



# The INSIDER

February 2009

INSIDE: ⇨ Highly stimulating ⇨ Suddenly, a pile of cash

## Countdown to blastoff

The fuse has been lit for a new wealth explosion, top moneymen believe

**“I THINK we’re on the verge of the greatest boom that mankind has ever seen,” legendary Australian retailer Gerry Harvey said this month.**

Powerful growth levers were being dramatically pulled, the billionaire Harvey Norman executive chairman said on ABC TV’s *Four Corners* program.

“I think that, you know, there is much money being printed in all the countries, in a lot of the countries in the world, the wealthy countries, interest rates are coming down in most of those places between nought and 2 per cent, there’s this huge amount of money.

“It’s just a matter of we’ve just got to go through a little bit of a period and then away we go,” Mr Harvey said.

Fellow billionaire, the iron-ore magnate Andrew Forrest also sees a clearing outlook where others see only gloom.

“If I might say firstly, 2009 and certainly this first quarter, I believe will be seen as the bottom of the market,” Mr Forrest, the Fortescue Metals chief executive, told the Melbourne Mining Club in an address.



Mr Forrest, at one point Australia’s richest man, said investors should welcome recessions.

“I’m quite looking forward to getting any recession we need to have out of the road because always, and again history being the best pointer to the future repeating itself, they are the best times to invest,” he said.

His enthusiasm for the future was shared by Charles Massimo, president of US-based CJM Fiscal Management, who said: “This market is going to explode when it turns.

“You won’t want to be that one person sitting on the sidelines,” he said.

Tony Featherstone, the consulting editor for ASX Investor Update, was similarly, if less dramatically, encouraging.

“I reckon it’s a mug’s game anyway trying to pick the absolute bottom for long-term investors. If we are not at the bottom, we’re in the last quartile, down low enough for long-term investors to buy quality blue chips cautiously in the next six to 12 months with more confidence,” said the former managing editor of *BRW* and *Shares* magazines.

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BUILD it up ... Australia's second stimulus package includes \$28.8 billion for infrastructure, schools and housing.

# Highly stimulating

**PAYMENTS from the Federal Government's \$42 billion economic stimulus package would roll out on schedule now that the plan had been approved by Parliament, the ABC reported.**

Centrelink and the tax office will distribute the payments from March 11.

The \$900 payments for single-income families and \$950 payments for school students will be rolled out first.

That will be followed later in the month by a \$950 payment for drought-affected farmers and older students or those people returning to training.

The \$900 tax bonus for low and middle income workers will be paid in April.

Money for public housing and school maintenance will flow later this year.

The latest stimulus package is aimed at stopping Australia's \$1 trillion economy falling into recession as demand for its commodities, particularly from China, declines.

Australia's stimulus spending announced since September 2008 now totals \$78 billion.

**US billions to the rescue**

**CONGRESS has approved a \$US787 billion economic stimulus package that Democrats predict will save or create 3.5 million jobs.**

The plan's costliest item is a \$US400 payroll tax cut for individuals and \$US800 for couples. Retirees, disabled veterans and others who don't pay payroll taxes will get \$US250.

The Congressional Budget Office said the plan will pump \$US185 billion into the economy this year and \$US399 billion next year.

In October 2008, a \$10.4 billion package, mostly in pre-Christmas cash payments, was aimed at helping the elderly, poorer families and first-home buyers.

Other measures previously announced include \$8 billion to fund purchases of residential mortgage backed securities after global lines of credit dried up, and \$6.2 billion in car industry assistance to help protect jobs and develop environmentally friendly vehicles.

In September 2008 the Government announced it would guarantee public bank deposits and wholesale funding to banks.

## DIRECT SPEECH

"From the working family point of view we clearly saw that it worked for them."

**Woolworths chief Michael Luscombe commenting on the first stage of Australia's stimulus package worth \$10.4 billion**

"In the last three weeks of December we set new sales records. I think people are downgrading, and if you go and talk to fine-dining establishments, they'll tell you numbers are down."

**Subway MD Brian Tap**

"The global economy will recover, probably beginning in the second half of this year."

**MSN Money's investment writer Tim Middleton.**

"What we've got to do is to ensure that those businesses that have a future and are currently viable have an adequate flow of credit."

**Treasurer Wayne Swan**

## Deeming rate changes

**THE upper deeming rate for social security payments fell by 1 per cent, from 5 per cent down to 4 per cent, from January 26.**

The deeming rates are used to assess income for social security, pension and allowance purposes, from financial investments such as bank accounts, term deposits and securities.

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## DIRECT SPEECH

"The unprecedented rate cuts over the past five months translate to a massive pay rise for the home-buying public. Since September, interest rate repayments on a \$300,000 loan have fallen by \$8800 a year - effectively representing a 15 per cent pay increase for someone on the average wage."

**Commsec chief economist  
Craig James**

"I believe in free trade, but ... why should Australian taxpayer dollars go towards protecting the jobs of Indian steelmakers or Brazilian aluminium makers?"

**Australian Workers Union  
national secretary Paul Howes**

"We can't as a globe, and we can't as a nation, return to those old protectionist practices which have the potential to make this global recession much worse."

**Treasurer Mr Wayne Swan**

"There's no point telling people to give up on super ... Irrespective of the fact we've had the worst year ever, everyone is still 30 per cent ahead of where they were five years ago."

**SuperRatings managing  
director Jeff Bresnahan**

# Quick as a flash, he's gone

**STORMOUT:** Rio Tinto Group began searching for a new chairman after **Jim Leng** quit less than a month after he was appointed to the position, because of a row over how to cut the company's debt. **Paul Skinner**, due to step down as chairman on April 20, would stay until mid-year, by which time a successor would be selected, London-based Rio said.

**WELL PLAYED:** Dame **Elisabeth Murdoch** celebrated her 100th birthday on February 8. She is the widow of Australian newspaper publisher **Sir Keith Murdoch** and the mother of international media proprietor **Rupert Murdoch**.

**JUMPED:** Suncorp Metway CEO **John Mulcahy** agreed to step down after six years in the role. Mr Mulcahy will stay until a new chief executive is in place, Suncorp said. He will also stay a director of the company until he ceases to be CEO. News of Mr Mulcahy's departure came as Suncorp launched a \$900 million capital raising designed to lift its tier 1 capital ratio to 10.9 per cent.

**WELCOME:** The **Commonwealth Bank** posted a 9 per cent fall in interim net profit to \$2.14 billion after absorbing the big provisioning hit and lower returns from its wealth management arms. The result for the half year ended December 31, 2008, was more than 20 per cent ahead of market consensus and so was well-received. The fully franked interim dividend was maintained at \$1.13.

**DUDED:** Gambling giant **Tabcorp** was stung by an overseas high-roller who bounced an \$11.5 million cheque at the baccarat table. Chief executive **Elmer**

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**Funke Kupper** refused to say which casino cashed the dud cheque. He said there were only between 10 and 30 gamblers in the world who bet on that scale but refused to name the player or say which country he was from. Mr Funke Kupper said Tabcorp was pursuing the gambler for the money.

**WHAT DECLINE?** Suggestions the mining industry was declining were "over-exaggerated", construction company **Leighton Holdings** chief **Wal King** told the ABC's *Inside Business*. Mining in Australia was "alive and well", he said, and "in our overall mining business we see big expansion".

**SHAREMARKET:** Australian stocks were again largely flat for the month. The **All Ordinaries** index closed at 3496 on February 13, from 3531 on January 19. The **S&P/ASX 200** closed at 3559 on February 13, from 3589 on January 19.

## LEARNING CENTRE

**DOLLAR COST AVERAGING:** The same amount of money is deployed each period (typically monthly) to buy units in a managed fund, whether prices are moving up or down. When unit prices are low, you can buy more units. When prices are high, your money buys fewer units. This means you buy more when the asset is cheaper and fewer when it is more expensive.

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# Woolies keeps powering on

**TILLS ARE ALIVE:** Woolworths, Australia's biggest grocery chain, posted an 8.8 per cent rise in first-half sales, sharply contrasting with the sales performance of arch-rival Coles. Woolworths chief executive **Michael Luscombe** said he expected sales, excluding petrol, to continue growing in the upper single digits. Woolworths reported sales of \$26.1 billion for the half, with a 10 per cent jump at department store **Big W**. The Woolworths food and liquor division posted a 7.1 per cent rise in comparable store sales for the quarter ending January 4. By comparison, Coles reported 3.8 per cent store-on-store sales growth for the December quarter.

**TASTY:** McDonald's sales surged almost 14 per cent in Australia last year. "We served more customers in the final week of 2008 than in any week of our 32-year history," company spokeswoman **Christine Mullen** said. McDonald's does not disclose its Australian results, but the fast-food company's US parent reported its profit soared by 80 per cent in 2008 to \$US4.3 billion. Sales in the Asia Pacific, Middle East and Africa region, which includes Australia, were up 18 per cent to almost \$A6.4 billion, largely because of strong Australian sales. The global fast-food giant

## SPEEDREAD

opened 21 stores in Australia last year, taking the total number of outlets to 782.

**RAZER:** Shopping centre giant **Westfield** cut \$3 billion from the value of its shopping centres after being affected by the struggling US and British economies. Westfield's writedown represents about 7.1 per cent of its \$42.1 billion in assets, based on figures reported by the company in November. The company, backed by billionaire **Frank Lowy**, reassured investors it would pay a 106.5¢

voluntary administration. **Brian Silvia** and **Andrew Cummins** of **BRI Ferrier** were appointed administrators.

**ABANDONED:** Irish media conglomerate **Independent News & Media** abandoned the sale of its stake in Australia's APN News & Media. INM, which is 28 per cent owned by media tycoon **Tony O'Reilly**, said crumbling credit markets made it difficult for potential buyers to finance an "appropriate" bid for their 39.1 per cent stake. The group had planned to use proceeds from the sale to cut debt. The failed sale is the latest blow for Sir Tony who, with his brother-in-law, control about 60 per cent of collapsed manufacturer **Waterford Wedgwood**. The billionaire reportedly invested \$400 million into the china and crystal maker.

## BUSHFIRE TRAGEDY

*"Truly, these men and women embody the very best of the Australian spirit of self-sacrifice in service of others."*

Opposition Leader  
Malcolm Turnbull

*"The seventh of February 2009 will be remembered as one of the darkest days in Australia's peacetime history. A tragedy beyond belief, beyond precedent and really beyond words."*

Deputy PM  
Julia Gillard

*Our deepest condolences to the families and friends of the victims of these infernos. And our gratitude and admiration to the brave and capable emergency services workers.*

per security payment for 2008. But it warned it was likely to cut its dividend this year by as much as 9 per cent.

**STRUGGLING:** Car audio, home entertainment and mobile phone retailer **Strathfield Group** has been placed in

**ACTION PLAN:** The Federal Government joined the big banks to set up a \$4 billion property fund to cut the risk of Australian banks having to "fill the gap" if foreign banks do not roll over business loans. The big four banks - CBA, ANZ, Westpac and NAB - will provide \$2 billion and the Government another \$2 billion to provide financial support for major commercial property projects including shopping centres, office towers and factories.

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## Vehicle sales show strength

### SPEEDREAD

**RECOVERY:** Vehicle sales in December recovered for the first time in six months to post their biggest percentage gain since late 2007 as consumers responded belatedly to aggressive interest rate cut. Australian Bureau of Statistics figures showed vehicle sales grew by a seasonally adjusted 1.8 per cent in December. This marked the first monthly rise since June. The ABS data showed vehicle sales rose to 77,039 for the month, partially reversing the effects of November's 5.2 per cent decline.

**GM TOPPLED:** Japan's **Toyota Motor** topped American **General Motors** as the No. 1 automaker by global full-year sales, ending GM's 77 years on top. GM missed Toyota's 2008 sales of 8.97 million by about 616,000 vehicles. Troubles in the US market plagued the Detroit automaker, which said North American sales slumped 21 per cent in 2008. Global sales for the overall industry fell by 3.5 million vehicles.

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LINE up ... jobless queues to grow after redundancies.

## Suddenly, a pile of cash

**WE all know that Australia's economy has softened lately due to global economic problems caused in the US.**

Unfortunately, when economies slow that often results in job losses which means we'll see more retrenched workers lining up for positions vacant or, sadly, queuing at Centrelink for benefits.

But it also means a rise in redundancy payments, which are typically two to four weeks pay per year of service. So a lot of retrenched workers will suddenly find themselves with a substantial amount of money they weren't really expecting, and a huge headache about what to do with it.

### STRATEGIES & TACTICS

Firstly, it's vital this windfall isn't squandered and is deployed according to the worker's needs and circumstance.

Secondly, redundancy payment rules can be a minefield and affect areas such as tax, superannuation, insurance, Centrelink payments and so on, so it can be easy for the inexperienced to slip up and make a costly mistake.

With redundancy such an emotional and stressful time, that's the last thing retrenched workers need to fret about.

■ **Contact us for redundancy advice.**

## Forget what you've heard, insurance companies are good payers



■ **Protect your life. Contact us.**

**THERE'S a myth that needs debunking - that life insurers are eager to collect premiums but reluctant to pay if you get sick, injured or die. That's just false.**

In fact, life insurers paid out \$265 billion for 2001 to 2007.

And for 2001-2004, payments actually exceeded premiums.

Insurer Asteron says it paid 91 per cent of income protection claims for the past 6 years.

The other myth is that insurance is expensive, when a 2007 study showed that a 31-year-old male, married with two children and earning \$75,000 a year, could hold \$750,000 of death cover and \$4,700 a month of income protection for just \$2.83 a day.

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