CENTRIC Wealth

INNERCIRCLE

Centric Wealth Client Newsletter | Winter 2010

INSIDE THIS ISSUE:

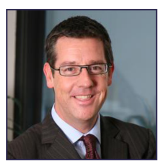
"your interests, our focus"

www.centricwealth.com.au

> Financial Planning

An insight into professional advice

As an expert witness who frequently assesses the quality of financial advice for the courts, Centric Wealth financial planner, Peter Richards (pictured), knows professional advice when he sees it. Here he offers an insight into what forms quality advice – and what the industry can do to make it the norm.



Following the Ripoll enquiry and major financial collapses, the question of how to ensure professionalism and high standards in the financial planning industry has been front and centre for advisers, regulators, the media and investors.

One who is well qualified to comment is Centric Wealth Adviser Peter Richards. He is frequently retained as an expert witness by organisations such as ASIC. Peter assesses the quality of financial advice in matters that are heading for litigation – generally because financial planning clients are unhappy with the outcome of their advice.

As Peter explains, the job involves the exhaustive scrutiny of every aspect of the advice process. It begins with examining the extent and accuracy of the initial assessment of the client's situation, which forms the vital starting point of the advice continuum, goes on to review the advice provided and how well – or otherwise – it matches the client's needs.

Issues such as the possible influence of commissions or other forms of remuneration in the advice are also examined. The assessment then continues to look at whether the financial strategy and investments concerned were updated to reflect changes in circumstances that the client may have communicated to the adviser – and vice versa.

"The court places a very high requirement on accuracy and the solicitors on each side will question every part of the report: all of the underlying assumptions, sources of information and so forth must be beyond reproach," he explains.

"As an expert witness, it is not my role to advocate for either party; it is my role to advocate for the truth. There's no place for emotion – the aim is for a completely measured and objective opinion based on the facts. It's all about providing clarity so the court is well placed to make a decision."

It's an exciting and challenging role that Peter relishes – and which taps into his longstanding interest in, and advocacy for, higher standards within the profession.

According to Peter, education and experience are key to moving members of the financial planning industry to a genuine professional status.

cont.page 2

> Investments

Charting the path to success

While others are steadily outsourcing their investment research to third parties, Centric Wealth has ramped up its commitment to its Investment Research team. We see our in-house research capability as a fundamental plank in our offering to clients. James Foot (pictured), Centric Wealth's Head of Portfolio Construction and Asset Allocation, explains.

Continuous improvement is the ethos of Centric Wealth's Investment Research team. In line with this, a major project is underway to enhance Centric's investment research to strongly benefit clients.

For the vast majority of investors, the single largest factor driving portfolio returns is asset allocation. This is the process that determines what proportion of a portfolio is exposed to each investment market. Allocating assets to better performing markets and less to underperforming markets, while remaining within prudent portfolio diversification guidelines, has an obvious benefit to returns.

Centric is investing significant sums in its processes, people and tools to further increase our capabilities in this area. This includes extending the range of market valuation tools available, researching market dynamics in more detail and appointing additional personnel with strong experience and qualifications.

Flexible portfolio construction

Every client has different objectives and needs. Centric has created the role of Head of Portfolio Construction and Asset Allocation and is merging all investment functions under this role. This improved co-ordination of investment strategy will enable Centric Research to provide your Adviser with more flexible options for portfolio construction. Your Adviser can then better tailor your portfolio to your individual circumstances including more active and passive, listed and unlisted investment options.

Investment monitoring

As part of Centric's commitment to continually improve the quality of our ongoing advice, the opportunity has been taken to refine the way investments and markets are monitored.

The expanded research team will be better placed to identify and review special investment opportunities and situations. Centric's "early warning systems" have also been strengthened with increased quantitative monitoring and refinement of our qualitative practices. This is particularly aimed at identifying investments whose risk profile may be changing over time.

Sharing the Centric house view

Market valuations and the long term factors that drive value are important inputs into the investment process. A new regular publication, *Investment Insights*, is providing clients with access to the Centric team's investment views. For more information on the Investment Research team, or for a copy of the latest *Investment Insights,* contact your Centric Wealth Adviser.

> "Centric has created the role of Head of Portfolio Construction and Asset Allocation and is merging all investment functions under this role."

carry over from page 1

"The best in our industry are highly trained, highly qualified and experienced professionals," he says.

"However, there are also others out there who, after only three months of training, feel that they can advise someone on what to do with their life savings. To me personally, and certainly to Centric Wealth as well, that's an untenable situation."

His views on education and experience are felt so strongly that Peter is actively addressing this in his role as a lecturer in financial planning for Kaplan Professional (one of the leading professional training organisations for members of the financial services industry). And, while highlighting that professional standards are now higher than they were when he began practising some 20 years ago, Peter says the industry still has a way to go.

> "Education and experience are key to moving members of the financial planning industry to a genuine professional status."

"We are already tightly regulated, so much of the change must come from within the industry itself," says Peter.

"At Centric Wealth our financial planners have at least three years' experience before they provide direct advice. They must undertake ongoing professional development, and the vast majority of them are Certified Financial Planners – compared to about 20 per cent of the Australian profession as a whole," he says.

However, Peter stresses, meeting these kinds of standards is more a starting position than a finishing point – and the industry at large is still only aiming to reach by 2015 what Centric Wealth already has in place.

"The point we make is that it's incumbent on all of us as professionals to lead by example. We must continue to strive to educate both advisers and clients about what financial advice is, what are appropriate expectations around it, how best to give it and what objective standards should be used to assess its merits or otherwise," says Peter.

Never say never: risk insurance comes to the fore

Holistic advice covering all of your financial affairs is key. A range of Advisers from various Centric Wealth offices have taken the notion of total service to a new level, helping two generations of one family through a range of life events.

When Centric Wealth Lending Adviser Brendan Morrow (pictured) took a call from Adriana Costa in early 2009, he looked forward to a catch up. Adriana and her husband, Bob, were longstanding clients.

"Adriana said that they had reviewed their financial situation and, given they were only a few years away from retirement, were questioning the value of their risk insurance, which comprised life and total and permanent disablement (TPD) cover and an income protection policy," recalls Brendan.

"We went through a number of scenarios, including the benefits of staying the distance – especially as you are in fact more vulnerable to health threats at an older age – and looked at the more realistic 'net cost after tax' of the policies, rather than the before tax cost. We also had a discussion with Terry Brain, our Centric Risk Insurance consultant. In the end, I'm happy to say they decided to keep their policies in place."

Just four short weeks later, Bob suffered a clot behind his eye which impaired his vision so that he could no longer work as a GP.

"Thankfully, Bob survived and has recovered well in general, but he is no longer able to work, drive or carry out other earning-related activities," explains Brendan.

For Bob and Adriana, there was an acute awareness that, although the crisis was extremely upsetting and disrupting to their personal and professional lives, on the financial side the damage was minimised – thanks to their risk insurance.

As well as a lump sum TPD payment, Bob now receives ongoing income protection payments and will continue to do so until his retirement in a few years' time.

"Bob and Adriana didn't have to worry about medical or any other expenses during Bob's illness and recovery, when these were their only priorities. In terms of the claims process, Terry Brain and Amanda Cooper from our Centric office took care of a lot of the follow-up work, which I think was also appreciated at such a difficult time," says Brendan.

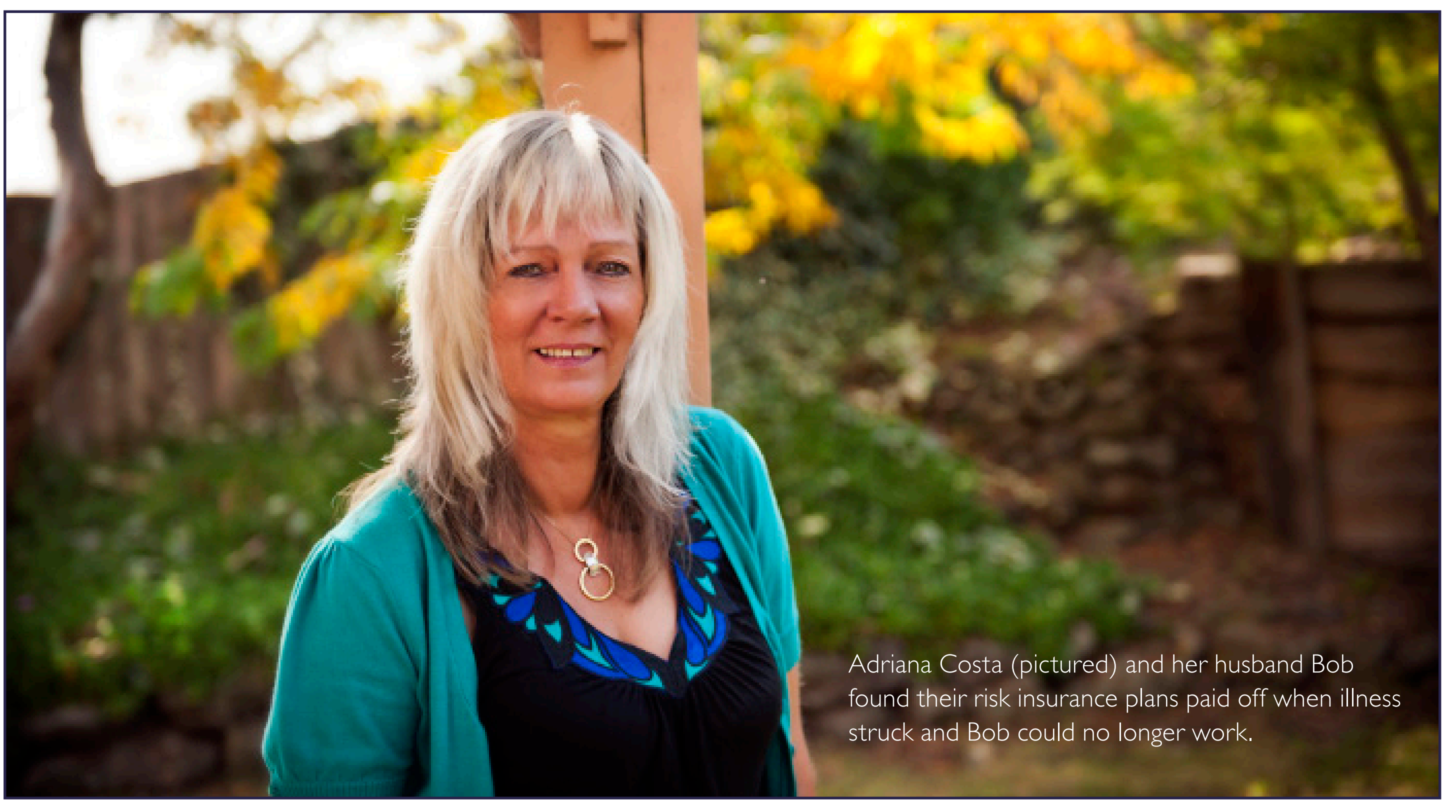
However, the story doesn't end there. With a lump sum payment to deal with, together with their own self managed super fund, Bob and Adriana decided that, for the first time in their lives, they should seek professional financial advice. Not surprisingly, Centric Wealth was their first port of call.

"I referred them to Paul Cooke, a Centric Wealth Adviser in Canberra. They are now his clients and their financial plan is in action."

Since then, Bob and Adriana's daughter and her partner have also seen Brendan who has structured their new home purchase finance and have scheduled a risk insurance meeting for later in the year; and their son will soon be paying Brendan a visit, too.

"Seeing so many aspects of the service we offer – the risk insurance side, the lending, the financial planning – helping one family in such a positive way has been very rewarding," says Brendan.

"It's a very tangible reminder of exactly why we are here and the difference we can make to our clients' lives."



Adriana Costa (pictured) and her husband Bob found their risk insurance plans paid off when illness struck and Bob could no longer work.

Trauma insurance a key consideration

Although often overlooked as a viable option, Centric Wealth Adviser James McFarland (pictured) explains there are compelling reasons why you should consider Trauma insurance.

Trauma insurance is frequently overlooked in an insurance portfolio as premiums are not tax deductible and are generally higher than straight death cover.

The need for Trauma insurance today is greater than ever before.

Medical advancements mean the average lifespan is continually increasing. We still contract the same major illnesses, such as cardiovascular disease, however they are not the death sentence they were 10 years ago. Because of this Trauma insurance is increasingly becoming an important part of many insurance portfolios.

Quite simply, Trauma insurance pays you a lump sum in the event you suffer an insured illness. Roughly 80% of these claims are cancer related and the majority of all other claims are for heart attack, coronary artery bypass surgery or stroke.

The history

Trauma insurance was first developed in South Africa with input from cardiac surgeon Dr Marius Barnard.

Dr Barnard found that while he was able to heal his patient's biological problems his patients suffered major financial complications as a result of their infirmity. He also found that patients whose financial complications worsened generally incurred additional medical complications and/or extended healing periods.

There are many reasons to include Trauma insurance in your portfolio. Private health insurance alone is not always sufficient and large out-of-pocket expenses are common with major illnesses. It is important to note that not all expenses are covered through Medicare, the PBS and private health insurance. For example:

- To be treated by the leading physician for your illness you may need to travel interstate or even internationally for consultations/treatments
- The most up to date treatments available for your illness may not yet be available through Medicare or the PBS.

Many clients choose to repay all or a portion of their mortgage (or other liabilities) in the event of a major illness. This provides them with financial security for the family's future and reduces financial stresses during treatments.

Trauma insurance can be a useful top up for Income Protection insurance.

Income Protection insurance benefits are normally restricted to 75% of your earned income at the time of application. If you are unable to fund your liabilities and maintain your lifestyle with the reduced income a lump sum provided by Trauma insurance can help.

Trauma insurance vs Income Protection insurance

People often ask if they need Trauma insurance cover if they have Income Protection in place. While there is a possibility of claiming under both, the insurances themselves are quite different.

Income Protection insurance is paid if you are unable to work due to an accident or illness. The purpose of this cover is to replace your income if you are disabled. The income payments are paid after a specified waiting period (normally 30, 60 or 90 days) and will cease when you return work.

Trauma insurance is paid if you are diagnosed with an illness that meets a definition in your policy document. This benefit is paid as a lump sum payment and is not reliant on your ability to work.

As outlined above, there are many ways this lump sum payment can be used to ease your financial pressures.

While the two benefits may complement each other the purpose of the benefits are quite different.

Centric Wealth's expert insurance Advisers can help you ensure that you're fully protected. For more information, contact your Centric Wealth Adviser.

“Trauma insurance can be a useful top up for Income Protection insurance. Income Protection insurance benefits are normally restricted to 75% of your earned income at the time of application. If you are unable to fund your liabilities and maintain your lifestyle with the reduced income a lump sum provided by Trauma insurance can help.”

> General Insurance

Business owners at risk: insurance crisis

Melbourne's recent record hailstorms, extreme weather in Perth, massive floods in the North and North West and cyclones in Queensland...in the wake of such devastation, an increasing number of Australians have called on their General insurance cover to help them recover and rebuild.

It may come as a surprise to learn that, despite such frequent reminders that no one is immune to disaster, a significant portion of Australians remain either uninsured or underinsured, explains Leonard Gordon (pictured), Manager of Centric General Insurance Services. What's more, he says, business owners represent a major part of this population.

A 2008 survey of business owners conducted by the Insurance Council of Australia (ICA) revealed that over a quarter had no General insurance – and 7% did not know whether they were insured. Further, according to the ICA, of those businesses which did have General insurance, half of their buildings were significantly underinsured and 20% were not insured at all. Alarmingly, 90% of small business plant and equipment – their literal tools of trade – were also severely or significantly underinsured.

So what are the reasons for these low levels of insurance? They included concerns about affordability, confusion about the types of insurance available and difficulty in calculating the appropriate sum insured – a figure that takes into account not just rebuilding and recovery costs, but also the cost of interruptions to business, delays in planning and construction, relocation time costs, etc.

Underinsurance is particularly hazardous because, under many policies, in cases of underinsurance, the total payout will form only a proportion of the total sum insured – translating to further losses for the already under-protected business concerned.

Can't afford insurance

Certainly, when it comes to affordability, state fire levies can see one business paying twice that of another similar company in another state. But the old adage is true; "if you can't afford insurance, then you can't afford not to be insured".

Then, there is the matter of the type of insurance that suits. In addition to Building, Plant and Equipment, and essential cover such as Key Man and Income Protection, there are a host of other options available.

Avoid underinsurance

Knowing exactly how much your assets and business are worth, what kind of insurance is available, and estimating the costs of delays and disruptions associated with theft or other unforeseen events can be difficult.

That is why the knowledge and guidance of an expert can be invaluable. Centric Wealth's expert insurance brokers can help your business become fully protected against risks that, all too often, really do happen. Contact your Adviser for more information.

> Facilitated Investments

Landmark investment

Centric Wealth clients recently had the opportunity to invest in a landmark Government tenanted building located in the Canberra CBD through the CorVal Industry House Trust.

Kieran Canavan (pictured), Centric Wealth's General Manager of Investment Development and Marketing, says features of the investment included:

- Landmark commercial office building located in Canberra close to major retail, hospitality and office developments
- Majority (over 99%) leased to the AAA-rated Commonwealth Government of Australia
- Security of income through a weighted average lease expiry of 12.3 years (by income) from August 2009
- An initial forecast annualised distribution yield of 8.15% to June 2010, rising to 8.25% through until June 2011 (subject to the assumptions and risks outlined in the PDS)
- Rental growth from fixed annual rent reviews during the Forecast Period
- A simple to understand structure, with a level of gearing set at 50% of the property's independent valuation
- The creation of a $1.2 million sinking fund to meet future capital expenditure (rather than rely upon further borrowings) and
- A clearly defined future exit strategy for investors.

Centric Wealth's Facilitated Investment Services division continues to work to develop compelling opportunities with a number of partners across the asset class spectrum.

All the opportunities are scrutinised by the Centric Wealth Investment Research team, and will only be offered to clients once approved. For more information contact your Centric Wealth Adviser.

Proposed non-commercial loan rules before Parliament

In the summer edition of *Inner Circle*, we discussed changes to the non-commercial loan rules (known as Division 7A) that were first announced in the 2009 Federal Budget. GMK Centric's Cynthia Voon (pictured) explains that under these proposed changes, many common transactions, such as the use of company assets by the shareholder or their associate for an amount less than their market value, would now be considered a 'payment'. And subsequently the value of that payment is required to be included in the shareholder's/associate's assessable income.

More recently, on 17 March 2010, the Bill containing the new Division 7A rules was introduced into Parliament. At the time of writing it is still before Parliament. When it is legislated, the new rules will apply to arrangements occurring on or after 1 July 2009.

Under the new rules, shareholders or their associate will be taxed on their private use of a company's assets for less than market value. The rules will deem such use as a payment of unfranked dividend by the company. The payment of that unfranked dividend will occur at the time when the shareholder/associate first uses the asset or has the right to use the asset to the exclusion of the company.

This means that where an asset is made available for the exclusive use of a shareholder, an amount will need to be included in the assessable income of the shareholder, even if the asset is not used. The amount taken to be an unfranked dividend is the market value of the asset's use less any consideration given. The new rules will also affect arrangements entered into prior to 1 July 2009, if they continue after that date. Shareholders should consider therefore whether their current arrangements will attract these new rules and how to deal with them. The new rules also provide three carve outs. They are for:

- The minor use of company assets
- The use of assets, the payment for which, if made, would be deductible to the shareholder and
- The use of a residence in conjunction with a business that is being carried on by the shareholder or an associate of a shareholder (eg farm residence).

Under the current rules, Division 7A applies to interest free loans from a trust to a shareholder where there has been a distribution by the trust to a corporate beneficiary and at the time when the loan was made that distribution remained unpaid. This requires any loan to be repayable over a seven year period at principal and interest.

If a second trust was interposed between the original trust that made the distribution and loan to the shareholder of the corporate beneficiary, Division 7A would not apply.

Under these amendments, any loans made in such situations would need to be made in accordance with the rules in Division 7A; otherwise they would be considered a notional unfranked company dividend. It is clear once this legislation is finalised, many clients that are structured through trusts will have to closely review their affairs and make the necessary changes.

The need for this review is even more pronounced, following the release of a draft ruling, TR2009/D8, which sets out the Commissioner's view on when an unpaid distribution to a corporate beneficiary would be considered a loan or "financial accommodation" back to the trust. In these circumstances, the continued existence of the amount unpaid to the company would itself be considered a loan that, if not covered by a loan agreement under Division 7A, would be considered a deemed unfranked dividend.

Broadly, an unpaid entitlement will be taken to have been converted to a loan when:

- The corporate beneficiary fails to demand payment of its distribution
- The funds representing the distribution is intermingled with the trust funds or
- Adequate market return is not provided for the use of the corporate beneficiary's distribution.

When TR2009/D8 is finalised, it is proposed to apply to distributions made generally after 16 December 2009 (the issue date of this draft ruling), although it may apply retrospectively.

The impact of TR2009/D8 ruling, together with the legislative changes introduced above, will have a significant impact on the way many groups are structured. If you are faced with any of these issues, contact your Adviser.

"It is clear therefore that once this legislation is finalised, many clients that are structured through trusts will have to closely review their affairs and make the neccessary changes."

> Financial Planning

Providing leadership in times of change

Centric Wealth's Brisbane and the Canberra offices recently held an event that focused on the issue of financial leadership in times of change.

With constant investment innovation and regulatory change, it is simply too hard to achieve financial success without assistance. Against the backdrop of volatile investment markets over the past few years and the release of major government reviews of the Financial Services sector and taxation, the timing of a recent client function was ideal.

The session saw the Chair of Centric Wealth's Portfolio Construction and Asset Allocation Committee, Ashley Owen, discussing "Investment Markets: What matters, what doesn't" to a packed room. This was followed by a facilitated panel discussion involving a range of Centric Wealth Board members and executives. The panel comprised Centric Chair Philip Kelly and Centric CEO John McMurdo along with board members Chris Cuffe and David Jones as well as Ashley Owen. The panel was asked a wide variety of questions relating to the industry and the way forward for investing.

The questions put to the panel ranged from professional standards, regulatory change, investment market outlook, philanthropy, the impact of big issues (global warming, the rise of China, ageing population) on financial advice, breadth of services on offer and the importance of non-institutional ownership.

The two events are the first of a series of seminars. Keep an eye out for more client seminar details over the next few months, or contact your Centric Wealth Adviser.

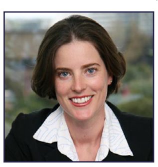

Ashley Owen and Centric Wealth board members

> Financial Planning

Super wealth strategies hit the mark

Superannuation remains one of the most attractive investment structures available to build wealth, Centric Wealth's Technical Research Manager, Anne-Marie Esler (pictured) outlines five super wealth strategies.

Contribute up to $900,000 in a year



The caps on super contributions limit the amount that can be contributed to super on a yearly basis. Once exceeded, penalty tax rates will be imposed. Legislation however allows up to $450,000 of personal non-concessional contributions (contributions for which no tax deduction has been claimed) over a three year period per eligible member. Knowing how and when to make super contributions can make a dramatic difference to your end benefit.

Tax deductions of up to $50,000

Tax deductions of up to $50,000 a year for each eligible contributor age 50 and over are available. The self employed can elect to make personal tax deductible contributions to their selected super fund but this strategy equally applies to those who are no longer working but have investment income on which they could claim a tax deduction. This can produce a net annual tax saving of up to $15,750 per member.

Convert super to a pension

Eligible members at preservation age may consider commencing a pension with their super balance. Excess salary income or cash from the pension drawn may be re-contributed to super. While the account is paying a pension, no tax is payable on either income or capital gains generated in the fund.

Direct property can be held in super.

Those with self managed super funds may consider purchasing or holding property in their fund. This can be funded from cash or assets within the fund or via a geared instalment warrant arrangement which allows the super fund to borrow money to make a property purchase.

Benefit your children

Planning for the tax free and taxable components of your super benefit to be separated within your super fund can guarantee an optimal estate planning outcome for your beneficiaries. The timing of contributions and the timing of pension commencement is crucial for this strategy to work. And, combined with a withdrawal and re-contribution strategy at retirement can provide a significant boost to your children's inheritance.

As always, any superannuation strategy should be viewed in the wider context of your overall investment portfolio objectives and in conjunction with the risks of legislative changes to super. For more information contact your Centric Wealth Adviser.

"the last WORD"

a message from the CEO...

Welcome to the latest issue of Centric Wealth's *Inner Circle* newsletter. This issue is especially important to me, as it includes my first address to you since joining Centric Wealth as its CEO.

There has been a lot of coverage in the press about the quality of advice received from financial advisers, and how it is frequently lacking. This coverage increased in intensity with the recent release of the *Future of Financial Advice* package by Financial Services Minister Chris Bowen.

The announcement includes a Government commitment to raising the level of professional standards and increasing transparency in financial advice. We welcome these proposals and believe they will benefit all investors. The changes of particular interest are:

1. The banning of commissions and
2. The requirement of financial planners to act in the best interest of clients.

The proposals are largely a reflection of how we already run our business. Centric's financial planning advice is already predominately provided on a fee-for-service basis. Unfortunately, for the industry as a whole, the effective start date is two years' away. It's also worth noting that obliging other advisers to charge a fee-for-service doesn't necessarily ensure clients receive good advice. In fact, years of industry experience suggests good advice comes from professional advisers who are supported by a strong, client focused business to deliver great service.

It is my view that the changes don't go far enough. They only set a **minimum** standard for financial advice. In our view, true professionalism and the respect accorded to professionals will only come with further change. We believe more change is needed before the majority of advice businesses are seen as truly professional. Even then, increased qualifications will lead to more professionalism certainly, but it won't address the major conflicts inherent with institutional ownership.

We intend to keep pushing the issue, and we intend to continue to lead the emergence of Financial Planning as a true profession in this country. In the meantime, rest assured that we will continue to operate in the manner you have come to expect. Since inception we've led the financial advice industry in terms of professionalism, expertise and reputation. This will not change.

Centric Wealth, and the businesses that have joined Centric, were founded on clear principals. These principles include always putting clients' interests first and providing high quality professional advice from experienced advisers who are not institutionally aligned. The events of recent times, along with the release of the *Future of Financial Advice* package, has raised questions in the minds of many about how to find quality advice from a professional planner. If others you know would value non-institutionally aligned, professional service and advice, we would urge you, to urge them, to contact us.

John McMurdo, CEO

CONTACT US

Sydney
L 2, 7 Macquarie Pl, Sydney NSW 2000
Ph: 02 9250 6500 | Fax: 02 9252 2702

Melbourne
L 27, 150 Lonsdale St, Melbourne VIC 3000
Ph: 03 9639 4848 | Fax: 03 9639 4343

Brisbane
Lvl 8, 120 Edward St, Brisbane QLD 4000
Ph: 07 3230 6555 | Fax: 07 3221 2145

Canberra
Lvl 1, 8 Phipps Cl, Deakin ACT 2600
Ph: 02 6281 1477 | Fax: 02 6281 1476

Any Comments?
If you have comments about *Inner Circle,* please feel free to email them to: feedback@centricwealth.com.au, or talk to your Adviser.

www.centricwealth.com.au

Services List
Centric Wealth has a network of advisers across financial planning, risk insurance, corporate benefit services, lending, accounting and business advisory, general insurance and family office services. The firm also has services in administration, private capital and private investment solutions.