PRL Solutions Pty Ltd Insight
PERRIER RYAN BUSINESS ADVISORS Insight

CRISIS, BOUNCE, DOUBT, BELIEF

It has now been over three years since the Australian sharemarket peaked in November 2007. So, what's in store for 2011? To put this year in perspective, let's look at how the last three years shaped up.

2008	The year of **Crisis**, with markets in turmoil as the sub-prime crisis turned into the GFC.
2009	The year of the **Bounce**, with the Australian sharemarket up nearly 40% as governments around the world opened up their stimulus cheque books.
2010	The year of **Doubt**, with major concerns about a double-dip recession in the US and sovereign debt issues in Europe causing investors to question a global recovery.
2011	Can this year eventually be known as the year of **Belief**, as investors' confidence in the future of the global economy rebounds. That said, it will unlikely be a smooth ride.

This is typical of a major financial crisis, where growth assets have a substantial pause before the next leg of the recovery. More importantly, what does this mean for the major asset classes in 2011? To get you thinking about possible strategies a quick summary is set out below.

Growth Assets

Australian Shares: The Australian dollar (AUD) has caused many overseas investors to be wary of the Australian market. However, with shares trading at 12.8x forward PE and trailing the US in terms of returns, there should be some good upside from this point.

Australian Property: After being the asset class that in many ways suffered the most during the GFC, Australian property has now recapitalised and is trading at 12.6x forward earning with good (plus 6%) dividend yields. Importantly, the underlying real estate fundamentals now look healthy with good pricing anomalies to exploit over the coming year. Queensland's weather woes my have dampened this slightly though in the short term.

International Shares: There is belief confidence will return as the year plays out, with countless opportunities for stockpickers in a two speed (developed vs emerging) world. Currency will most likely not be a headwind this year, strengthening the case for unhedged international allocations.

International Property: Low interest rates globally have fuelled asset prices and the sector has already re-rated. Many economists see this market as being a bit overvalued at current levels.

Defensive Assets

Australian Cash: The RBA said it will look through near term growth and inflation volatility from the floods. A period of steady cash rates is in store but, as the economy recovers over the second half of the year, the RBA is expected to nudge the cash rate higher. By end 2011, economists expect a cash rate of 5% to 5.25% and 5.25% to 5.5% by the end of 2012.

Australian Fixed Interest: Australian bond yields have risen back to longer run levels (running yield around 5.5%), with most of the capital loss from rising yields behind us. Overall, expect returns at least around cash levels, with scope for some upside during periods of heightened risk aversion.

International Fixed Interest: This sector is outright expensive and has yet to experience the capital loss associated with yields rising back to longer run levels. Advanced economy yields are vulnerable to better economic data and adverse sovereign debt and fiscal developments.

Currency

Australian Dollar: If we see a run of volatile flood affected data, there is scope for a reduction in tightening expectations, which could see the AUD fall. However, once the economy recovers from this shock, expectations will likely shift back to further tightenings and this should be supportive of the AUD. Looking further ahead, once the ECB and Federal Reserve begin tightening, short term interest rate differentials should begin to narrow, which could see a period of sustained decline for the Aussie Battler.

THE LENDER'S CORNER BY ANDREW FORSYTH

Equipment Finance: Why It Makes Sense:

Starting a new business or growing an existing business can be a nerve-wracking experience at the best of times. If market conditions are uncertain, it can be even more difficult to commit to spending thousands on new equipment - no matter how essential.

Planning what type of equipment you need and selecting the items that will best meet your requirements is an important part of the process. Potentially even more important is working out how you intend to pay for it.

If, like many businesses, you do not have the cash to purchase your income-generating equipment outright but do have sufficient cash flow, equipment finance may be just what you're looking for. Even if you have the funds available, equipment finance offers a number of benefits for all sorts of businesses.

What type of equipment?

Autumn 2011

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Welcome to another addition of our newsletter Insight. Having emerged from a challenging 2010 calendar year where we saw the cash rate move upwards by 1% the All Ordinaries index move from 4882.70 to 4846.90, yes that is correct a twelve month movement of -0.733%, and a property market still hampered by soft demand and tight bank lending processes we were all hoping for a very different 2011, surely it has to offer something more than 2010.

Well 2011 has certainly offered something more! In Queensland we have had 75% of the State in flood, NSW and Victoria have experience flooding and fire and Western Australia fires and Tasmania flooding. Wow what a start to the year. The headline figures regarding the cost of the floods experienced throughout Australia are $11.75Billion for reconstruction, $2.08 Billion agricultural loss and upward pressure on inflation due to higher food prices. How is that for a start to a new year? Anyone wishing for the return of 2010?

But where does all this leave us and what does it point to for the rest of this financial year and the years to come? The answer – we are all waiting to see how things unfold, it is just too soon to determine the overall impact of these events. The All Ordinaries appears to have little concerns charging from 4846.90 to 4990.90 (21/2/10) a 2.9% increase. Building has been significantly affected with the lowest building approval numbers in January since the GFC, and retail is, in reality a basket case. As these sectors work themselves through a greater understanding will be gained, but in the mean time it would appear that less is more, cash is king and 2011 will be another tough year.

IT'S A NEW YEAR – TIME TO GET YOUR TAX AFFAIRS IN ORDER

This may be the best time of year to take stock of your tax affairs and engage in proactive tax planning.

Many businesses wait until tax time to start thinking about their tax obligations. Usually this leaves time for little more than a short review and completion of tax returns.

However, thinking about your tax obligations now will give you the opportunity to consult with your tax adviser and engage in proactive tax planning on a wide range of issues.

What should you do?

As tax considerations extend well beyond merely compliance obligations, you should take the time to ensure that your tax affairs are structured in the manner that best suits your needs.

The right tax structure will provide the solid foundation on which you can build the rest of your business.

Here are a few tips to get you started.

1. **Evaluate your business structure**

The structure in which your business is set up will depend significantly on your needs.

Each possible structure offers its own advantages and disadvantages, such as:

- Running your business through a company offers asset protection and access to the corporate tax rate. However, losses are trapped inside the company and getting earnings out of the company will require you to either pay top-up tax or put the loan on a commercial footing. Dividends and capital returns need to be paid to all shareholders equally, and any transfer of shares may attract a liability for capital gains tax. In addition, capital gains made by the company will not attract the 50% CGT discount.
- Setting your business up in a trust allows you to distribute income and capital gains to different beneficiaries in different years. However, each beneficiary will have to pay tax on his/her share of the net income of the trust at his/her marginal tax rate every year. Any losses will be trapped inside the trust.
- Running your business through a partnership will allow you to distribute income and capital gains in accordance with the partnership agreement. Losses can be passed on to individual partners who can usually offset these losses against their other assessable income. However, any changes in the composition of the partnership will usually result in inherent capital gains being realised for tax purposes. Holding assets in this structure also offers very little asset protection.
- Self-managed super funds (SMSFs) are increasingly being used as an alternate structure in which to hold passive investments. However, the activities that an SMSF can engage in are quite limited and the compliance burden associated with running an SMSF can be high.

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