



Quarterly Newsletter

Issue 23
Summer 2008

Overview

Most certainly a quarter of constant news, debate and economic developments! While superannuation is very much at the forefront of thinking for individuals, corporate attention has been focused on re-examining their own performance expectations going forward. The typical consideration seems to be a downward adjustment in sales of around 30% and the retention of the right people in the organisation as management move to batten down the hatches.

Brace Yourselves!

Credit markets continue to choke despite efforts of world central banks to unfreeze liquidity in the financial system. Reduced official cash rates and fiscal stimuli are the key initiatives being fostered by governments to minimise the coming world recession. Business confidence has fallen rapidly. Record falls have been recorded in both Australian and international share markets.

In comparison to the 1987 stock market crash, the Australian share market fell 24.7% on 20 October 1987 against 8.2% on the worst day in this bear run. In 1987, the All Ords lost 50.1% as against 42.5% as at 10 October 2008. Clearly the market fall in October has taken us to the equivalent of what happened in 1987.

Where are the Positives

Whether the market is rising or falling, it's always difficult to predict what's going to reverse whatever the market momentum is at the time. Again, a comparison of what was happening in 1987 might help in prompting discussion:

	1987	2008
Real GDP Growth	3.4%	3.4%
Employment Growth	2.5%	2.6%
Average Unemployment Rate	8.0%	4.3%
Official Cash Rate	14.5%	6.0%

Some of these measures are similar and a couple indicate quite a different picture. A key driver of market decline is debt related. Where interest rates were pushed even higher in the early nineties in an effort to curb economic excesses, interest rates are set to bring liquidity back into the system. Certain government initiatives internationally appear to be set to attract investment markets back into cash. Any highly geared investment strategy has lost its appeal to the investor community with some high profile companies being brought to their knees.

Earlier this year in contrast to current strategies, inflation was being portrayed as the major threat with interest rates being progressively increased to curtail a booming economy. Successive significant cuts in interest rates in recent months are seen as contradictory to the fears expressed earlier in 2008.

So are markets about to bottom and economies about to stabilise? Arguably no one would venture a positive view on this for now as everyone will be wiser with hindsight once the market again rallies.

What's Inside this issue

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Hold your Nerve?

The Australian Federal Government has guaranteed domestic bank deposits and the Reserve Bank has cut interest rates significantly in the past quarter. Both measures are reflective of a "risk aversion trade" within the investment community. Expectations are for further fiscal stimuli as well as further cuts in interest rates to counter recessionary pressures from the slowdown in world activity. Falling share prices are factoring in reduced economic activity and therefore falling company profits in future trading cycles. Past high commodity prices are seen as a commodity boom, which is now being seen as bust. Future market liquidity is clearly still a concern.

AXIS Financial Group utilises van Eyk in determining strategic asset allocation for our recommended portfolios and in the inclusion of managed funds. The question asked by many individual clients in recent times is, "Are we near the bottom yet?". Many an argument has been presented to say that superannuation is a long term investment. Of ultimate importance is one's time in the market, as opposed to trying to time the market. A common opinion is expressed about a factor referred to as "Dollar Cost Averaging" where money being invested in a slump effectively buys more units and, therefore, is of great assistance to your long term goals when the market finally rebounds. Many employees question the wisdom of salary sacrifice when the market falls.

When considering what to do to make superannuation work for you, the argument would be that you should think in reverse. When markets are falling as now, you should make sure you maximise your contributions, including salary sacrifice. If you tend to look at your superannuation balance frequently, continue to do so, but be aware that research suggests that investors are more prone to make bad investment decisions the more often they look at the balance.

AXIS Financial Group recommends a long term approach to investment strategy, with changes as necessary to reflect the actual quality of your investments. In short, hold your nerve and please make sure everyone has the opportunity to see an AXIS adviser regularly.

AXIS Financial Group – Picking a Winner

Research is suggesting that more consistent returns can be achieved through improved asset allocation while facing reduced risk. Traditional asset allocations from research houses and even product designers themselves have usually ignored certain market segments, preferring to provide a "vanilla flavoured" investment choice menu through either diversified funds or branded single sector funds. As investors have become more educated and now even demanding,

the need for transparency in fee structure, asset valuation methodology and also having the right investment opportunities are factors that the financial services industry now has to deliver.

AXIS Financial Group lobbies both product designers and also highly rated fund managers to ensure the final offering to the real client is consistent with your needs. In simple terms, you wouldn't buy a car if you didn't know how to drive it and its potential performance on the road!

Whatever product you choose for your company superannuation plan, you want to know you've picked a winner and why.

In line with market conditions, new AXIS Investment Portfolios have been reconstructed in the past couple of months. These have been reviewed and approved by the AXIS Investment Committee and are now being communicated to each corporate member for switching. The asset allocation is new, being in line with recommendations from van Eyk.

With all our corporate clients and our product platforms, we are once again releasing a new set of AXIS Investment Portfolios (2008), utilising our product knowledge, our sources of research, our experience as investment advisers and our specially tailored Client Management System. Your employees may well mention this to you in the coming months.

Let us know if you require an increased schedule of site visits from an AXIS adviser in either answering employee queries or assisting employees with the completion of forms.

Super Services from AXIS Financial Group

Employees ask many questions regarding their superannuation but also use our educational services to assist them in wealth creation strategies. Every AXIS adviser understands what is included in the normal scope of work around our services on superannuation and how helpful we want to be. Feedback from employees suggests that some of the additional services delivered within our ordinary scope of work are perceived as very valuable:

- **Super Projections**

An abbreviated financial planning questionnaire is available for employees to provide some basic details used to project what capital they will accumulate through superannuation and how long it might last in retirement. This helps employees to focus on their long term goals and not just the current market cycle – be it up or down. It also proves to be a very valuable tool in monitoring progress towards your goals over the long term. As with any wealth creation exercise, results have to

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be efficiently monitored and adjustments made in strategy if results are better or worse than expected.

• **Risk Management Strategies**

This is fancy industry jargon that simply refers to how much insurance might be needed. Again, by completing a simple financial planning questionnaire, any employee can obtain comprehensive advice on how much insurance they may need given their personal circumstances. They can also discuss the recommendation with an AXIS adviser so that the information is very much understood, considered and even implemented in part at least.

AXIS Financial Group also provides insurance quotes free of charge to all employees, even if just to provide peace of mind that a policy recommended by another adviser is competitive both on price and quality.

• **Policy Committee Meetings**

While often a legislative requirement for most of our clients, such meetings can provide a positive benefit in employee

communications. Questions can be asked and expertly answered so that employees have a greater appreciation of the efforts made by the employer in establishing a competitive and well designed default fund.

• **Claims Administration Management**

AXIS Financial Group provides an excellent support service to both the employer and anyone with an insurance claim in simplifying the insurer's claims requirements.

This is sensitively done from everyone's point of view, while achieving tremendous success in shortening the time taken to lodge a successful claim and also having the benefit paid. This is particularly true in submitting a claim for total and permanent disablement, with performance statistics in AXIS Financial Group totally contradicting the general perception that such claims are not paid.

AXIS has never had a total and permanent disablement claim declined as yet. Please note, no one is encouraging you to consider making one!

Upping the anti!

While the current state of financial markets is leaving everyone feeling a bit down in the dumps, it remains difficult to argue the negative side of superannuation. When markets fall, you have the opportunity to buy in to some fantastic companies at a fraction of the cost. When markets rise, your account balance usually does too.

So, while it might sound a bit clichéd to say it these days, super is still one of the best investment vehicles available to save for retirement. Arguably, the tax-effective status is super's biggest draw card. Therefore, when you throw another little "tax break" into the equation – not to mention one that's been a pretty good secret – it's bound to raise eyebrows and a few smiles. So, let's take a closer look at "anti-detriment payments".

What are anti-detriment payments?

This is complicated terminology that simply refers to an increase in a superannuation death benefit payment equal to the amount of Contributions Tax that a member has paid. These payments have become the latest buzz word in super this year, due to some changes to Section 295-485 of the Income Tax Assessment Act 1997. However, the legislation has been around since 1988!

Anti-detriment payments only apply to lump sum death benefits payable during the accumulation phase and not the pension phase and may be paid to a spouse, ex-spouse or children of any age.

Who benefits from anti-detriment payments?

The two winners from anti-detriment payments are the beneficiaries (as they get a higher payout) and the super fund, who can claim a tax deduction for the Contributions Tax paid. This is an important point, as there has been some confusion as to whether the beneficiary can claim the tax deduction. Since the super fund is classed as the "tax payer", only the super fund can claim the tax deduction. In addition, the tax deduction must be claimed in the year that the death benefit is paid.

How is the tax deduction calculated?

A specific formula is provided in the ITAA 1997 for accumulation funds. However, an actuary is required to calculate the relevant amount for defined benefit funds.

Do all super funds provide these payments?

No. As it's not a compulsory feature, not all super funds offer anti-detriment payments. Provided you are a complying super fund or complying Approved Deposit Fund and have been operating since 1988, you can offer anti-detriment payments.

While the majority of super funds don't currently offer this feature, an increasing number have incorporated it as a benefit. One of the main reasons that many funds remain hesitant about its inclusion is funding.

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Harry Burke



Richard Matsinger



Carol Canwell



Peter Crowe

The AXIS Adviser Group

The AXIS adviser group is made up of four committed professionals, all of whom travel miles to look after an array of very valuable clients:

- **Harry Burke** As CEO, Harry still enjoys servicing the needs of quite a few corporate clients. Emigrating from Scotland some 20 years ago, Harry still baffles the odd client with his accent but his background in accountancy and also management makes him a very able Corporate Adviser for AXIS. Harry is also the AXIS adviser who takes special care of claims administration.
- **Richard Matsinger** Richard is the proverbial Kiwi and most certainly stands for whatever that means. As a Corporate Adviser with AXIS Financial Group, Richard bases his advice to clients on 30 years' of experience in superannuation and group risk. When faced with a particular challenge, he is often the first port of call in searching out a solution.
- **Carol Canwell** Carol joins AXIS Financial Group as a Client Servicing Adviser. Carol has over 30 years' experience in a wide range of financial services throughout Australia and the UK. Carol brings a bright, enthusiastic and confident attitude to the AXIS team. When Carol is not in the office, she likes to cook and dine out with friends, read, walk and spend time with her two sons.
- **Peter Crowe** Peter joins AXIS Financial Group as a Client Servicing Adviser. Peter has over 13 years' experience in the Financial Services Industry largely as a Planner, working with clients at an individual and corporate level. Peter brings added experience and enthusiasm to the AXIS team. Peter's other interests are spending time with his family and participating in recreational activities, with hockey being his favoured sport.

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In short, to claim the tax deduction, the super fund must first have accumulated the relevant amount of the Contributions Tax in reserves (to pay to the beneficiaries) and have the equivalent amount as income. And this can add up to substantial amounts.

For example, let's assume Joe earns \$100,000 each year for

10 years and his employer contributes \$10,000 a year into his super. Over that period, Joe has paid \$15,000 in Contributions Tax. If Joe dies, his beneficiaries may be entitled to receive the \$15,000 on top of his death benefit.

However, in order for the super fund to claim a tax deduction on the \$15,000, they need to pay this amount out of the fund's reserves, plus have accumulated the \$100,000 as income.

List of Locations

Whilst the majority of our clients are in Perth and WA, AXIS is providing services on a regular basis to the following locations:

Western Australia

Albany; Australind; Broome; Bunbury; Burrup; Busselton; Geraldton; Henderson; Kalgoorlie; Karratha; Mandurah; Margaret River; Merredin; Moora; Northam; Port Hedland; Rockingham; Varanus Island; Wagin

South Australia

Adelaide

Queensland

Brisbane, Cairns, Mackay, Townsville

New South Wales

Sydney
Griffith
Newcastle

ACT

Canberra

NT

Darwin

Victoria

Melbourne
Mildura

Overseas

Tanzania
Hong Kong
West Africa
Nigeria
Yemen
Papua New Guinea
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