



STRAIGHT TALK

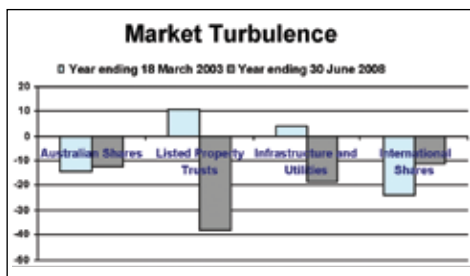
What does 2008/09 hold?

Samuel Goldwyn, the Hollywood film producer, said never make forecasts, particularly about the future. 2007/08 was one of the most tumultuous for investors in living memory. What does 2008/09 hold?

It was almost a perfect storm for investors in 2007/08 as the global financial and credit systems went into shutdown over the US subprime crisis. Businesses and individuals that financiers were throwing money at in 2007 were now being asked to pay it back or refinance on more expensive terms. The borrowers often became forced sellers of good assets on markets already weakened by reduced confidence.

Importantly for the WHK Group investment process, this selling also hit hard those investment sectors such as fixed interest, property and infrastructure that we see as defensive with steady income streams. In past share market falls, as in 2002/03, these investments had generally held up well.

The chart below compares the rates of return including dividends and distributions over the year to March 2003 and to June 2008 for Australian shares, International shares, Australian Listed Property Trusts and Australian Infrastructure and Utilities. It shows that while the negative returns from shares over each twelve month period is less in the current downturn, the current negative returns from property and infrastructure is in marked contrast to the positive returns in 2002/03.



In the current very risk averse environment and concern about recession in the US and Europe, the past powerhouses of the global economy, investments in these regions have been shunned. Helped by the very low interest rates, the focus of the mobile money has been those assets benefiting from the rapid growth in the emerging economies, and particularly China. Commodities, including oil and cereals, and the mining companies became the new defensive assets. Already on an up trend with rising demand, the first half of 2008 saw rice prices almost treble and oil prices up 50%.

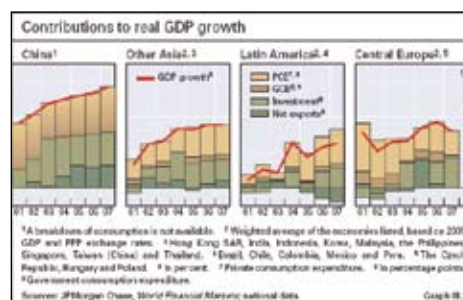
The expected impacts on inflation and consumer spending in other areas have in turn caused more

uncertainty globally about company earnings and profits with resulting share price falls. Share markets are always looking forward but, apart from the US and European financial sectors caught up in the subprime crisis, company profits in most of the major economies appear to have held up very well at close to record high levels over the last year. Profits may not grow as they did in 2007. The fundamentals continue favourable, however, with wages growth remaining moderate.

In the past such episodes of higher commodities prices have often led to stronger wages claims and an ensuing wage/price spiral leading to low profits, falling business investment and employment and then recession. What we are seeing this time around is the increase in commodities prices not resulting in stronger wages claims and so profits and business cash flows are holding up. That gives us confidence that business investment and employment in the major economies, while likely to weaken, should weather this storm without recession.

Looking to the impact of slow growth in the major economies on the emerging economies, it is possible the latter's export growth will slow. Increasingly the growth in these economies is being driven, however, by rapidly growing domestic spending.

The graphs below from the Bank for International Settlements 2007/08 Annual Report show this growth with spending by their own households, as shown by the tan parts of the bars; business investment as shown by the light green; and Government spending; as indicated by the brown.



This more domestically driven growth, along with these countries' high foreign exchange reserves and relatively low debt levels, suggests their growth could continue quite strong even if the USA and European countries slowed down. We should also not underestimate in any case the impetus to global

growth and development from billions of people who can now see the prospects for a sustainable escape from poverty.

It also needs to be recognised this emerging economies' growth is helping USA and European businesses to grow even as their domestic markets are suffering from the subprime issues. Nokia, one of the world's biggest mobile phone makers, announced it is now selling more phones in Africa than in Europe.

General Electric, the world's biggest maker of locomotives and power plant turbines, said sales of these items could rise 15-20% in 2008 as Asian economies invest in more infrastructure. General Motors North American operation lost about \$US800 million in the March quarter as the US car market and its market share contracted. In contrast GM's operations in Latin America, Africa, the Middle East and Asia/Pacific made a profit before tax of about \$US800 million, just about double the profit of a year earlier. GM sold over 1 million motor vehicles in China in 2007, a 19% gain on 2006. China is now GM's second largest market.

All that said, the world remains a highly uncertain place. This is particularly as fear of loss is now building on itself in the US just as did the over-exuberance of credit availability until mid 2007.

The sharp rise in oil prices to around \$US145 a barrel and fears over possible disruptions to major suppliers such as Nigeria and Iran adds further uncertainty. Whether or not this price does, as we suspect, include \$40 to \$50 of speculation and risk premium is beside the point. Surging demand in the emerging economies, slow oil supply growth for technical and political reasons and additional carbon emission costs means the world is going to have to live with high oil prices.

With cars already in production that will deliver 100 kilometres per 4 - 5 litres of diesel and electric cars capable of 100kph in 4 seconds and a range of 300 kilometres, the technical capability is on its way to sharply reduce oil dependence. While these vehicles may currently be expensive, we have all seen how quickly in the last few years high-end technical innovation spreads to the lower cost, mainstream markets.

We are going through a painful adjustment process from a period when high debt and low cost energy were accepted as staples. The adjustment is happening much faster than most expected. Picking the end of the cycle of fear and when the adjustment processes create investment opportunities is now our focus. Just remember those words of Samuel Goldwyn.

Article by Darryl Gobbett, National Manager Investments & Strategy, Prescott Securities, a WHK Group firm.

Minimising the impact of interest rate rises

In the current economic environment the price of petrol, food and interest rates are at the front of people's minds. A subject of daily conversation these three aspects of life are high on the list of people's concerns.

Whilst we can make some saving decisions around food and fuel and lifestyle choices, the bigger savings could be made in respect to interest rates and finance arrangements as these are higher value transactions and therefore have a bigger flow on effect.

Despite the Reserve Bank's 5 August 2008 decision to hold the cash rate at 7.25% for the fifth month running, Australians have weathered a significant number of rate rises over the past three years. We have also seen the major banks over the last few months lift interest rates independently of the Reserve Bank. Any Reserve Bank rate increases in the future will further stretch some business and property owners.

It is important to review your current borrowing levels and understand how to manage your debt levels in the changing economic conditions.

Strategies to manage interest rate and borrowing pressures:

Budgeting

It is not only business taxpayers that need to budget their cashflow but also individual taxpayers and families, particularly in tougher economic times.

Each household should review the total after-tax income coming into the household and the associated outgoings in running a household. It is important that these are measured and understood. For example a 0.5% rate rise on a mortgage of \$300,000 (at 8.91%) would lead to an increased monthly payment of \$108 or \$25 per week.

Given the current economic conditions and uncertainty, it is important that families live within their available resources which means more closely measuring and allocating their cashflow. Your WHK adviser can help with your personal budgeting requirements.

Credit Card Debt

Credit cards (and interest-free store cards) are one of the easiest accesses to finance and also one of the higher interest rate borrowings.

The buy-now-pay-later philosophy could lead to significant cashflow problems if not managed well.

As house prices have increased over the past decade we have seen a lot of credit card restructure and consolidation into existing mortgages. Traditionally it has been very convenient to restructure a credit card borrowing against an inflating asset value.

Restructuring or consolidating your credit card to your home loan will reduce your interest rate on your credit card, but beware of over extending your repayment commitments if the credit card debt is again extended after consolidation.

Review your existing finance facilities

Now is a timely reminder to review your existing finance facilities.

Similar to your wills and insurance needs, your finance should be reviewed regularly. There are many opportunities in the market to consider alternate financiers and products which may lead to increased savings for business and households.

A consideration may be given to fixed versus variable interest rates. Careful consideration needs to be given to fixing a loan in the current environment given the uncertainty on interest rate stability and you should consult with your WHK finance professional

The real cost to you in reviewing your existing facilities is your time to review and understand the alternatives available, and the savings may be significant.

Restructure Non Tax Deductible Borrowings

Credit card and home mortgages are generally private non tax deductible debt. However many people pay additional repayments to reduce their business or investment debts at the expense of private debt.

Given the business or investment debt will generally be tax deductible it may prudent to make only the necessary minimum repayments on this debt and redistribute additional or surplus funds from the business or investment to pay off the private debt more quickly.

The strategy may not reduce the overall debt (business and private) any more quickly, however it will ensure that the majority of the total interest paid will be tax deductible.

It is important to discuss any restructure of personal and investment or business facilities with your WHK tax adviser as each individual case needs to be assessed separately and advice given to the tax effectiveness of the transaction.

There are specific tax rules regarding the deductibility of interest on investment and business loans and the particular use of the funds which need to be considered. A simple restructure of facilities without appropriate advice may not in fact achieve a conversion of non-deductible to tax deductible debt if the correct process and documentation is not implemented.

Apply the income tax cuts to your mortgage

Applying a combination of the income tax cuts announced in the 2008 Federal budget to your mortgage could lead to a significant reduction in the interest paid on the term of the loan whilst also reducing the term of the loan.

For example assume a salary of \$70,000. The 2009 tax cuts will result in a net saving of \$600 per annum. If this extra \$50 per month is applied to a mortgage of \$300,000 (over 30 years) it will save \$61,734 in interest on the total loan and shave 2 years and 8 months of the repayment term. This will be further reduced if the repayments are converted to fortnightly or weekly payments.

Alternatively applying your annual tax refund to your mortgage may also significantly reduce the interest payable and term of the loan.

Article by David Morris, Principal, WHK (Albury)



Superannuation – Useful Information

In the new financial year it is timely to consider recent changes to superannuation.

1. Superannuation Guarantee

Calculation of Superannuation Guarantee Contributions

Ordinary times earnings must be used for calculations of superannuation guarantee contributions for all employees from 1 July 2008. Ordinary times earnings as defined in the superannuation guarantee legislation is generally what an employee earns for ordinary hours of work including over-award payments, shift loading or commission. It excludes such things as overtime.

Superannuation Guarantee Contribution Offsets

Under the Tax Laws Amendment (2008 Measures No. 2) Bill 2008 MR 2008/38, which received Royal Assent on 24 June 2008, employers can offset all superannuation guarantee contributions paid late to a superannuation fund against their superannuation guarantee obligations – previously they could only offset late contributions made within one month of the due date. To find out more specific information in relation to the above change, please refer to the afore mentioned Bill.

ATO Calculator Tool

The Tax Office has released a calculator tool which employers can use to determine if superannuation guarantee charge is payable. The tool calculates the employer's SGC liability and is available on the ATO website.

2. Co-Contribution

Definition of Income for Co-Contribution Eligibility Purposes

The definition of income for the purpose of determining Superannuation Co-Contribution eligibility has been updated. Examples of items included in income are gross rent, reportable fringe benefits, sole trader gross business income and sole trader increase in stock values from financial year to financial year. It is important to ensure that clients understand whether they will meet the income eligibility criteria and not simply rely on their taxable income per their income tax return.

ATO Calculator Tool

The Tax Office has released a calculator tool which taxpayers can use to determine the amount of superannuation co-contribution they may be eligible for. The tool is available on the ATO website.



3. Self Managed Superannuation Funds

New Annual Return

A new annual return for self managed superannuation funds must be used for all 2008 lodgements. The new return includes the following previously separate documents:

- The fund income and regulatory return;
- Member contribution statement/s; and
- A separate payment advice for the supervisory levy

which means when trustees report for the 2007/08 financial year, for the first time, they will submit only one document.

There are significant changes from the prior year documents. It is imperative that the requirements for the new form are clearly understood and followed during completion to avoid potentially unnecessary audit activity.

Increased Supervisory Levy for 2007/08

The supervisory levy for 2007/08 financial year is \$150 per fund, increased from \$45 per fund for the 2006/07 financial year.

ATO Focus Areas

Some areas within self managed superannuation funds which the ATO are currently focussing on include, but are not limited to:

- In-house assets;
- Ownership of Assets;
- New funds;
- Early access to superannuation; and
- Special Income.

Article by Kathy Evans, Principal, WHK (Albury)

Did You Know?

WHK Group is the fifth largest Accounting group in both Australia and New Zealand.

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Member Horwath International



2008 WHK Horwath Corporate Governance Report

WHK Horwath recently commissioned the University of Newcastle to complete an extensive study of the top 250 companies in Australia (by market capitalisation) and how they fared on a star rating system for best corporate governance. The overall finding of the 2008 WHK Horwath Corporate Governance Report is that the corporate governance structures and policies of Australia's top 250 companies can be described as having "Jekyll and Hyde" traits.

Jim Psaros, Associate Professor University of Newcastle, said that the surprising result of this survey is the increased polarisation of the policies, procedures and practices of Australia's top companies. The good news is that the number of companies awarded five-stars because of their excellence in corporate governance has increased. The sobering bad news is that the number of companies obtaining one-star because of their significant deficiencies in corporate governance has also increased. The report findings were independently compiled by the University of Newcastle Associate Professor Jim Psaros, based on surveys conducted over the past six years.

The good news

While all 40 companies that achieved a five-star rating have outstanding corporate governance structures and policies, there were six companies that jointly topped the list. In alphabetical order they were Adelaide Brighton, Ansell, Crane Group, CSR, PaperlinX, and Perpetual Trustees. Evident from their five-star ratings, and 1st placing, the corporate governance structures of these six companies could not be faulted as they met all criteria considered in the WHK Horwath model. There are only three companies that have achieved a five-star rating for all six Corporate Governance Reports (ie. David Jones, Santos, and Woolworths). To achieve excellence in corporate governance, over a relatively lengthy period of time, demonstrates a real and on-going commitment.

The bad news

Perhaps the most concerning finding of the report relates to the increase in the number of companies that obtained a one-star rating. Ten companies (4%) were assessed as one-star compared to six companies (2.4%) in the 2007 analysis and four companies (1.6%) in the 2006 Report. In essence a one-star rating means that corporate governance structures were lacking in most key areas. Almost without exception, the Board of Directors and the associated committees (where they existed), contained no independent members.

At WHK we are strong supporters of helping companies deliver robust corporate governance because good corporate governance structures encourage companies to create value (through entrepreneurialism, innovation, development and exploration) and provide accountability and control systems commensurate with the risks involved.

If you are interested in learning more about how we can assist you with robust corporate governance or to download the full report just go to www.whkhorwath.com.au.

Stop Press: Look out for the new release of the 2008 Review of Mid Caps (companies ranked 251-400 by market capitalisation). This report provides illuminating reading about how certain industries are lacking the most basic of good governance requirements...



Life Matters 1

Total and Permanent Disablement also known as TPD means exactly what it says: Total and Permanent.

To claim, your doctor and the insurance company's doctor must sign a declaration that they believe you will never work again in any capacity. However there is a proviso.

The individual policy will state whether you will never work again in your current occupation or any occupation which you could be reasonably expected to perform due to prior experience or education.

This is important as it may determine whether a claim is paid. Not all occupations are offered the "own occupation" wording. Usually only professionals such as the medical, legal and financial professions.

The "own occupation" policy also comes at a higher premium - especially if a life company does offer this type of policy to tradesmen.

It is always a good strategy to confirm whether the TPD cover is "own occupation" or "any occupation". Very few people know the answer and in fact, very few would know there was a choice in this regard.



Life Matters 2

My best mate suffered a stroke last week. Fifty years of age with teenage children and still has a lot of living to do. Like most people of that age he has commitments in addition to

retirement looming on the horizon.

My mate's dilemma once again brought home the suddenness of events that can bring devastating consequences to our lives. Yes, he has been told many, many times over the past few days that it could have been worse, or how lucky he is. My mate will be OK, he has suffered no long-term effects which is a blessing. We realise the situation could have been worse and my mate had something to say on that.

"I've had a stroke Kev. I don't want to think about what could have happened. At least the family would have been OK."

Without Dad and husband. Not likely. But to my mate the "OK" meant financially the family would be right. The value of that comfort is priceless to my mate.



Life Matters 3

Have you ever wondered who invented insurance? How products are developed? What causes an insurance product to be put onto the market?

Consider the story behind Trauma Insurance.

In South Africa during the 1980s a leading heart surgeon, Dr Marcus Barnard, observed that, while he could repair a person physically only an insurer could repair a person's finances (or pay his bill). He and his brother, Christian Barnard had performed the world's first open-heart surgery, but they had no cure for the financial position their patients found themselves in.

You see, without this marvellous new surgery the patients would have died - and their families would have collected their insurance. Responding to the situation, Marcus Barnard worked with insurers to develop the product we all know as trauma insurance.

These two famous doctors saw the need for trauma insurance. Do we?

Articles submitted by Kevin Cameron, Senior Manager, WHK (Albury)