Dornbusch Partners
Pty Ltd

Dornbusch Update

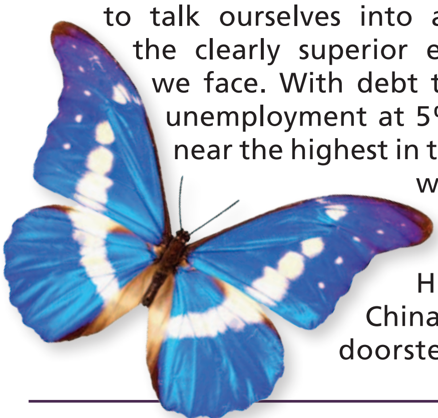
Spring 2011

Message From The Managing Partner

Thank you for taking the time to read the Spring 2011 Dornbusch Update.

Certainly the world of financial advising is never dull at the best of times and it definitely couldn't be described as dull over the last 3 weeks. In the 15 years I have been an advisor, I have not seen the level of volatility experienced, in particular Tuesday, 9 August where the market moved between its highs and lows over 240 points in a single day. Amazing stuff.

What's causing all this volatility? The twin areas of concern are the US and Europe. For the US, it's the recent downgrading of their credit worthiness by S&P and the inherent concern over their level of debt (forecast to be near 100% debt to GDP next year) and the political malaise between Congress & the Senate and the upcoming Presidential elections for 2012. In our opinion however, European sovereign debt is the bigger issue for the world at this time. What started as a "Greek tragedy" has spread through southern Europe, taking in Ireland and Portugal and is now threatening France. It is interesting to note that at this time, France has a higher debt to GDP figure (86%) than the US today (79%) and yet the French have retained their AAA credit rating. Any failure of French banks under the weight of say a Greek sovereign debt default would have significant ramifications across the world. Of most concern is the apparent lack of political will amongst the 27 Euro countries to address the underlying issues. Until we stop "kicking the can of debt" down the road, this uncertainty will hang over the world and will continue to impact Australia.



Of course, here in Australia, we are almost trying to talk ourselves into a recession, despite the clearly superior economic conditions we face. With debt to GDP at just 26%, unemployment at 5% and interest rates near the highest in the developed world, we are in a far better position than those in the Northern Hemisphere. Having China and India on our doorstep is far from a negative but we too face challenges. Given we are 2% of the world economy, events offshore, whilst not of our doing directly impact our lives due to globalisation of the world economy. Add in the political uncertainty of a hung parliament and a Senate controlled by the Greens, it is clear that we are living in unprecedented times.

It is coming to the close of company profit reporting season here in Australia and in the main, the results havent been too bad (retail aside). As an example, Commonwealth Bank reported another record profit and dividend but is experiencing weak credit growth. This is principally due to the Australian consumer now saving (or paying down debt) with $12 for every $100 earned vs 2007 whereby they saved (or grew debt) by - $4 for every $100 earned. Whilst the consumer remains "on strike", this will continue to constrain the economy. In part, this is why we believe the Australian sharemarket will continue to go sideways (trend) for at least another 6 to 12 months, as it has since April 2011. However, the European uncertainty mentioned above will add to the volatility of the market and may create buying opportunities for those companies with strong earnings, low debt and the ability to pay fully franked dividends.

In my last comment to you, I spoke about the continued growth of Dornbusch Partners Wealth Protection (DPWP), the personal risk division of Dornbusch Partners. I am pleased to announce that Mark Cecil has joined DPWP, bringing with him 5 years local knowledge and we look forward to him continuing to grow the business as well as looking after existing DPWP clients as well as his predecessor Paula Eggers. Paula did an outstanding job of growing DPWP from the ground up and we wish her well in her job back in her home town of Perth.

I hope you enjoy reading this Dornbusch Update as much as we enjoyed putting it together for you. John Dornbusch and I sincerely thank you for your ongoing support of our business.

Andrew Wielandt
Managing Partner
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Committed to you – our best investment

BONDS AND FIXED INTEREST INVESTMENTS

by Michael Doherty *michael@dp.net.au*

In these volatile times, many investors are searching for investments with lower capital fluctuations and more reliable income. Bonds have been around for many years, but retail investors are generally unsure how they work, but also, how to access them.

What is a bond?

A bond is basically a loan between two parties.

An individual who buys a bond is the lender of money at a fixed rate of interest. The borrower is the organisation, which issues the bonds. Issuers are usually Federal, State or Local Government bodies or large corporations. Organisations issue bonds as one way of financing operations - the Australian Government has used bonds to fund large expenditures like infrastructure projects.

Like any loan, the borrower (the issuer of the bond) must attract investment by offering interest on money lent, with bonds generally issued with a guaranteed fixed interest rate for a set period of time.

When that period expires, the investor's original capital investment is returned. The original investment is known as the 'face value' of the bond. The interest rate is known as the 'coupon'. The date of expiry is known as the 'maturity date'.

For example, on 1 July 2011, the Australian Government issues a 10-year bond with a face value of $10,000 and a coupon of 5 per cent.

The bond owner will receive an interest payment - paid by the Australian Government - of $500 per year (5 per cent of $10,000) for the next 10 years.

On 1 July 2021 the investor will be paid back the bond's face value of $10,000.

Once issued, bonds are traded on an exchange and purchased or sold by individual investors, fund managers and other institutions. Like other types of listed investments, the price of the bond may change depending on demand and supply of buyers and sellers in the market.

How do bonds work?

A bond's price may change when it's traded on an exchange but its face value, coupon and maturity always remain the same. Any change in price will also change a bond's yield - or the return on the bond based on its current price.

For example, a bond with a face value of $10,000 and a coupon of 5 per cent (or $500) has a yield of 5 per cent. This is determined by dividing $500 by $10,000.

But if the price of the bond rose to $12,000 investors would still receive a coupon of $500 - pushing its yield back to 4.2% per cent ($500 / $12,000). If the bond was to fall to $8,000, the yield would rise to 6.3% per cent ($500 / $8,000).

This explains why a bond's yield falls when its price rises, and why its yield rises when its price falls. It also explains why a bond investor who sells prior to the maturity of the bond may experience a loss on the capital value of their investment if long term interest rates rise. Conversely they may sell at a gain if long term interest rates fall.

Issuer default is also important consideration. The best measure of that risk is the credit quality of the issuer with the higher the credit quality of the issuer, the lower the perceived risk of issuer default. We have seen recently how Greek Government issued bonds have been adversely affected by the ongoing downgrading of their economy and therefore the increased risk of investors in Greek bonds not getting their investment back at the end of the term.

Government and unlisted corporate bonds have become far more accessible to 'retail' investors, with minimum amounts required to purchase these investments reducing. Variations of these types of investments are listed on the ASX and can be purchased like an ordinary share. These include Corporate Bonds, Floating Rate Notes (FRN's) and Hybrid Securities such as convertible preference shares.

Your advisor at Dornbusch Partners will be able to give you more information.

CARTER HALL DIRECT INDUSTRIAL FUND
INVESTMENT OPPORTUNITY

Dornbusch Partners is currently offering the following Direct Property Investment opportunity to clients seeking reduced volatility, regular income and some potential for capital growth.

Charter Hall Group (ASX:CHC) is one of Australia's leading fully integrated property groups, with 20 years' experience managing high quality property on behalf of institutional, wholesale and retail clients. Charter Hall has over $10 billion of funds under management across the office, retail, industrial and residential sectors.

DIF provides investors with regular income streams sourced from high quality new industrial properties leased to high profile national and international tenants.

The Key features of the offer

- 8% forecast yield
- Defined exit mechanism and liquidity event (7 years)
- Distribution payable quarterly
- Long dated leases to investment grade tenants (average lease expiry 15 years)
- Newly completed buildings
- Fixed rental increases and minimal ongoing capital expenditure requirements

The fund currently has interests in 4 buildings with the intention of a maximum of 8 properties. The properties are leased to Toll, Australia Post, Coles Group and Grace.

A brochure and Product disclosure statement is available from our office. Please contact one of our staff if you would like one sent to you.

AMG SUPERANNUATION

Clients who have AMG superannuation funds should be receiving their annual statements in the next couple of weeks. If you have not received your statement or if you have any questions regarding your statement, please contact your adviser to discuss further.

SMALL CAP STOCK

by Dan Marks *dan@dp.net.au*

As we saw in the GFC smaller companies were sold off in a lot of cases to cover margin calls or just to free up cash however when the market turned we saw buying opportunities.

I must say that corrections as we are seeing now are the ideal time to purchase good high yielding stocks that you can hold in your portfolio to provide both income and growth over the longer term, however occasionally a specie can provide a real shot in the arm for your portfolio.

In the recent history we have seen Arrow Energy, Pure Energy and Sandfire Resources do just that so I have detailed below some others for your consideration.

Lynas Corporation Limited (LYC)
This company should be the next seller of Rare Earth to the world. Lynas has the largest known rare earth deposit at Mt Weld in WA and will mine the product and ship for processing to the plant which they are constructing in Malaysia for processing.

The catch here is that they have not received full approvals to process the material from the Malaysian Government, however are confident that after acting upon the recommendations made from a recent International Atomic Energy Agency investigation and report they will receive this approval.

Minemakers Limited (MAK)
Company is a future Phosphate miner both in Australia and Namibia. Australian operation at Wonarah in NT JORC is over 2mt. Namibian JORC is 1.5bt from top 2 metres only – MAK own 48.8% of Namibian project.

Phosphate market continues to grow – USA have now stopped exporting and are a net exporter. China is holding back supply. Requirement for phosphate is expected to grow at a rate of 3% per year.

Rock Phosphate is priced at $160 to $180t, MAK. MAK recently signed a MOU with Indian company NMDC which is a 90% Indian Government owned company with Market Cap of some $9b.

MOU if converted to a JV will see NMDC provide 100% of funding needed to get Wonarah project commercial but take 50% equity in the project.

The catch here is if NMDC do not commit to a JV company will need to raise funds via other means. Only 227m shares on issue would aide a capital raising.

Australian Bauxite Ltd (ABZ)
First ABZ should not be confused with Queensland Bauxite Limited (QBL).

Companies aim is to get into production by 2014 and sell Bauxite to both China and India. 2014 is when Indonesia suspends supply to China. China currently imports around 4mt of Bauxite per annum

Company has some 37 tenements across Qld, NSW and TAS and to date a 68mt resource. Company feels they have a premium Bauxite product with low silica levels .

There are currently no export restrictions on Bauxite.

The catch here would be the additional level of funding needed to get the prospects to production, however in saying that company only has 100m shares on issue and a rights issue would not be over dilutionary.

ANTI-MONEY LAUNDERING AND COUNTER TERRORISM (AML)

The Anti-Money Laundering and Counter-Terrorism Financing ACT 2006 requires that all financial service providers collect and verify specific information about their clients.

Under the ACT we are required to identify a client before providing a designated service. In order to comply with these regulations your adviser may request certain documents from you to meet these guidelines.

The identification procedure will vary depending on the type of entity your investment is to be held in. For example to verify an individual we need to confirm a clients full name, date of birth and current address, in this instance generally a certified copy of current Driver Licence will provide the necessary details.

In terms of a Superannuation Fund, Company or Trust the checking process is more in depth and we are required to perform a search of the ASIC, ATO or relevant regulators website to verify the provided details against a reliable independent source.

It is important to ensure that the identification we hold on file is current for both our records and also to assist with the efficient processing of your applications, therefore if our records indicate that we do not have an up-to-date copy of your identification we will request this to be provided periodically to ensure the AML guidelines are met.

by Suzy Cameron *suzy@dp.net.au*

LIFE INSURANCE HELD IN YOUR SUPERANNUATION FUND

by Michael Doherty *michael@dp.net.au*

Having sufficient insurance in the event of death is vitally important, especially for younger families where they may have mortgages to be paid or young children to support. Business owners also traditionally carry some level of debt.

The funding of life insurance within a superannuation fund can provide various taxation concessions that are not generally available for life insurance policies that are held outside of superannuation.

These include:

- Opportunity to reduce the net cost of insurance premiums. Premiums can be paid from pre tax dollars as opposed to post tax dollars. With the cost saving on insurance premiums, there may be an opportunity to increase the amount insured.
- The premiums paid by the fund may be cheaper because it can arrange group rates. This is likely to be the case for employer and larger industry fund.
- Reduce the superannuation fund's taxable income. This is possible because the fund is entitled to a tax deduction for the insurance premium, which effectively offsets the assessable contribution.
- A lump sum death benefit paid to a dependant is tax free
- The fund can use the proceeds of the policy to commence tax effective income stream in favour of the member's spouse and young children.
- A tax rebate is also potentially available on the premiums (contributions) for a low income earning spouse.

The legislation governing death benefit payments from superannuation is very complex, so there are other issues that need to be considered. An advantage of running your own superannuation fund (self managed or DIY fund) is that you as the trustee determine how death benefits are payable. Your advisor at Dornbusch Partners Pty Ltd will be able to step through the advantages and disadvantages of structuring your Risk Insurance in this manner.

Staff Profile

Mark Cecil

Mark joined Dornbusch Partners in August 2011 to manage and grow the DP Wealth Protection division. Mark has over 8 years experience specializing in the Risk Insurance field. Starting with one of the major 4 Banks he then joined a large local Accounting Firm before more recently running his own Wealth Protection business.

Mark enjoys working with clients to organize an insurance portfolio that is cost effective with the client's individual budgets and working with the client's accountants to provide cover that is best structured for taxation purposes. Working with both businesses to protect each partner or shareholder, as well as working with individual families, Mark believes it is equally important that all Estate Planning aspects compliment the insurance portfolio and can assist client's to project manage these needs.

Mark's vision for Dornbusch Partners Wealth Protection is to build a specialized team to assist with all aspects of Business/Personal Insurance and Estate Planning needs. The team will provide expertise knowledge to ensure the client has the best products to suit their individual circumstances. The DP Wealth Protection team will also provide clients with a Claims Management service where we will assist clients at their greatest time of need and manage the claim to ensure speedy payment of benefits and a less stressful process. The ultimate goal – to provide clients with Peace of Mind.

Mark grew up in the Gold Coast hinterlands, but after buying a house in town and surviving more than 6 Toowoomba Winters considers himself a local. He is engaged to Holly, a Toowoomba born and bred Personal Trainer. He has a daughter Aliya who is 6, and a boy Bentley (a Labrador cross). Mark enjoys most sports and has played Rugby League for Toowoomba sides Valleys, Roosters and Souths Tigers, Touch Football for Saints, and cricket for Metropolitan Easts.