

PRL Solutions Pty Ltd can assist you with superannuation, investments, insurance, home loans, commercial lending, car leasing and equipment finance. Ring Tammy or Ben today on 07 3391 7566

The Risk Review

Just as important to regularly reviewing your portfolio, home loan, and home and contents insurance you also need to regularly review your life insurance. With dropping market values does your life insurance (Life /TPD / Trauma / Income protection) still meet your objective of making sure your loved ones are looked after in the event of an accident or illness or worse? Please call us so we can review your life insurance.

Do you have a business Will?

We encourage all our clients to make sure they have their personal estate planning (Will, Power of attorney etc) in order. However, just as important is to ensure your business estate plan is also in place. Banks are becoming increasingly stringent of businesses who want to borrow. We are finding more and more that before a self employed person / partnership / company can borrow money the bank is insisting that a business Will or a buy / sell agreement is in place. If you do not have a business Will then you need to talk to us as soon as possible.

How you can deal with volatility; and why it shouldn't distract long term investors

There are five principles for your successful investing:

1. Courage – Investing is risky, but it's a calculated risk
2. Honesty – Be honest with yourself about how much you really know
3. Detachment – When invested in a balanced portfolio, it never hurts to read the headlines
4. Discipline – Don't let emotion rule your investment strategy
5. Commitment – Keep your eye on the prize and ignore short-term market events

What is a bear market?

The most common definition of a bear market is a twenty per cent downturn in the sharemarket's value. Bear markets may occur in only portions of the market, or vary in severity and duration from one segment to the next.

So where are we now?

The Australian sharemarket – as measured by the S&P/ ASX200 – peaked at a record high of 6828 in November 2007 after an outstanding six-year run. At the time of writing the S&P / ASX 200 is at 3300 or a drop of 52%.

Where to now?

Facing a bear market is simply a natural part of the investment cycle. History shows us that on average, we experience a bear market every six or seven years. There are a few strategies investors can adopt to ride out the storm.

The history of the bear				
Bear Market	Total decline	Months to reach bottom	Months to recover to previous high	% gain one year after bear end
Nov 1968 – May 1970	-36%	18	22	44%
Jan 1973 – Oct 1974	-48%	21	70	38%
Nov 1980 – Aug 1982	-27%	21	3	58%
Aug 1987 – Dec 1987	-34%	3	20	21%
July 1990 – Oct 1990	-20%	3	4	29%
Mar 2000 – Jul 2002	-45%	28	58	24%
Dec 2007 - ?	?	?	?	?

Sources: Standard & Poor's, Bloomberg, DRI's; Index S & P 500

What should I do?

Surviving the bear
<i>Remain focused on the long-term</i> Despite short-term volatility, successful investors should follow through with their long-term strategy in order to survive the bear.
<i>Don't let fear guide your investment decisions</i> Act rationally and resist the emotional aspects of investing. Basing your decisions on fear and panic won't do you any good in the long-term.
<i>Diversify to soften the blow</i> It's critical to have a well-diversified and well-positioned portfolio to help cushion the impact of a sharp market downturn.
<i>Never try to time the market</i> Keep in mind that sentiment drives the market; and it can recover at any time.
<i>Stay invested</i> Don't miss your opportunity for financial gains by removing yourself from the market. You have to be in it to win it.
<i>Seek advice</i> Your financial adviser is there to help you weather the storm and stay on track.

Is now a good time to start a regular investment plan?

We have no doubt that the markets will continue to provide some more bad news, however this is often the moment of maximum potential for investors. Market volatility provides investors the opportunity to regularly buy in via using Dollar cost averaging.

Dollar cost averaging

After all, if you could consistently buy low and sell high, you'd have plenty of money for retirement – or for anything else. A more workable investment strategy, based on the same ideal, is called "dollar cost averaging". It's a discipline that helps investors invest more efficiently.

Dollar cost averaging means you invest a specific dollar amount in your investment portfolio regularly. This could be every two weeks or every month just as you're probably doing in your superannuation plan. Doing this, you're investing systematically, regardless of what shares or bonds are doing at the moment.

How Dollar Cost Averaging Works

With dollar cost averaging, you commit to invest a set dollar amount on a regular basis and stick with this approach through both good and bad markets. This discipline is easy to maintain.

When market prices are falling, you automatically buy more units in the fund with each subsequent investment. When prices start to rise, you buy fewer units. Because you're buying more units when prices are lower and fewer units when prices are higher, the average cost your units will be below the average market price of the units.

Month	Contribution	Price Per Share	No. of Shares Purchased
1	\$250	\$1.00	250
2	\$250	\$0.85	294.1
3	\$250	\$1.10	227.3
4	\$250	\$1.20	208.3
Total shares Purchased	250 + 294.1 + 227.3 + 208.3 = 979.7		
Total Investment	\$250 + \$250 + \$250 + \$250 = \$1000		
Avg Price Per Share	(\$1.00 + \$0.85 + \$1.10 + \$1.20) / 4 = \$1.04		
Avg Dollar Cost Per Share	\$1000 / 979.7 = \$1.02		

The key to success is to avoid trying to "time the market", plan your strategy and stick to it.

Autumn 2009

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On behalf of Perrier Ryan and PRL Solutions we wish you all the best for 2009. We hope 2009 is a safe and prosperous one for all our clients and their families.

A quick update on some new faces. February saw Mr Andrew Forsyth join the Perrier Ryan / PRL team as our resident lending specialist. Andrew as a full time employee and stakeholder in this new venture will be our dedicated lending specialist and is here to assist you with all your lending needs. With over 15 years in the financial services industry Andrew can take care of all your Home & Investment Lending, Equipment Finance and Commercial Lending requirements. Andrew's experience in the finance industry will ensure you have the best loan structure and product in the market.

Andrew is dedicated to superior customer service and would be happy to review your existing loan arrangements to see if he can save you some money, so please feel free to give him a call on the office number.

Year in Review - We think the general consensus is most will be happy to see the back end of 2008 which was quite a year, not only in Australia but world wide. 2008 saw large portions of retirees and investors wealth being wiped; large publicly listed companies being deemed worthless; the USA finally coming clean that all is not so good; interest rates rising then falling faster than ever before. So where are we headed? Well time to pull out the crystal ball. In a lot of instances that crystal ball may well be just your own brain pulling on past experience and gut feeling. How many experienced people thought the stock market was over cooked, but didn't follow their instinct because they thought they would miss out on a bit of the up side. A lot of people we have spoken to have been through this before more than once, and are really kicking themselves for not following their instincts, simply they got greedy. So plant this last twelve months in your brain and remember its better to miss the top by 10% than watch 50% disappear. A good quote in this regard is....."Experience is something you don't get until just after you need it", how true!! Well we hope we are close to the bottom of the cycle now and pray that the leaders of this great nation get it right with the borrowings this country undertakes to stimulate the economy, giving it the kick start required.

We reproduce below a couple of headlines from major financial publications, and the year the headline appeared.

"There is no question this is the worst economic time since the great depression." (early 1991)

"Forecasts for a weak recovery next year suggest that the next twelve months will be the worst for the economy since the great depression." (mid 1996)

"This recession is hitting white-collar employment more heavily than any since the great depression of the 1930's." (late 2001)

Whilst it is not a good time, we have been here before, we will recover and it will happen again – just don't panic.

As the economy slows and money becomes tighter here is a light hearted tip on how to save:-

Money Saving Tip – Save up all your finger and toenail clippings and place them in an old sock, it makes a great pots and pan scraper!!!! Yes someone actually sent that in to the Courier Mail as a helpful hint.

RESIDENTIAL PROPERTY UPDATE

With most peoples wealth tied up in their personal homes and investment properties we thought we would provide you with a quick property update:-

Residential values, especially for the bottom-end and in many cases the middle-market segment, are going up – not down, as recent studies advocate. In recent days the ABS, APM and RPDData among others have released figures suggesting that house values have declined across Australia. Whilst the results vary considerably between studies, there is little doubt that statistically they are all correct. That is, that median house values have fallen during the last quarter and in particular over the last 12 months. So what does this mean and will it affect my property? To answer this we have looked to residential property expert Mr Michael Matusik. His research advocates that median values are influenced by what types of properties are sold during a study period, rather than the direction in value of individual assets. The current declines in median house prices are due to compositional change and not individual houses losing value.

Consider this. Around half (50%) of the house sales across Brisbane during the June quarter last year sold for under \$500,000. In the September quarter, sales under \$500,000 held a 62% market share and preliminary data suggests that close to 70% of the sales during the last three months of 2008 in Brisbane sold for under half a million dollars. The median price must fall under these circumstances.

The reason why cheaper properties are selling is two-fold. Firstly, first-home buyers - attracted by the boost in the grant now make up 24% of all buyers as at late 2008, the highest level in seven years. The second reason why more cheapies are selling is due to investors returning to the market. Most investors, like first-home owners, cannot afford to buy a residential property priced much over \$450,000. Due to the decline in interest rate; rising rents and tightening supply, many existing investors have seen their net rental returns turn positive in recent months. Mr Matusik believes many investors – well, the astute ones anyway – will add to their residential portfolios this year.

The only way to determine what residential values are doing is to analyse individual resales. Mr Matusik's study of individual resales late last year, done without major improvements between sales, found that on average established house values rose 8% across urban Qld last year. The bottom-end and to some degree the middle market segments fared best last year. The top-end did it tough with values dropping 12% during 2008. Most commentators expect more of the same in 2009. The table below shows that until last year top-end properties made the biggest long-term capital gains, something 2008 reversed.

Detached house resales in Dec Qtr 2008
Urban Queensland

	Avg gain pa	Total gain	Avg time held
Price Group	Regardless of time held		
Under \$350,000	10.4%	\$109,000	6 years
\$350,000 to \$500,000	12.9%	\$169,000	6 years
\$500,000 to \$750,000	8.8%	\$203,000	5 years
\$750,000 to \$1 million	13.1%	\$592,000	12 years
Over \$1 million	18.9%	\$886,500	5 years
	Bought and sold in last 12 months		
Under \$350,000	11.9%	\$38,250	
\$350,000 to \$500,000	6.8%	\$17,500	
\$500,000 to \$750,000	2.9%	\$25,000	
\$750,000 to \$1 million	-1.6%	-\$41,000	
Over \$1 million	-12.1%	-\$350,000	

Matusik Property Insights, January 2009. RPDData.

*Detached house sales on land under 1,000sqm and without major renovations between sales.

Guiding Your Business Through Tough Times

Is the economy in or going into recession? Will it continue to grow? Or is depression a possibility? The analysis on the economic outlook is an entire newsletter in itself. The management of a well run business will constantly keep their eye on their business in a number of ways to ensure that they survive the economic cycle.

This monitoring of the business will keep management focused on the performance of their business as changes in the cycle take place.

Gross Profit Margin

This is one of the most important ratios that are monitored by a business and is the difference between your sales and your cost of sales/service.

What Gross Profit Margin you should target will depend on what type of business you run and could be as high as 50%.

Your gross profit margin is probably the biggest determinate of your business' overall profitability.

Working Capital Requirements

A simple calculation of your business' working capital requirements is as follows:

Debtors + Inventory/WIP - Creditors

1. Debtors/Accounts Receivables

Are your customers paying you within the terms agreed? The easiest way to keep the dollar amount of your debtors down is to follow up those debts just past due.

2. Inventory/WIP

How much money do you have tied up in stock or unbilled work? Do you need to have a sale to move old stock? Do you need to bill your clients more regularly or complete work quicker to turn unbilled work into billed work to reduce your level of WIP?

3. Creditors/Accounts Payable

Are you paying your suppliers quicker than you need to? The lower the amount of working capital required, the less capital (whether equity or debt) required by your business, thus reducing the holding cost (interest/required profit) of that capital.

Productivity

Employee costs are usually one of the major expenses for most businesses.

Do you have right number of employees? Do you have too many or not enough? Is your business getting the required/expected amount of output from your employees?

A danger that most businesses run at present is that coming from a situation where labour was scarce, they may hold onto surplus labour for longer than required. This does not necessarily mean that staff need to be retrenched. Other options include cutting back overtime or a 4-day work week.

Liquidity

How well is your business positioned to suffer a temporary setup back in cash flows?

There are usually two measures that you should watch:

1. Current Ratio

Current Assets are assets that you expect to realise in the next twelve months and usually include cash at bank, debtors, and inventory/WIP.

Current Liabilities are liabilities that are at call or due to be paid within twelve months and usually includes bank overdraft, loan/hire purchase repayments/ lease payments due in the next 12 months, creditors, income tax payable, net BAS liabilities, unpaid superannuation, and accrued employee entitlements .

A ratio \$2 of current assets for each \$1 of current liabilities is considered the minimum prudent amount for most businesses.

2. Quick Ratio

Is calculated as per current ratio but stock/ WIP is excluded. A ratio \$1 of current assets for each \$1 of current liabilities is considered the minimum prudent amount for most businesses.

Debt Profile

Does your business have too much debt due at once or within a short period? Could your business benefit from converting some or its entire overdraft to a lower rate fixed loan?

Does your business have too much debt? Do you need to contribute more equity or cut down on your cash drawings (wages / superannuation / fringe benefits / dividends) from the business?

Where are interest rates headed? Are you better off locking in some of your debt at a fixed rate now?

Have you claimed Family Tax Benefit ('FTB') through your Tax Return?

The option of claiming FTB through your tax return has ceased for the 2008/09 financial years and later. You can only claim FTB directly from the Family Assistance Office as a cash payment. Please note that you do have the option to be paid annually after the lodgement of your income tax return if you are worried about incurring a FTB debt through under-estimating your income. Please contact the Family Assistance Office on 13 61 50 to register.

Relief from Minimum Draw Downs for Pensioners

For the 2009 financial year there will be a 50% reduction in the minimum payment pensioners must take from their account. This means that for people who have already taken half of the current minimum payment, a further payment is not required until the 2010 financial year.

The relief addresses concerns that minimum draw down requirements were set based on asset values at 1 July 2008 and because of factors outside the control of trustees and members, the value of many funds has decreased (sometimes substantially) since then, making it difficult for some funds to find the cash for pension payments. This will mean that many people can avoid having to sell investment assets and realise loses in the current market.

Some funds will not be able to take advantage of this relief. You should ensure that the trust deed for the fund allows the reduced draw down, as some trust deeds recite and entrench the minimum payment percentages set in the *Superannuation Industry (Supervision) Regulations* and will require a deed variation to allow a lower payment. Also, clients should check pension documents to see if they set the minimum drawdown as a percentage or refer to the minimum required by the SIS Regulations.

Land Tax Recovery Revisited - Queensland may go 'back into step' with other States

The Queensland Government has released a draft Bill to amend the *Land Tax Act 1915 (LTA)*. If enacted, the changes will allow landlords of commercial and industrial properties to recover land tax from their tenants. The changes will take effect from 30 June 2009.

Accordingly, it is important for all landlords and tenants to be mindful of the proposed changes and to take steps to safeguard their position if need be.

Current Position

Landlords have been prohibited from passing on their land tax liability to tenants since 1992 (section 44A – LTA).

Proposed Position

If the proposed amendments are passed, from 30 June 2009 the general prohibition currently contained in section 44A will not be applicable to any lease of commercial or industrial premises entered into after that date.

From then, landlords and tenants will be in a position to negotiate whether the tenant will be liable to contribute to the landlord's land tax liability.

However, the prohibition in section 44A of the LTA will continue to apply to:

- any lease entered into before 30 June 2009 (pre-existing lease);
- a renewal of a pre-existing lease (e.g. as a result of the exercise of an option); and
- an assignment or transfer of a pre-existing lease

Tenants under pre-existing leases should ensure that options for renewal in their pre-existing leases are correctly exercised to ensure that any new lease arising from that exercise continues the prohibition.

On the other hand, Landlords of pre-existing leases may wish to take advantage of non-compliant option exercises or failures to exercise and seek inclusion of a land tax recovery provision in a new lease.

Retail Shop Leases Act 1994 (Qld) and the Residential Tenancies Act 1994 (Qld)

Any lease under the *Retail Shop Leases Act 1994 (Qld)* or a tenancy under the *Residential Tenancies Act 1994 (Qld)* will continue to prohibit the recovery of land tax. It is important to be aware of the potential changes to the LTA and to be cautious when entering into future lease negotiations for commercial or industrial premises.

This will be particularly important for parties who enter into lease negotiations in the months leading up to 30 June 2009.

Landlords and tenants with pre-existing leases should also take notice of the potential amendments to the legislation as the prohibition against recovery of land tax under section 44A of the LTA will not apply once the pre-existing lease has expired.

Business Investment Allowance

The Government, as part of its latest stimulus package, has included an increase in the investment allowance originally announced on 13 December 2008.

Small businesses (i.e. turnover less than \$2 million):

You will be able to claim a bonus deduction of 30 per cent for eligible assets costing \$1,000 or more that you:

- acquire or start to hold under a contract entered into between 12:01am AEDT 13 December 2008 and the end of June 2009, or start to construct between these times; and
- have installed ready for use by the end of June 2010

You will be able to claim a bonus deduction of 10 per cent for eligible assets costing \$1,000 or more that you:

- acquire or start to hold under a contract entered into between 1 July 2009 and the end of December 2009, or start to construct between these times; and
- have installed ready for use by the end of December 2010

Medium and large businesses (i.e. turnover above \$2 million):

You will be able to claim a bonus deduction of 30 per cent for eligible assets costing \$10,000 or more that you:

- acquire or start to hold under a contract entered into between 12:01am AEDT 13 December 2008 and the end of June 2009, or start to construct between these times; and
- have installed ready for use by the end of June 2010

You will be able to claim a bonus deduction of 10 per cent for eligible assets costing \$10,000 or more that you:

- acquire or start to hold under a contract entered into between 1 July 2009 and the end of December 2009, or start to construct between these times; and
- have installed ready for use by the end of December 2010

Eligible Assets:

The allowance will apply to new tangible assets used in carrying on a business, for which a deduction is available under the core provisions of Division 40 of the Income Tax Assessment Act. This is basically items that you would normally depreciate in your business (including motor vehicles).

Land and trading stock are excluded from the definition of depreciating assets, and will not qualify for the deduction.

The allowance also applies to new expenditure above the respective threshold on existing assets. This means if you have existing plant and add for example a new computer system to run it (i.e. not a repair) that will receive the allowance.

Claiming the Tax Bonus:

The deduction will be available to the taxpayer who is entitled to the capital allowance deduction (depreciation).

The deduction is on top of the usual capital allowance deduction (depreciation) claimable for the asset as part of the taxpayer's income tax return.

The deduction is claimable in the income year in which the asset is installed ready for use.