powerful solutions for your business

POWER TYNAN

Powerline

the newsletter of power tynan

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inside this issue

my say with Phil Saal

Overhaul – Wealth Experience Style!

Coming into Spring, you should notice a different feel to the office, as the Toowoomba based staff of Wealth Experience have recently undertaken an "Overhaul" program. It involves focusing on three aspects of wellbeing:

1. Exercise
2. Diet
3. Mentality

For the past eight weeks, we have had training sessions at 5:30am twice a week that last for an hour. Our soft office hands have been pushed to the limits. The pen pushers have been doing push ups amongst the frozen grass, carrying a large rope down the side of Picnic Point, and lifting heavy objects including the much detested kettle bells. Sessions with the dietician has seen food diaries kept (excluding weekends, thank goodness) which has been a challenge for "morning tea days", and has resulted in fundraiser chocolate boxes being replaced with bowls of fresh fruit in our lunchrooms. We have even had sessions with the psychologist on the importance of setting goals and maintaining a healthy work/life balance.

It has provided the participants with a chance to change their lifestyle, which we hope has a positive effect on the work environment. Apparently it is too "cold" for such a program to be held in Winter for our staff in the Stanthorpe office, so they will be kicking off in Spring!

As an organisation, we try to be innovative in the way we run our business. The "Overhaul" program was aimed at offering something different to staff to improve their work/life balance. On the office front, we have commissioned the University of Queensland to do a Carbon Footprint analysis on our business. This report looks at the environmental impact of our operations, and provides advice on ways of improving our office environment. Staff surveys are also conducted through the year to find out internally how improvements can be made.

So next time you see me, I will be lean, keen, green and fighting fit!

Financial Planning

RBS Morgans

Moving forward, but in which direction?

with
Patrick O'Connor
from RBS Morgans
Authorised Representative (357418)

Final election results are pending, but it appears the 2010 Australian Federal election will result in a hung House of Representatives for the first time since 1940. The Greens look set to hold the balance of power in the Senate. We work through the potential outcomes and market implications.

Telstra: what happens to the National Broadband Network?

Although the outcome for the NBN would have profound implications for the future structure of TLS, we see little valuation impact from either the cancellation or the continuation of the NBN.

This is because our analysts estimate the value of the bird in the hand (payment for access to the fixed-line network and customers) is equal to the two in the bush (retaining the status quo in terms of fixed-line and consolidated structure). However, anecdotal feedback from some investors suggests they would prefer the former, so were the LNP to scrap the generous Heads of Agreement reached with Labor, this would be a marginal negative for TLS.

Utilities: carbon pricing still unlikely near term, but Greens will advocate firmly

Given the weak mandate that will be held by either governing minority party, we see little prospect of the introduction of any carbon pricing signal in the near term. A medium-term consideration will be the ability of the Greens, who will hold the Senate balance of power in their own right, to advocate more aggressively for a carbon price. They have promised not to block supply (vote down budgetary appropriation bills), but they will have a significant amount of negotiating leverage to keep the issue of carbon pricing on the table.

Any move to price carbon would be a positive for Origin Energy as it would make gas-fired power relatively more attractive. Similarly, this would be a likely negative for Loy Yang A owners AGL and Transfield Services Infrastructure. Longer term, a carbon price should be a net positive for the sector as it would help establish price certainty on this critical issue.

Developers and Contractors: political uncertainty and more investment delays?

We had expected a slowdown in investment spend to occur over FY11 as governments around the country appeared to be cutting back on infrastructure spend. We think the uncertainty created by a hung parliament will lead to some capex spend being deferred until clarity emerges around the political landscape. This would be an added headwind for Leighton Holdings (LEI) and, to a lesser extent, United Group (UGL), Downer EDI (DOW) and Monadelphous (MND).

Banks: slightly higher risk of fee reviews and regulation

A Labor/Greens minority government may increase the prospect of closer scrutiny around bank fees, especially in the retail part of their businesses, thereby extending the issue of fee headwinds for the sector.

Media: an LNP minority government and TV audience-reach rules & licence fees

We had expected a re-elected Labor Government to review the current TV audience rules leading to the removal of the 75% audience-reach rule. This could allow TEN to bid for Southern Cross Media (SXL), and possibly Seven (SEV) to bid for Prime Media (PRT). The LNP's policy on this issue is unclear.

The proposed reduction in the TV licence fee by 33% in 2010 and 50% in 2011 could be at risk under a coalition government given the opposition's initial hostility to the move. However, the coalition more recently said that it now supports the decision to cut the fee, which would appear to reduce the likelihood of it winding back the changes. It is unclear whether the cuts would be extended beyond 2011 and we see a risk that the fee could increase again in subsequent years.

Wealth managers: no increase to the superannuation guarantee under the LNP

A LNP coalition government has indicated it would wind-back the planned increase to the compulsory super contributions from 9-12%, which would be a medium-term negative for wealth management stocks relative to the ALP policy direction.

Healthcare: LNP would be a marginal positive for the health-care providers
Generally speaking, an LNP government would be marginally positive for the private health care providers due to its stronger commitment to private health delivery. The Coalition is opposed to means testing of the 30% private health insurance rebate. Also, the uncertainty surrounding the pathology sector would be improved under an LNP government. The LNP is also opposed to the GP Superclinics, which would be a positive for existing medical centres. In summary, we think the healthcare sector would benefit from an LNP government, with winners including private hospital operators and pathology providers Healthscope, Ramsay, Primary and Sonic Healthcare.

Big policy reforms far tougher to achieve: but overall, Aus's fundamentals are sound

Whichever minority government is formed, it is likely to find it harder to achieve major policy reforms due to the need to sell these to its new-found political partners. Dare we say it, but the Asian slowdown, possible US double dip and further European weakness could prove more relevant to the market than our current political uncertainty.

Superannuation

with
Mark Silvester
Wealth Experience Superannuation Solutions

SMSF News from the ATO

The ATO has recently released the latest edition of its SMSF Newsletter. Here are some of the highlights:

Pension payment relief extended

The government has announced that the current 50% reduction in minimum payments for superannuation pensions will continue in the 2010–11 financial year. The concession will apply to account-based, allocated and market-linked pensions. The minimum amounts payable depend on the age of the pension recipient, as follows:

Age at 1 July 2010	Minimum payment for 2010/11 as proportion of account balance at 1 July 2010
Under 65 years	2%
65-74 years	2.5%
75-79 years	3%
80-84 years	3.5%
85-89 years	4.5%
90-94 years	5.5%
95 years and over	7%

Hazards of property for SMSFs

If you hold business real property in your SMSF you could be sued if someone is injured or dies because of faults in that property. Owners of property have a duty of care to all individuals on their premises. A recent judgment handed down in the District Court of New South Wales (Giovenco v Dick (2010) NSWDC 4) found the owner of a property was liable for the death of an electrician who was hired to decommission an old solar hot water system and replace it with a new one. The electrician was electrocuted after coming into contact with an exposed wire from the previously used solar hot water heater. The judge in the case found the property owner had breached their duty of care, as it was reasonably foreseeable that someone could have been electrocuted.

The super laws provide people with the ability to bring a claim against the trustees of SMSFs to recover loss and damage, which may include action for negligence. If you own business real property in your SMSF, you should make sure you are aware, to the best of your ability, of any hazards on your business real property. If any hazards do exist, you should have them fixed. You should also consider having an insurance policy in the SMSF to cover the business real property and public liability. Where the business real property was acquired with a limited recourse borrowing compliant with new borrowing laws, you should speak with your advisors on requirements for holding any insurance.

Non-market value acquisition of shares or share options by SMSFs

An SMSF trustee cannot intentionally acquire unlisted shares or options from related parties, or listed shares or options from related parties below market value.

A problematic arrangement occurs where an individual nominates their SMSF as the acquirer of shares or share options under an employee share scheme, and the trustee of the SMSF then pays no consideration or less than market value consideration for the shares or the share options. Arrangements of this nature give rise to issues under the superannuation and income tax laws, including issues around the recognition of superannuation contributions and the application of the excess contributions tax rules.

Importantly, for an SMSF, acquiring an asset from a related party can put the fund at risk of being made non-compliant and taxed at 45%. That is a significant penalty. The ATO has therefore issued a reminder that it is the trustee's responsibility to ensure that assets transferred from related parties are permitted to be acquired by the fund.

(Source: ATO SMSF Newsletter – Edition 13)

Should you have any queries in relation to these matters, please do not hesitate to contact our office.

Leasing & Finance

Redraw and Additional Repayments

with
Dan Cuthbert
Wealth Experience Leasing & Fiance

Only a few years ago a home loan with a redraw facility was at the cutting edge. They have since been surpassed, in terms of repayment flexibility, by all in one loans and offset loans. However, loans with redraw can still offer good value for money for many borrowers.

With the majority of lenders now offering products that allow the borrower to use their home loan as a transaction account, the less flexibility offered by a simple redraw facility may seem a bit out of date.

However, this isn't necessarily the case. Many loans with a redraw facility can represent value for money and see the borrower paying less interest over the life of the loan when compared to the more expensive, confusing counterpart; the all-in-one loan.

Additional Repayments

Additional payments are any payments made by the borrower above the set minimum loan repayment. This includes one-off lump sum repayments or regularly paying, say, $50 more than the required minimum repayment.

For example, if your minimum monthly home loan repayment was $700 and for 12 months you paid $750 – an extra $50- and made a lump sum payment of $2000, the total of your additional payments at the end of this period would be $2600.00

Making additional repayments should reduce the amount of interest you pay over the term of the loan and reduce the amount of time it takes to pay off the loan.

If you have a $100,000 loan with a 25 year term, an interest rate of 7.5% and principal & interest repayments, the minimum monthly repayment should be $739.00. If the interest rate remained unchanged for the 25 years of the loan the total amount of the interest repaid would be close to $121,700. You also have to repay the principal you borrowed, $100,000.

The impact of additional repayments can be significant. By paying an extra $100 a month – a monthly repayment of $850 instead of $750 – the total amount of interest saved is over $38,000 and the term of the loan is reduced by around six years and nine months.

Consider another example where you pay the minimum monthly repayments each month, but every 12 months you make a lump sum repayment of $1,000. Again the saving is substantial. The loan term is reduced by five years and nine months and over $32,000 less interest is repaid. (It is possible to model scenarios such as these using the Advanced Repayment Calculator on the Your Mortgage website, www.yourmortgage.com.au)

If you are in a position to do so, making additional repayments can significantly reduce the length and cost of your loan.

Redraw facilities

Paying extra money you have on hand into your home loan can be an easier decision when you know you have the ability to get these additional payments back at a later date, should you need them. You are able to withdraw additional home loan repayments if your loan has a redraw facility.

Redrawing additional repayments you have made will reduce the benefit of making additional repayments. However knowing that you are able to redraw additional repayments if necessary can allow you to make more of them.

The terms and conditions differ significantly among redraw facilities. It is important to understand the terms and conditions of a loan's redraw facility before you take out the loan.

There are a number of details pertaining to a redraw facility which should be checked. These include:

- The fee for having a redraw facility
- The number of free redraws per year
- The fee per redraw
- The maximum number of redraws per year
- The minimum redraw amount
- The maximum redraw amount

The fee for having a redraw facility

Some loans charge a flat fee for having a redraw facility. In some instances this is not charged upfront, rather it is described as a redraw activation fee and charged only if and when the borrower wishes to use the redraw facility. Once the redraw facility is activated the borrower can use it as often as they like.

The fee per redraw

The fee per redraw is the amount the borrower must pay each time they withdraw funds from their loan account using the redraw facility. The fee per redraw facility varies significantly between lenders and loans.

The number of free redraws per year

Some redraw facilities grant the borrower a number of free redraws per year. Once the quota of free redraws is exceeded the borrower must pay the fee per redraw. For example, if a redraw facility grants four free redraws a year and has a $25 fee on the fifth redraw of the year and any other redraws they make in that year.

The maximum number of redraws per year

Some redraw facilities limit the number of redraws the borrower can make within a set period, usually a year. Once this number is exceeded the borrower cannot access additional repayments they have made.

The minimum redraw amount

Redraw facilities often have a minimum amount which can be withdrawn. With some loans there is no minimum, with others it is as high as $5000.00.

The maximum redraw amount

The maximum redraw amount is the largest amount you can redraw at any one time. In most cases this is equal to the total of additional repayments you have made. So if you are $3000 ahead of your minimum loan repayment you can withdraw $3000.00. Some redraw facilities set the maximum as the total of additional repayments less one month's repayment.

Beware of:

• Mortgages requiring a fax notification to activate redraw
• Redraw fees
• Limits and conditions on redraws
• Mortgages that do not allow direct salary crediting
• Lenders claiming this type of facility to be the same as an offset account or all-in-one
• Myths that claim offset accounts are a more expensive option
• Lenders not offering their own bank accounts to simplify transfers

Getting value for money

In order to be able to choose the most suitable redraw facility, you need to have a good idea of how you are going to use it. There is no point paying for something you are not going to use. If you are unlikely to be able to make additional repayments on your home loan in the foreseeable future there isn't a lot of point in paying a higher interest rate to have a redraw facility on your home loan.

Infrequent use

A home loan which allows additional payments and has a redraw facility can be an excellent savings tool. There are two main benefits to putting your money into your home loan rather than a savings account. Firstly, by putting excess funds into your home loan they are effectively earning the interest rate on your home loan. Savings accounts generally pay much lower interest rates.

The second advantage is that even though you are effectively earning a higher interest rate than if your money was in a savings account, you do not have to pay any tax, whereas interest earned in a savings account is considered income and may be taxable.

If you plan to save up over 18 months to buy a new car, using a home loan with a redraw facility can be an effective way of doing this. Say you put in $100 a week extra towards your loan, after 18 months you will have made close to $8,000 in extra repayments, enough to buy a good second hand car. You will also reduce the amount of interest you pay on your home loan and the time you take to repay it.

Extracted from Your Mortgage Magazine July 2010

Succession Planning

Family Business Succession is a Looming Problem!

with
Scott Patterson
Wealth Experience Business Solutions

Succession planning for both rural and non-rural family businesses has been discussed by professionals for some time, but with the looming retirement of the 'baby boomer' generation the issue is now becoming urgent. These baby boomers are predominantly our current family business owners and managers.

A recent survey of family businesses conducted by Melbourne University, RMIT and accounting firm MGI, and published by smartcompany.com.au, has highlighted some alarming trends. Of the businesses surveyed:

• 45% are actively planning to sell their businesses,
• 61.3% would seriously consider selling now, and
• 60% said that the younger generation of family members from generation 'X' and 'Y' were not as interested as their parents in actively managing the family business.

In relation to dealing with succession planning the study also highlighted that:

• 40.9% of family business owners cite family issues as being more critical than business issues,
• 45.5% indicated that business issues could not be dealt with until the family issues had been resolved, and
• 39.7% indicated that communication between family members was a major concern along with the ability of current owners to 'let go' and transition control.

The study highlighted that over 80% of businesses had not taken steps to resolve family issues, and as a separate finding predicted that "a tidal wave of family business sales will occur in the next two years".

With these forces at play many businesses are certainly not 'sale ready'. That is, they are not structured and organised in a way that optimises their value. Their sale therefore, is unlikely in many cases to realise enough to adequately fund the retirement of the principals. Current business owners are forced to then choose between three alternative courses of action - take steps now to resolve family issues and get their businesses sale ready, settle for an inadequate retirement, or continue working in the business for the medium to longer term. With the current average age of family business owners being 55, this would take many beyond the age of 65.

Taking action now means putting in place a course of action to resolve any family issues and put the business on track to make it sale ready, or ready to be transitioned to the next generation. Achieving this can often be done much more effectively by engaging an appropriately qualified consultant to step you through the process, and act as a third party at family meetings and discussions. As well as dealing with family matters, the business should be valued and analysed to establish its strengths, weaknesses, opportunities and threats. From here a business life plan should be prepared to chart a clear course forward for both the business and the relevant family members. Concluding the business life plan should be a detailed set of actions to be achieved along with time lines for each one. The final step, and probably one of the most important in the process, is to continue working with your consultant to monitor your progress towards those agreed goals to ensure that they are actually achieved. By monitoring your progress and working together to achieve agreed goals you help to minimise the inherent inclination in us all to simply revert to 'business as usual'. In striving to achieve goals, hurdles and obstacles will arise along the way. Without a concerted effort supported by some coaching and guidance it is all too easy for the process to become derailed.

If this article relates to your current situation, please do not hesitate to contact our office where we can help you deal with these issues, chart a course forward, and achieve your goals.

Secure Returns

Let Wealth Experience Pty Ltd show you how to make life easier!

with
Amanda Kenafake

Wealth Experience Pty Ltd is pleased to announce the introduction of a secure website – Secure Returns. This secure website ensures the confidentiality of your financial records and allows you to view online 24 hours a day, 7 days a week all financial information that you may require from time to time in an electronic format. In addition, this site gives you added peace of mind in that you will now be able to send your computer files securely, including larger files, to our office where they can be accessed almost instantaneously.

How secure is it?

Each client will be issued with their own login and password which will be emailed to them direct from Secure Returns. This password is not made available to any of our staff members or to the public.

Who can use it?

Secure Returns will be available to all of our clients across any of our service divisions. There is no need for you to purchase separate software. Secure Returns can be accessed via the internet through any of our three website addresses – Power Tynan, RBS Morgans and Wealth Experience.

What documents will I be able to access?

For tax clients you will be able to access prior and current year tax returns, financial statements, letters and permanent records such as copies of trust deeds, constitutions etc. This can be particularly handy if you are required to take an additional copy of financials to your bank, when Centrelink requires a copy of your tax return or if you need to locate your trust deed.

For financial planning clients, your year end Wealth Plus and other statements can be accessed easily and quickly.

For all other clients, we can upload any documents that you may wish as there is no limit on size or type of file.

What other things will Secure Returns allow me to do?

Any type of computer file, including very large files, can now be sent via this medium to our office efficiently and securely. You will no longer have to worry about clogging up your email account and Secure Returns will also eliminate the need for the file to be physically handed to staff via USB or CD.

How can I sign up?

Over the next few months, one of our staff will be contacting you to discuss the benefits of Secure Returns and what it can do for you. It is then a simple step performed by our staff to add you as a contact and you will then receive an email with the necessary login and password and away you go!

Should you have any further questions, please do not hesitate to contact our office and speak to me.

Staff Spotlight

Since our last Powerline, we have bid a fond farewell to a few of our long standing employees. David Andreatta, who spent 7 years working for Power Tynan and then became part of the RBS Morgans team for his final 3 years, stepped away from the financial services industry at the end of July to work alongside his father-in-law on their family tomato farm in Stanthorpe. Tye Thies, who was with us for 5 years, made the decision to join his now fiancé Emmy in following her dream of opening their own real estate business in Toowoomba. Lastly, we also said goodbye to Kimberley Lange, one of our 2008 scholarship recipients, who is going on to pursue her agricultural interests by accepting a position at a local agribusiness firm. We would like to thank David, Tye and Kimberley for all their dedication and effort over their time here and wish them all the very best for the future.

Even though we had to say some sad goodbyes, it is always exciting to have new staff members start with us and it is with great pleasure that we welcome our latest recruits Shari Winter and Nicole Rametta. Shari joins the team in the Toowoomba office as an administration assistant while Nicole will be employed in the Stanthorpe office assisting with Wealth Experience administrative work.

As mentioned in our last newsletter, the staff of Power Tynan, Wealth Experience and RBS Morgans have joined together to form the inaugural committee of the Wealth Experience Charitable Trust. The purpose of the Trust is to fundraise and donate to worthy charitable organisations. This Trust was officially launched at our end of financial year staff function, where the staff were asked to dress up as their favourite charity, and our committee members were also announced.

The Wealth Experience Charitable Trust Committee Members (L-R): Lauren Guymer, Tylah Hughes, Gary Kelly, Jane Kerridge and chairman Paul Hilton.

In other news, Andrew Crestani of RBS Morgans and Brett McEvoy of our Stanthorpe office have made the finals in the Stanthorpe soccer competition, as part of the Stanthorpe United team. We wish the boys and their team the best of luck!

Finally Kirsty Maclean, our HR Manager (and part-time nurse), travelled to Vanuatu as part of an AusAID Ear, Nose and Throat specialist team. The Pacific Islands Project (PIP) provides specialist surgical and medical services to 11 Pacific Island countries. The focus of the PIP Program is to improve the delivery of essential health services and assist with capacity building activities for health professionals in the region.

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- Managed Portfolio Service
- Capital Raisings & Initial Public Offers
- Merger & Acquisition Advice
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