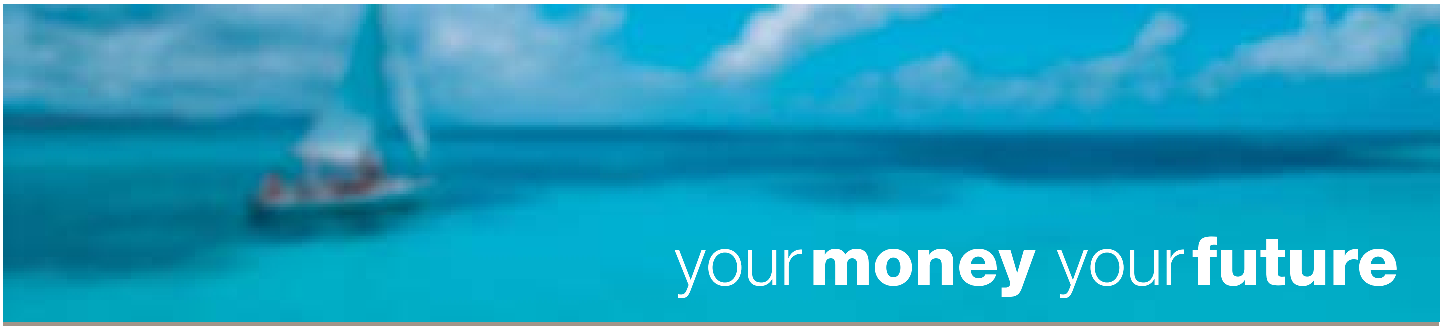

FINANCIAL PLANNING NEWSLETTER WINTER 2006

Latest News

As you will have read in the press, there were some significant changes announced in the May budget. For a summary of these changes and how they may affect you, please see the attached supplement.

Since our last newsletter, we have had an addition to the team. Michael Pyne has joined us as a Senior Financial Planner. For full details of the HPH team, please see the attached staff profile sheet.

We hope you enjoy this edition of our newsletter which will also be posted on the HPH Solutions website under "Downloads".

All the best
Rob & Adam

Don’t let your family lose the roof over their heads

Have you ever thought about the prospect of your loved ones losing their family home if you died suddenly? Would there be enough money to cover the cost of mortgage payments if you weren’t around anymore?

While it’s something most people don’t want to contemplate, a life-threatening illness or fatal accident could strike without warning, with the potential to leave your family struggling to pay the mortgage.

As the case study explains, a plan combining mortgage protection with life protection may help lessen the financial burden for your loved ones. For more information, contact your financial adviser.

Case study

David and Kate were a young couple raising two small children. They had a comfortable home with a $400,000 mortgage.

Sadly, David was fatally injured in a car accident and died before his son’s second birthday.

While nothing could take away the pain of this loss, thankfully David and Kate had planned ahead to protect their most valuable financial asset – their home – with a combined mortgage and life protection plan.

It provided Kate with a lump sum to repay the mortgage. And the comfort of knowing her family would always have a roof over their heads.

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Tax advantages, a superannuation boost and a simpler transition to retirement

It sounds like an impossible trifecta. However, thanks to some recent government legislation, the jump from work to retirement need no longer be a dramatic event. In fact, taking advantage of 'transitioning to retirement' rules can provide significant tax benefits and give your superannuation a helping hand.

Prior to July 2005, to access your preserved superannuation benefits you had to satisfy a number of conditions. Generally, upon turning 55 you had to declare yourself permanently retired or that you had no intention of carrying on paid employment for more than 10 hours per week. This meant that many people chose to retire prematurely, just so they could access their super.

This situation was impractical, especially considering the flexible and multi-faceted workplace that exists today. In response, the government announced changes to superannuation that make the transition to retirement simpler.

Easing into retirement

Now, if you have reached your preservation age, generally 55 years of age for most people, you are able to draw on your super without having to retire permanently. This means that you can continue to work and access a portion of your super to supplement your income.

Accessing funds while still being in the workforce can be done through the use of a non-commutable allocated pension, which provides a regular payment to the purchaser. The amount received for each payment can be varied within maximum and minimums set by government regulations.

Essentially, a non-commutable allocated pension is an allocated pension that does not permit lump sum withdrawals. In the financial industry they are known as NCAPs (non-commutable allocated pensions). Importantly, it is possible to roll back the allocated pension at any stage into your superannuation fund, for example if the income stream was no longer required.

Tax advantages and a super-building strategy

As a consequence of these rules, an innovative strategy to access significant tax advantages emerged. This strategy also potentially enabled the pending retiree to give their superannuation a substantial boost.

Because there is no requirement for you to reduce your working hours in order to receive the NCAP, it becomes possible to salary sacrifice a substantial portion of your income into superannuation while still receiving a regular payment from your super fund.

Why would you want to salary sacrifice your income while receiving an NCAP? Two reasons:

1. Your super fund will generate tax-free investment earnings because it is no longer in the accumulation phase.
2. Taxable pension income is eligible for a 15 per cent tax offset, whereas your salary would otherwise be fully taxable.

Not surprisingly, when the strategy first emerged, some were worried that the Australian Tax Office (ATO) might see it as tax avoidance. But concerns have been laid to rest, with the Commissioner of Taxation confirming on 17 November 2005 that such a strategy would not be considered avoidance, even where someone did not reduce their work hours.

Speak to your financial adviser about how you can make a relaxed and financially beneficial transition to retirement.

Case Study

Doug, aged 55, earns $70,000 per annum and has $450,000 in his current super account. Fortunately, Doug enjoys his job and is looking forward to working full-time until he reaches the age of 65.

Doug's financial adviser suggests he begins salary sacrificing some of his income in order to build the amount of funds available for his retirement. But Doug explains he cannot currently afford to lessen his take-home income. Despite this, his financial adviser explains that by beginning an NCAP he can supplement his income via his current superannuation fund, while sacrificing the equivalent amount into his super.

Doug expressed surprise at the suggestion; how can taking money from super and putting it back again, boost the amount in his super? The confusion is understandable because Doug still receives the same income and so he believes the net result would be the same.

Doug's financial adviser explains that the tax advantages of the strategy means that the super fund's investment gains will be tax-free and the NCAP income is eligible for a 15 per cent tax offset. Working through a number of tables and presumptions, he shows Doug that the strategy would give him additional super, by the time he is 65, of up to $86,109.

Ask your financial adviser how you can benefit from NCAPs and new transitioning to retirement regulations.

Australian retirees excel in the happiness stakes

Australians are positive about retirement seeing it as a time to keep busy and enjoy themselves, according to the AXA Retirement Scope survey released in January 2006.

The survey of about 7,500 working and retired people from 12 countries revealed that people everywhere fell into two classes – those who hold active, positive attitudes towards retirement and those who hold passive, negative views.

While active versus passive profiles split about 50/50 overall for the countries surveyed, only about one-quarter of Australians fell into passive profiles – the lowest proportion worldwide.

Close to 30 per cent of us, nearly double the worldwide survey average, fit into a profile described as 'hedonist' – the most joyous profile within the entire Retirement Scope population.

Hedonists tend to focus more on enjoying their own lives, even if they do engage in clubs and volunteer work more than average and spend more time with friends.

The heaviest concentrations of hedonists are found in the UK, where they make up more than one-third of people surveyed at 36 per cent, followed by Australia with 28 per cent and Canada with 22 per cent.

But hedonists are rare in Asia, where they account for only 4 per cent of those surveyed, and in the Mediterranean countries, which have only about 7 per cent.

Along with their hedonist tendencies, Australians also rank among the happiest retirees in the world. The survey found 94 per cent are happy and 93 per cent believe retirement is better in Australia than in any other country.

We were just beaten in the happiness stakes by New Zealand retirees, while Spanish retirees came last – the least happy of the lot.

Happiness is often linked with good health and the research showed Australian retirees feel among the healthiest alongside retirees from Canada, the US and New Zealand. Both working and retired Australians value good health and list exercise and sports, a healthy diet and participation in hobbies and activities as the best way to stay in shape. Happy, healthy Australian retirees are also generous with their time, ranking second highest behind Canada and New Zealand in performing volunteer work.

But in a slightly less heartwarming finding, the research revealed Australians are among the most 'selfish' people in the world when it comes to plans to spend retirement savings rather than leave money for their heirs.

70 per cent of working Australians plan to draw down on their retirement savings, spending their money on themselves rather than passing it onto their children, while the figure for retirees is 61 per cent.

Overall, when the results for working and retired people are combined, the most selfish in this regard are the Germans, followed by Australians, with New Zealanders in third place, while the French are among the most generous.

Some of the perceived selfishness of Australians about leaving an inheritance can be attributed to our retirement plans. Rather than seeing retirement as a time to stay home and do nothing, more and more people want to spend their retirement savings on travel or hobbies.

More than half of working Australians plan to travel when they retire and more than a third want to take up a hobby or special interest. Volunteer work also figured highly as a potential retirement activity for nearly 20 per cent of working Australians.

But will Australians be able to finance their retirement plans and dreams? The survey found that four out of five working Australians didn't know their retirement income and that most hadn't sought information about retirement.

So if you're interested in finding out more about your own retirement income and options, speak to your financial adviser who can help you to plan for a happy and worry-free retirement.

World's happiest retirees

1	New Zealand	7	Japan
2	Australia and	8	France
	Canada (equal second)	9	Germany
3	Belgium and	10	Italy
	UK (equal third)	11	Hong Kong
6	USA	12	Spain

The perils of market timing

Despite repeated attempts by investors to guess the direction of markets, the evidence suggests that market timing rarely pays off in the long term.

The premise

Market timing involves buying a stock when the price is low, holding on to the investment until its market price peaks, and then selling out and moving into cash or another asset class until the stock price hits bottom. The process begins all over again as one waits for the right moment to get back in. Sounds simple enough. The problem though, is that all timing strategies are based, in part, on second-guessing the market.

However, many financial advisers all over the world have related tales of clients who felt that 'now' might not be a good time to be in the market. These investors believe that by avoiding the market during troubled times, they can reap the benefits that equities have provided over the years, while sitting out the downturns. In this way, many investors try to time their entry and exit to and from markets.

The fact that everyone seems to have a 'sure-fire' way to time the market just adds further encouragement to market timing investors. Just do a search on the internet. You will discover a myriad of web pages advertising market-timing services. A visit to your local library will yield an equal number of market timing theories. Some of these may even work – for a while.

The reality

Trying to make money by predicting short-term market moves and by attempting to pick the perfect moment to get in and out of the market doesn't work in the long term. Why? Because you cannot know which way the market is going to move in the short term. However, many investors believe differently. Here are a couple of examples:

- after the September 11 terrorist attacks, US investors pulled approximately $US29.5 billion out of US stock mutual (equity managed) funds. These investors were in for a rude surprise when the US S&P 500 Index recovered within a month;
- General Electric fell below $US30 per share after September 11, but within seven weeks, the stock had risen above $US40.

Investors in the above cases may have been sorry. The US S&P 500 Index had its second largest one-day gain in 2001, just five days after September 11. Within a month of September 11, the index had risen 3.7 per cent. This just goes to show that you can't guess market moves from one day to the next, as you don't know tomorrow's price since it will only be determined by tomorrow's events.

History has shown that the market refuses to cooperate with market timing strategies. The simple reason is that even during the worst of times, equity markets can still have many good days, and vice versa.

The best defence

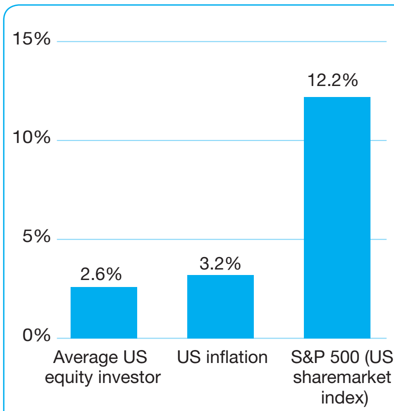
Discipline, discipline and more discipline. Investors should not let short-term volatility drive their long-term investment planning. The best defence against a fluctuating market is a well-diversified portfolio, spreading investments among asset classes and/or managers, in a strategic asset allocation that takes into account the investor's time frame, risk tolerance, need for investment income, and long-term goals. This can help their portfolio produce more consistent returns, regardless of whether markets move up or down.

Even in a managed fund era, research shows that most investors still fail. They invest in sectors and funds that are likely to be volatile, and lose patience as they withdraw their money at the worst possible time.

Astute investors know that the perils of market timing are relevant in bear markets (when fear often takes over rational investment decisions) and in the current bull markets (when over-exuberance can cloud sensible long-term investment decisions).

The graph shows that the average US share investor, who may have followed the typical fear and greed approach when investing, achieved a modest return of 2.6 per cent, over the 19 year period ended 31 December 2002. This is a very low return, even lower than inflation, which was 3.2 per cent over the same time period. The actual market return, which could have been achieved with a disciplined strategy, produced a much more pleasant 12.2 per cent return outcome.

Why most investors fail (and how not to join them)



Performance of average US equity investor versus US sharemarket and inflation
19 years to 31 December 2002

People need advice to prepare themselves for market volatility (both down and up), and to protect against making short-term decisions on long-term issues. Speak to your financial adviser about the best strategy for coping with movements in the market.