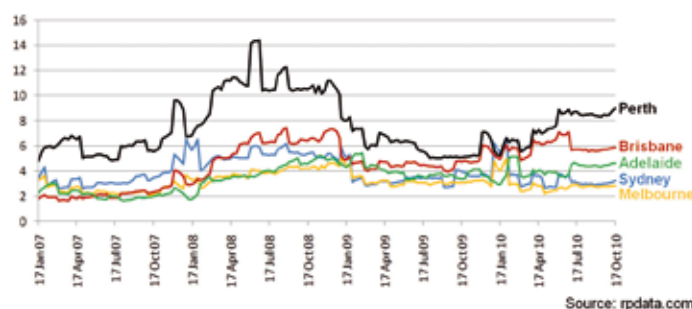
Unit performance in all the major markets this year has been on par with that of houses and in some cases outperformed due to affordability close to the major employment and education zones. The unit market which a decade ago was predominantly an investor market has had an unprecedented growth into the owner occupier market. For the young couple and/or family, the dream of having a family home within 10kms of Sydney or

Melbourne has been priced out of their reach over the past 5 years. Often, the options now for a young family are a house and land package (often 30kms+ from the CBD and lacking infrastructure) or to give up the backyard and find townhouse or apartment accommodation with all the infrastructure (work, schools, universities, hospitals, shopping, public transport).

This has been the biggest change in the markets and the unit accommodation now offered reflects this being far more sophisticated with high end finishes and more efficient spaces.

Supply, will again be the headline issue in 2011 and although more property has been advertised in the second half of 2010 a lot of the projects are being offered subject to permits and/or subject to development finance. Funding issues are the major slowdown on supply with there still being a world wide shortage of equity post GFC. We expect a number of projects offered in 2010 to be put on hold until the funding climate improves, this could take some time and will only magnify the supply issues we face today.

Major capital city effective supply



As seen above the effective supply (ie. the number of months it would take to sell all housing stock currently advertised based on the current rate of sales) varies greatly across the markets. Since 2007 the effective supply nationally has averaged 4.0 months, currently Perth is the highest with 9.0 months and Melbourne a significant low of just 2.8 months.

2011 is sure to provide the investor with many opportunities with ongoing supply issues, improving yields and relatively strong economic fundamentals. Buyers will have far more negotiation power and in the counter cyclical markets the ability to cherry pick the right property in a market destined for rebound growth.

The Importance of Dividend Yield

Written by



Janine M. Scott
Senior Financial Planner

One of the critical issues when deciding to buy an investment using borrowed money is to estimate the income that the asset will produce so it can fully or partly offset the interest cost on the loan.

With an investment property, you want reliable tenants paying rent on time. If you lose a tenant, you want to be able to replace them quickly. And you want rents to increase over time.

It's the same with shares. Dividends are the way a company distributes its profits and are a signal of the underlying commercial strength of the business. Income-generating shares can be attractive in a "set and forget" strategy, allowing time for the capital values to increase with limited need for extra cash flow to meet the interest payments.

Past dividend history is one benchmark of corporate strength but you need to consider whether the income will be maintained or increased in the future. For instance, many Australian companies operate in mature markets and seek expansion through domestic growth and acquisition – and the more risky offshore strategies. The key is to evaluate whether this yield can be maintained in the future.

Whilst yield is a critical issue, ease of management must not be forgotten. Property requires you to ensure the suitability of your tenants and find new ones when they leave. Direct shares require you to select, manage and handle the tax consequences but with a share fund, the manager organises all that for you. We can advise you on this.

Going once, going twice, sold!

Written by



Janine M. Scott
Senior Financial Planner

These days you open the Property Guide and many properties are sold at Auction. Below we have provided some tips for you to consider...

Auctions can be very exciting – when a lot of people are involved and want the same property, it's easy to get caught up in all the excitement and bid more than you had planned.

Here are a few tips to help protect you on auction day and make it an enjoyable experience.

1. Do your homework to determine the true value. Research what has happened in the market recently to give you a more accurate indication of the property's true value. Looking in the paper or hiring a valuer may also be beneficial.
2. Don't show your hand. If you tell people how much you're prepared to pay, it will put you at a disadvantage. Keep quiet and you'll have everyone guessing.
3. Don't bid too early. Bidding before the reserve has been reached is a pointless exercise as the property isn't for sale until it reaches that value.
4. Seek legal advice before signing any documents. Don't be tempted to save money by not doing so, as it can prove costly in the end.

Buying property at an auction can save you a significant amount of money and if you heed these simple tips you have a better chance of emerging a winner.



Empire milestones



Congratulations to Nick who recently graduated with his Bachelor of Finance.

A huge milestone for Dan who recently graduated with his Master of Actuarial Studies.

Contact Us



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Managing Director



Janine M. Scott
Senior Financial Planner



Nick Howell
Financial Planner

Your support team:



Alicia Ermini
Office Manager



Gail Grady
Client Service Manager



Julian Salvi
Analyst



Dan Wang
Analyst



Carol Loke-Nichol
Office Administrator

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



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