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Lifestyle Matters

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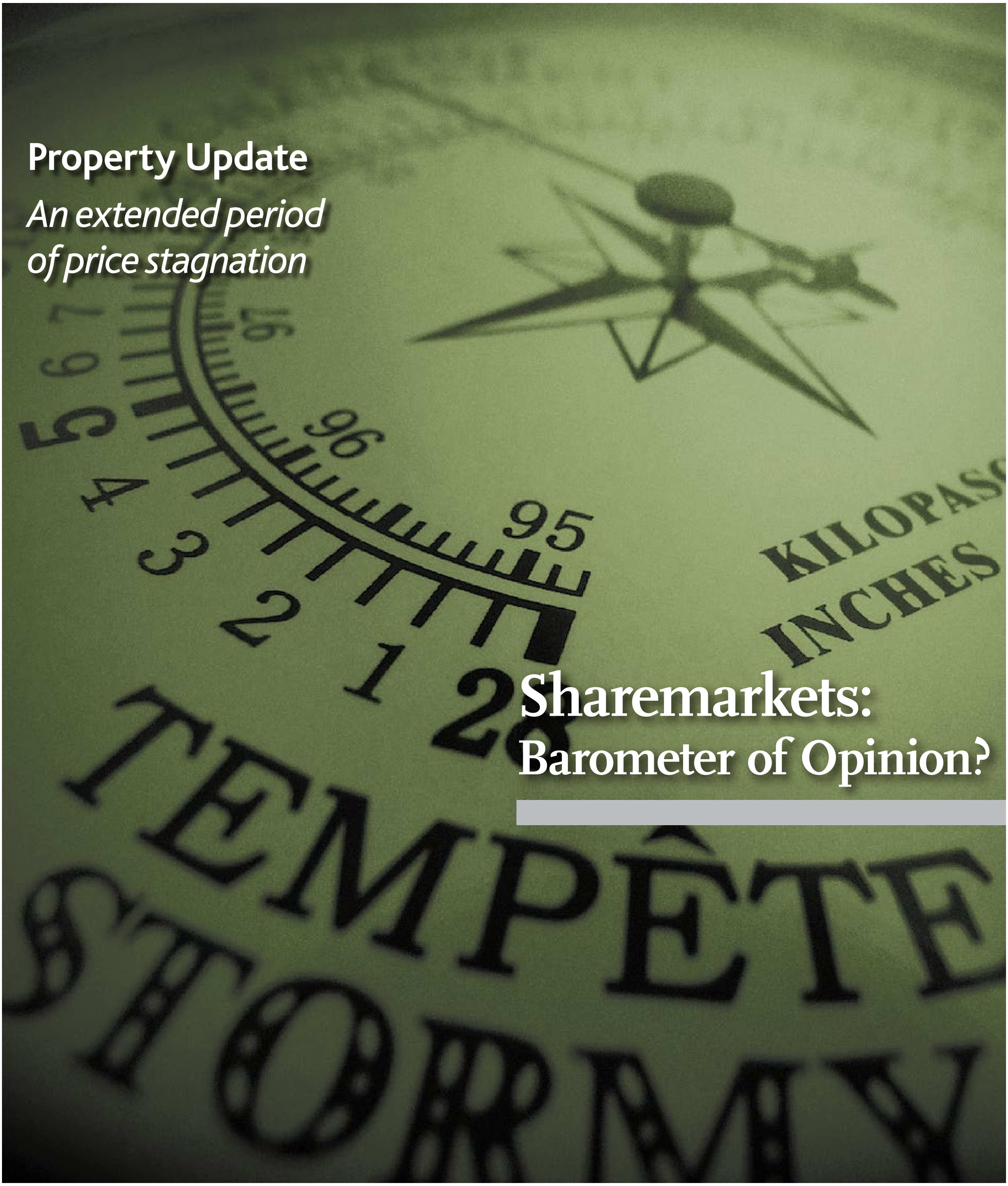


Property Update

An extended period of price stagnation

Sharemarkets:

Barometer of Opinion?

…an overall plateauing of profit growth amongst Australia's listed companies.

Australian Companies – Profits and Dividends

In 2012, we wrote about the great shape of Australian companies. They had emerged from the GFC with bigger market share and higher profit margins. This means… bigger profits. But they were being conservative with those profits.

Rather than paying them all out in dividends, most were holding onto some profit so that they could re-invest in their business or simply strengthen their own balance sheet by paying off debt.

Fast forward 18 months, and dividends are still strong, but behind the scenes profit growth is anaemic, even negative. The resources boom is over and reduced profits from this sector have led to an overall plateauing of profit growth amongst Australia's listed companies.

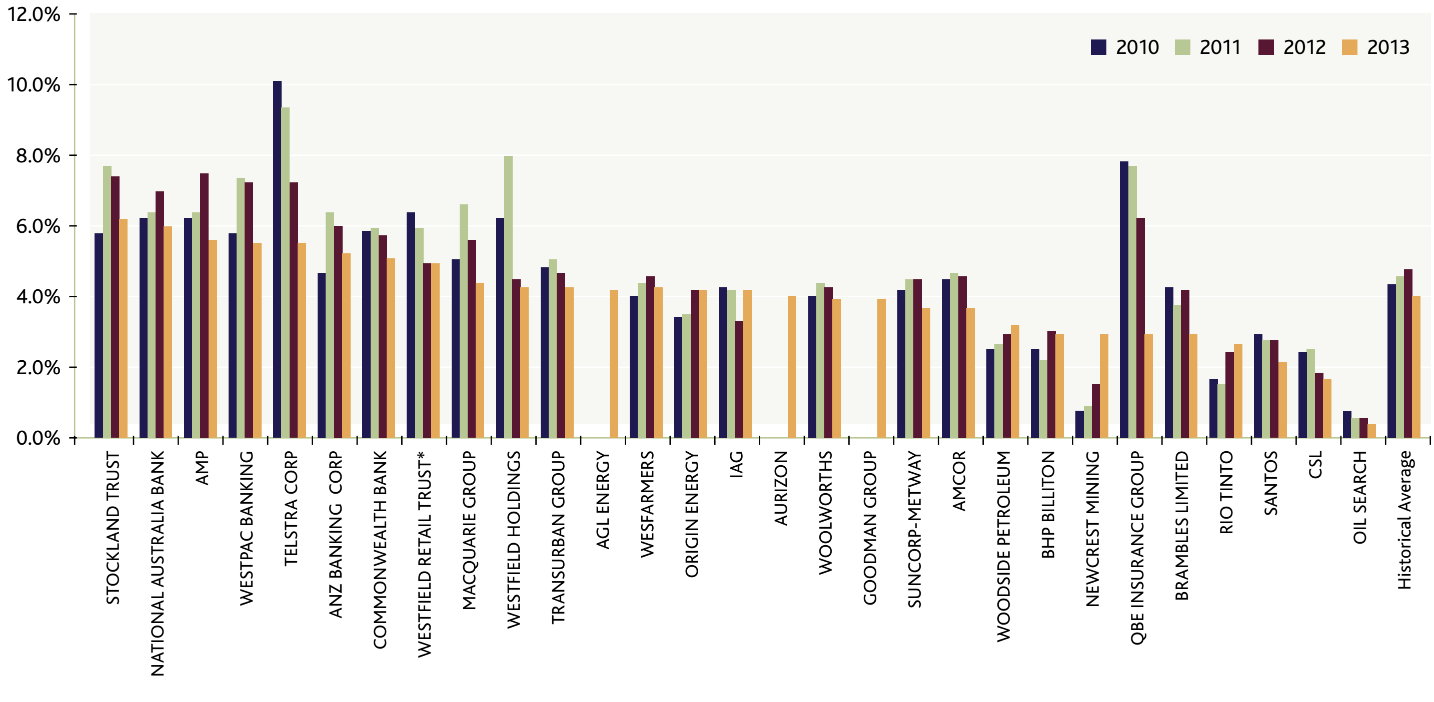
Despite this, and realising that Australian shareholders are in love with dividends, Company Boards have mostly maintained dividends on a per share basis. From the chart below, yields have actually decreased because the sharemarket has surged over the last year.

So are dividends sustainable at these high levels? On current payout ratios, we would say probably not. This results season, the payout ratio hit 70%. The last time it was this high was during the 1992 recession when it hit 72%.

If the payout ratios are not sustainable, profits must grow. The sharemarket, being the great barometer of opinion on company prospects, expects companies to thrive in the future. An improving US economy, solid demand coming out of China, a falling $A and a generally positive sentiment coming from the retail sector, is leading the Australian market higher.

While we, at Lifestyle, expect tax-effective dividends to underpin solid returns from Australian shares in future, we also expect that the sharemarket indices will continue to show extreme volatility on the upside and downside.

ASX Top 30 – Dividend Yields



SUPER FUND PERFORMANCE

Super Fund Returns look pretty good over the last 10 years. Net of fees and tax, the average growth fund has delivered a return of 7.1%. This should be reasonably close to most people's expectations. Of course, most people have not experienced this exact return. Variations to this "average" may occur due to a particular fund's individual performance and/or the timing of contributions or withdrawals being made to/from the fund.

Diversified Super Fund Performance to 31 July 2013

FUND CATEGORY	GROWTH ASSETS (%)	1 MTH (%)	3 MTHS (%)	1 YR (%)	3 YRS (%)	5 YRS (%)	7 YRS (%)	10 YRS (%)
All Growth	100	4.6	4.8	25.0	9.5	4.7	3.5	6.9
High Growth	81 – 100	3.8	4.2	21.2	9.4	4.9	4.0	7.2
Growth	61 – 80	3.1	3.3	18.0	8.7	4.9	4.6	7.1
Balanced	41 – 60	2.2	2.0	13.4	7.8	5.5	4.6	6.4
Conservative	21 – 40	1.5	1.3	9.5	6.8	5.2	5.0	6.1

Notes: Performance is shown net of investment fees and tax. It does not include administration fees or adviser commissions. *Source: Chant West*

Chant West director, Warren Chant says: "The median growth fund is now up over 14% compared with its pre-GFC high. Yet despite their recent stellar performance, Australian shares remain 4.6% behind their end-October 2007 levels while international shares are only slightly ahead, having returned 3.2% in hedged terms and 5.4% unhedged basis over the same period. This is an important reminder that the typical growth fund is not just dependent on shares for performance. By diversifying across a range of growth and defensive assets, funds can capture returns from multiple sources while also spreading their risks.

"The strong share market performance in July was largely on the back of the US Federal Reserve's reiteration that there is little chance it will pare back its bond purchasing programme in the near term. Additionally, US economic data and corporate earnings results were generally positive. Meanwhile, economic data out of Europe indicated improving conditions across the region, which is gradually emerging from recession. In China, we saw the second quarter economic growth rate in line with expectations.

"Domestically, the RBA cut interest rates earlier this month (August) to a new all-time low of 2.5%, determining that the economy needed some additional stimulus having not shown any real sign of improvement in response to previous cuts."

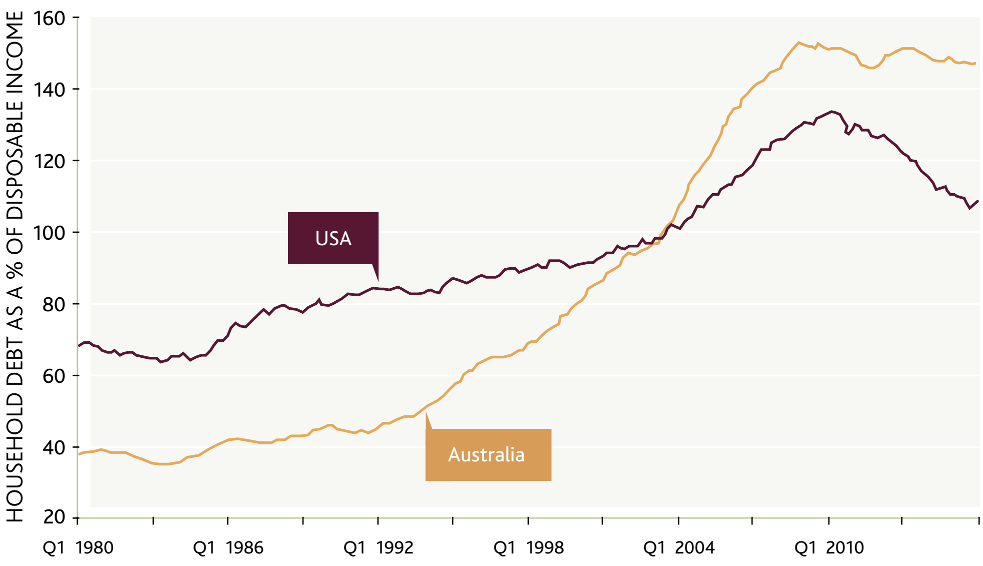
RESIDENTIAL PROPERTY UPDATE

It has only been 6 months since we wrote about investing in residential property, however, based on the number of times this topic comes up during meetings with clients, we thought it might be worthy of an update.

Housing in the US is recovering strongly...albeit, from a low base. The latest figures we have show a 12-month appreciation of 12% to April 2013. However, due to the heavy falls suffered during the GFC, The Economist magazine suggests that US house prices are still on average 20% undervalued relative to US incomes.

Based on the same measures used to value US house prices, The Economist believes Australian house prices could be around 25% overvalued compared to household incomes.

So what is the likely outlook for Australian housing? Michael Karagianis (Senior Investment Strategist, MLC) believes there will be an "extended period of price stagnation, with prices barely keeping pace with inflation (August 2013)".



Further, The Reserve Bank, in its September 2013 Meeting, highlighted that high residential property prices and household debt are ongoing concerns. They did not, however, expand on how they might deal with this. If personal debt levels start rising to uncomfortable levels, the RBA may look to dampen this by increasing interest rates in the medium term. An environment of rising interest rates is generally not conducive to rising house prices.

What's happening at Lifestyle

Welcome Jossel, Barbara and Denise

We welcomed Jossel and Barbara Ginsburg and Denise Woodward (another Denise at Lifestyle) at the end of June 2013. Jossel and Barbara have run their own financial planning practice, Ginsburg Financial Services, since 1988. Denise joins Lifestyle as a Practice Support Officer.

Tim and Trudy realise their dream

Here at Lifestyle, our mission is to help our clients achieve their goals and dreams. Often this means that there is a trade-off between financial wellbeing and lifestyle aspirations. To prove that anything is possible, earlier this year, Tim & Trudy decided to realise their dream and purchased their own yacht. As anyone who owns a boat knows, this is not the best investment from a financial perspective, however, from a family and lifestyle perspective "it is the best thing that they ever did".

Lifestyle investing in technology

Keeping up with technology seems like a full time job these days. Our challenge at Lifestyle is to employ systems that will assist us to provide great service, as efficiently as possible, in an environment of increasing compliance and, therefore, increasing costs. To help us achieve this we have recently upgraded the majority of our computer hardware and software. We have installed new servers, which allowed us to implement Citrix; a virtual desktop environment with very high security protocols which provides access to our system wherever there is internet access. We have also transitioned to new Financial Planning and Client Management software, which has been quite time consuming. Our next job is to refresh and relaunch our website, which we hope to achieve by year end.

Irene – a Grandmother again!

It was a surprise to all, including Irene herself that she is to become a grandmother for the sixth time. Irene's daughter, Denise, is expecting her third daughter in November. So that's 3 boys and 3 girls for the proud Kay grandparents.

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CFP Financial Planner
Authorised Representative

Irene Kay
CFP Financial Planner
Authorised Representative

David Kissane
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Shane Foster
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Denise Woodward
Practice Support Officer

Kathy Kuerten
Receptionist