

## 2011. America's year?

Most people if asked about which geographic area will perform well this year might respond with emerging markets, especially in Asia. The US might not get a mention.

But this might be a good year for the world's biggest stock market. Politics, monetary and fiscal policy, corporate strength and valuations all point to the US market ending 2011 significantly higher than where it started.

The outlook is clearer in the US than almost anywhere else in the world. Not for Americans the fiscal austerity that will make 2011 a chilly year in Britain. Not for them the sovereign debt worries afflicting Europe. Nor do they face the inflation concerns hanging over China and other emerging markets.

Inflation is, in fact, running considerably below the Federal Reserve's implicit target of about 2% despite the US cash rate having stood at an effective zero rate for two years now. As unemployment is stuck around 10%, it's hard to see US rates rising again soon.

Low interest rates, which have allowed companies to re-finance their debt on favourable terms, have contributed to profit margins rising to near-record levels. This trend has been underpinned by the rapid response of companies to the business downturn. The result has been that margins bottomed out much higher than in the recessions of the early 1990s and in 2002.

The rebound in margins means that the average earnings for the constituents of the S&P 500 Index should be higher than at the previous peak in 2007 and around one a half times higher than in 2000 when the US stock benchmark hit a peak of 1,527.

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## Sip your way to weight loss

If you're prone to overeating then drink a glass of water before meals.

One trick used by successful dieters is to always drink water before meals. The idea is that drinking the water fills the stomach and so reduces the hunger.

But does this approach stand up to scientific scrutiny? Is it really effective for weight loss?

In a study published in the journal *Obesity*, researchers from Virginia Tech University in Blacksburg, Virginia, in the United States, examined weight loss in 48 overweight adults aged 55-75 years who were placed on low kilojoule diets for three months.

Half of the participants drank two cups of water before every meal. They found that the water group lost around seven



kilograms compared with the other group that lost an average of five kilograms.

An earlier study by these researchers found a 13 per cent reduction in kilojoule intake in overweight people who drank half a litre of water before breakfast.

Interestingly, the same researchers also reported that drinking water 30 minutes before a meal reduced kilojoule intake and hunger in older adults but not in younger adults aged less than 35 years.

The reason for this difference has yet to be determined.

The results from this series of research studies support the claim that drinking water before a meal can reduce kilojoule intake, and that this is more effective in older than in younger people.

If you're interested in seeing whether this approach might help you lose weight, it would be best to drink one or two glasses of water before every meal, for at least four weeks. That way you can judge for yourself.

Source: *Asteron Life*

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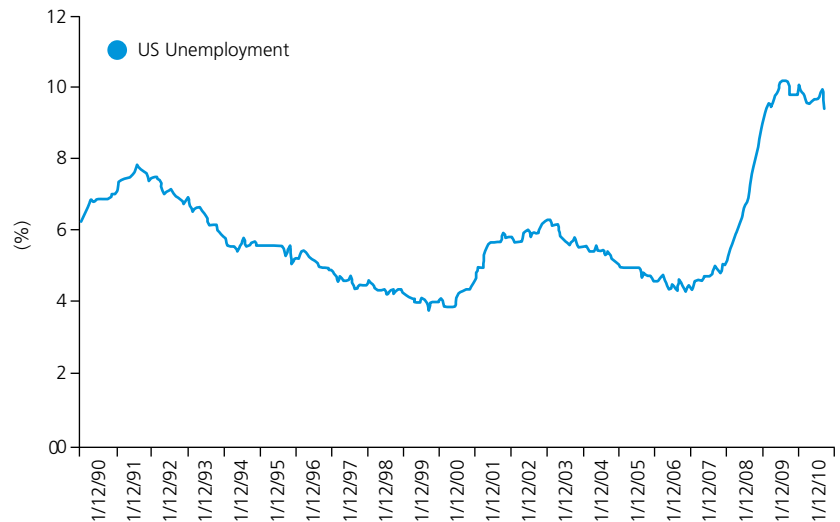
Although valuations were excessive when the S&P reached this record, the combination of a lower market and higher earnings means that shares are better value today. With earnings expected to grow at a double-digit rate this year and next year, the multiple of earnings that investors will be prepared to pay could also rise. This combination of higher earnings and a rising price-to-earnings ratio often characterises the best years in the market.

The final reason why 2011 could be America's year is the weight of money that is sitting on the edge of the equity market. After a couple of years of outflows from equity mutual funds, investors accept that they must move into riskier assets if they are to hope to replace the income they have lost from their risk-free deposits.

Easy money, decent growth, reasonable valuations and indifferent investors make an interesting combination.

*Source: Fidelity Australia*

**US jobless rate since 1990**



*Source: DataStream*

## Your family can risk your retirement plans

You've saved hard to build your retirement nest egg. You should be able to spend the money on a hard-earned relaxing lifestyle. But all this could be put at risk if your adult children don't have their own financial affairs well managed, particularly adequate insurance protection.

It's human nature to assume that bad things only happen to people we don't know. Unfortunately this approach means that many are unprepared financially for their future if sickness, accident or injury arises. This often results in members of their family having to bear the costs of supporting them.

For those close to or in retirement who are placed in this position, the financial impact can be devastating.

### Could this happen to you?

Let's consider the example of Gary and Roslyn, both 61, who have one child, a 30-year-old daughter Janet. Gary and Roslyn are retired with an investment portfolio valued at \$700,000, paying

them an annual income of around \$48,000. They also own their home, valued at \$650,000.

Gary and Roslyn were enjoying lots of travel and spending time with their extended family members overseas until their lives dramatically changed when Janet was badly injured in a car accident. Janet was in hospital for almost three months, requiring another nine months of rehabilitation before she was able to return to work.

Janet's sick leave ran out after the first fortnight, and as she had no insurance cover in place, she had no income to pay the mortgage on her apartment (\$2,500 a month) or other essential costs, including her mounting medical expenses.

As they didn't want Janet to have to sell her apartment, Gary and Roslyn needed to draw on investment capital from their portfolio to pay Janet's mortgage and meet her expenses for the year she was off work. This ultimately reduced Gary

and Roslyn's investment portfolio by almost \$70,000 (or 10%).

While Janet fortunately made a full recovery, the cost to Gary and Roslyn of supporting their daughter in her time of need meant a dramatic change in their long-term retirement prospects; ultimately their income was reduced by \$7,000 per year for the rest of their lives (a 15% reduction), plus their travel plans were significantly affected.

### What can you do?

Believing that unfortunate events only happen to people you don't know isn't a responsible solution and is a terrible way to jeopardise your retirement. As part of looking after your own financial future, make sure that others who could affect your plans, ie. Family members have also taken the right steps for their own lives.

Talk openly to your adult children about their insurance cover and if they are putting themselves or you at risk, recommend they talk to a financial adviser.

## Sizing up your super

There are changes afoot for your super, so here are five ways to make more of what you have this year.

There are changes coming with the Federal Government's review of the superannuation industry, but many of these are gradual ones, such as the move to increase minimum compulsory employer contributions, or Superannuation Guarantee (SG), from 9% to 12% by 2019.

While 2019 may seem a long way off, Pauline Vamos, chief executive of the

Association of Superannuation Funds of Australia (ASFA), an industry body for the superannuation sector, recently predicted that a higher SG would make a significant difference to retirement outcomes.

"For a person 30 today, earning \$50,000 a year and with a current super account balance of \$23,000, their lump sum on retirement will increase from \$300,000 to \$385,000 with the move to 12% SG," says Pauline (ASFA media release 29 June 2010).



### Contribution caps for 2010 - 11

Concessional contributions	Non-concessional contributions
Under age 50 on 30 June 2011: \$25,000	Under age 65 at any time during 2010-11: <ul style="list-style-type: none"> <li>• \$150,000 or</li> <li>• up to \$450,000 over a three-year period under the bring forward rule</li> </ul>
Age 50 or over on 30 June 2011: \$50,000	Age 65 or over for all of 2010-11: \$150,000

A financial adviser can help you with the detail on the caps which apply to you, how you're tracking in relation to the amounts for the financial year, and which future strategies will work best.

## 5 super saving strategies

Now you can start to think about some strategies to boost your super balance.

### 1. Salary sacrificing can be a good bet

Salary sacrificed super contributions are taxed at a maximum 15%, instead of your marginal tax rate, which could be as high as 46.5%, which can leave you with more super. But beware of the concessional contribution caps.

### 2. Give co-contribution a go

This applies to those with an annual income below \$61,920. If you earn less than \$31,920 per annum and you contribute \$1,000 to super during that financial year, the government could potentially match your contribution dollar for dollar. As your annual income increases up to the maximum of \$61,920, the government contribution reduces.

### 3. Consolidate your super accounts

If you're one of the many Australians who have multiple super accounts, you could be paying extra in unnecessary fees. Consolidating your accounts could save on fees and time, and as a result may boost returns. Remember to check how the benefits in your various funds may be affected, such as insurance cover, or whether exit or withdrawal fees apply.

### 4. Spouse contribution tax rebate

A working person can contribute super on behalf of their spouse in a number of ways which could provide some tax benefits. Some examples include making an after-tax contribution that's eligible for a tax rebate or splitting or transferring the working person's salary sacrifice contributions to the spouse.

### 5. Align your super strategies with your personal circumstances

It's important to revisit your super strategies with your financial adviser as your personal circumstances change. Have your financial responsibilities decreased and you can consider increasing your salary sacrifice amount? Has your income decreased, making you eligible for a government co-contribution?

Source: Colonial First State

**Did you know:** That in developed countries 27% of food is thrown away.

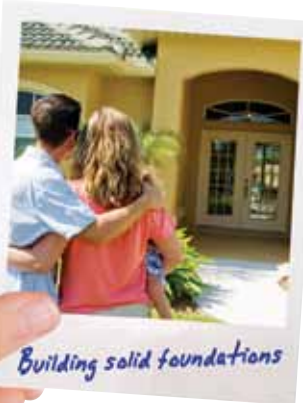
Source: [www.didyounow.net.au](http://www.didyounow.net.au)

## Rising interest rates – not all doom and gloom

In an effort to help prevent an economic recession at the height of the Global Financial Crisis (GFC), the Reserve Bank of Australia (RBA) lowered the official cash rate to 3.00%, a level not seen since the mid-1960s. However, seven rate rises later it is blatantly obvious that the days of record-low interest rates are over for Australia.

Interest rates are fundamental indicators of the health of financial markets. In moderation, rising rates are a positive sign. During the GFC, Australia's historically low settings enabled us to weather the global economic storm.

This approach is still being used by other countries, with official interest rates at the time of writing just 1.00% in Europe, 0.5% in the United Kingdom, and 0.25% in the United States. These economies were more seriously affected than Australia's, and they continue to struggle with difficult financial circumstances.



As economic conditions improved over the second half of 2009, the RBA began the process of 'tightening', or increasing, interest rates. This was done to ensure "public enemy number one" - inflation - does not run out of control. In late 2009, three monthly increases in a row were announced, a scenario not seen since the 1980s. This was followed by three consecutive monthly increases starting in March 2010.

At its Board meeting on 4 January, the RBA left the cash rate unchanged at 4.75%. This has signalled some concerns about the strength of the current recovery. If the Australian economy recovers as expected, further hikes will gradually move rates to a more 'normal' setting of between 5.00% and 5.50%.

### How will this affect me?

A rising interest rate cycle has different implications for households, businesses, investors and retirees. As interest costs increase, the disposable income, or spending power, of households is reduced. Corporate profits are also constrained by higher interest rates, and property investors require more cash flow to service loans. These scenarios suck money out of the economy and slow economic growth.

For example, current home loan rates are approximately 7.00%. If the RBA increases rates to the long-term average of 5.00% to 5.50%, the flow on to the consumer will be rates of 8.00% to 9.00%, significantly adding to mortgage costs.

**Did you know:** 85% of plant life is found in the ocean.

Source: [www.didyouknow.net.au](http://www.didyouknow.net.au)

For share market investors, a rising interest rate cycle confirms that a recovery is under way, with improved company earnings offsetting the added costs of borrowing money. Increasing interest rates are only a major problem for shares when rates reach levels well above normal. This was the case in 1994 when rates increased from 4.75% to 7.5% over five months.

### The other side...

Rising interest rates are not all bad. They provide increased returns for investors and retirees who rely on cash and fixed interest income for living expenses. Currently term deposits pay 5.00% to 6.00% for six to eight months, with higher returns available for longer terms. Cash and fixed interest investors have seen their disposable incomes reduced substantially over the last 12 to 18 months and will welcome this stage of the cycle.

If this change in interest rate direction is causing you to lose sleep, make an appointment with your financial adviser today to learn more about how you can personally manage them better.

Sources:  
[www.fxstreet.com](http://www.fxstreet.com)  
[www.rba.gov.au](http://www.rba.gov.au)  
[www.bankofengland.co.uk](http://www.bankofengland.co.uk)  
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