A REAL LIFE CLAIM STORY

by Mark Cecil, Wealth Protection Manager *mark@dp.net.au*

When we take out any form of insurance, what is the motive behind it? For most of us it is so that, in the event the unexpected occurs, whether it be a car accident, a house fire, or a tragic passing away, our families are protected. And yet, a fear we all have is to be paying insurance premiums and not be paid a claim.

Since joining Dornbusch Partners mid last year and taking over the Wealth Protection department I have made a commitment to clients that we will be there at the time you need us most - claim time. Whilst I am never pleased to hear a client needs to make a claim, I am happy to report that we were able to fulfill our promise recently.

You may have seen a story on Win News and in the 10 March edition of The Chronicle, about a man receiving serious burns to over 25% of his body after crashing his utility into a tree in Kearneys Spring. When Stephen Muirhead came in to see me in January he only had a small amount of Life insurance cover through his Superannuation fund. A scenario that is far too common.

Stephen's Dornbusch Partners Adviser, Dan Marks, asked him to see us in January. After reviewing his needs and deciding on a comfortable level of cover, Stephen's insurance cover was finalised on the 31 January. One month's premium was paid in February and then the accident occurred in early March. This illustrates the need to act, as we cannot plan for the unexpected, but we can insure against it.

Our claims process at Dornbusch Partners Wealth Protection (DPWP) ensures you can focus on your health and other pressing matters in an already highly stressful situation. We deal with the insurance company so you don't have to, and strive to deliver a worry-free result. This also means in most circumstances you will get paid quicker.

Seeing successful claims through and helping clients to maintain a standard of living is the exact reason I love what I do, and the reason I get out of bed every morning.

Wealth Protection Manager Mark Cecil presenting claim cheque to client Stephen Muirhead

Staff Profile

Andrew Wielandt

Andrew is the managing partner of Dornbusch Partners. He started with Nevitts as a trainee advisor in September 1997. After Macquarie's purchase of Nevitts in 1998, Andrew went on to become branch manager and Associate Director. Since 2005, he has been managing partner of Dornbusch Partners, driving strategy for the business as well as providing advice to his direct equities clients. His community engagement includes Presidency of the Toowoomba Chamber of Commerce, Deputy Chair of Toowoomba Hospital Foundation and Board Member for Empire Theatres. His is married and is looking forward to the birth of his 3rd child (and 1st with his wife Sarah) in the next week or so.

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Dornbusch Update

Spring 2011

Message From The Managing Partner

At the time of my Christmas 2011 newsletter, the market benchmark (ASX SP200) was around 4100 points. Writing today, we are now sitting at around 4000 points (i.e. virtually the same). The overall trend (taking aside the fits of optimism and pessimism we have over Europe) is sideways and certainly has been the last 3 years. The share market remains down by over a third since its 2007 high.

We continue to hear about the level of capital investment in Australia (well over $400 billion dollars planned) and here in Toowoomba to our west, the Surat Basin has close to $180 billion dollars of investment planned in both mining and energy sectors and yet the broader community does not seem to be sharing in the "social dividend" or multiplier effect of such a boom. In fact, it could be argued that with the resulting high Australian dollar, sectors such as tourism, education, manufacturing and most tangibly retail are being impacted severely, in particular around consumer confidence and also around the critical level of consumption. In fact, two thirds of an economy's output is driven by consumer consumption. If the consumer is "on strike", this has a significant ripple effect on both the share market but the broader economy.

Overlaying this domestic economic uncertainty with concerns over the future of the European economy, in particular Spain, Greece & Italy's debt levels and cost of servicing it means that we believe we will continue to face a no growth world in which de-leveraging is the main game for both sovereigns (countries) and consumers alike. We believe investors focus needs to remain on income focused investments. As mentioned in our last newsletter, we continue to look for companies with stable earnings (with growth potential ideally), low debt and an ongoing ability to pay fully franked dividends. We are also looking closely at hybrid offerings such as ASX listed notes for clients.

From an office perspective there has been some changes including the resignation of Bob Kratzmann due to ill health. We thank Bob for his contributions and wish him well into the future. In January this year John Gouldson started a process of handing over his share advising clients to Michael, Dan and Jason so as he could focus on broader strategy for his clients. John was successful in his candidacy for the Toowoomba Regional Council in May and we congratulate him on his prestigious appointment. Finally, I have been fortunate enough to be elected President of the Toowoomba Chamber of Commerce by my fellow directors following the recent resignation of former Chamber President Geoff McDonald (after his successful candidacy, again for the Toowoomba Regional Council).

Andrew Wielandt
Managing Partner
andrew@dp.net.au

DP IN THE COMMUNITY

John Gouldson is excited about his recent election as councillor in the Toowoomba Regional Council and being appointed as the chair of Waste and Water committee and to the development assessment panel. Undoubtedly this new role will limit the time he has available with DP each week and this has been taken into account in his role within the business with Dan, Michael and Jason taking over the sharemaket investments.

John strongly wants to remain involved in the business and will now be focusing on the off market investment opportunities and investment strategy reviews.

Dornbusch Partners are proud of John's election to TRC. Congratulations John!

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PICKING YEILDERS

by Jason Ward *jason@dp.net.au*

Companies generally fall in 2 categories - growth or income. If a company is reinvesting its profits into its own business to grow and expend the business it pays low or no dividends to its shareholders. Conversely, should the company pay all of its profits to shareholders, it has limited funds to reinvest in the growth of its own business. BHP, a growth company, makes a staggering $20bn a year after tax, and pays around 25% of this to shareholders as a dividend and reinvests the reminder in its business. CSL is another company that reinvests in its own business and spends around $150m per year on research and development. Companies that are in mature industries that are relatively stable tend to pump out income and not grow their business. Companies that fit criteria are Telstra and APA Group. The banks are also high yielding, but are under increasing pressure of reduced margins.

We expect that growth will be subdued for the next couple of years as consumers, businesses and countries reduce their debt and limit their spending. For this reason it may be more appropriate to focus on companies that pay higher dividends to obtain a reasonable total return form your portfolio.

Earnings Forecast

In order for the dividend to be maintained, earnings need to be sustainable and preferably increasing. An easy trap to fall into is scanning the yield column of the paper and picking out the highest yielding companies. The published dividends are historical but are related to the current market price. If a company has falling earnings and a falling dividend, their yield will look attractive based on a historical yield and a current share price. A company with increasing earnings and increasing dividends will have the increase factored into their share price and the historical yields will look poor when compared to a current market price. Therefore, a company with a published yield of 5% maybe better buying than a company with a published yield of 10%.

Price Earnings Ratio

One of the easiest filters is the PE ratio. It is calculated by dividing the current share price by the earnings per share (EPS). It is important to note that published PE's on companies display current share price with the EPS of the previous financial year. Looking for forecast PE's will paint a more accurate picture. The Australian share market has historically traded on a average PE of 13x. PE is a simple way of seeing if the share price is overpriced compared to the market, however companies with high forecast growth rates may trade on a higher PE. Facebook in the US recently floated with a PE ratio of 100x.

Return on Equity

Return on equity is a measure of how much profit is made using shareholders money. A company should make at least 15% return on shareholders equity. This figure can be improved by having higher debt levels, so it is important to view this ratio in conjunction with debt to equity.

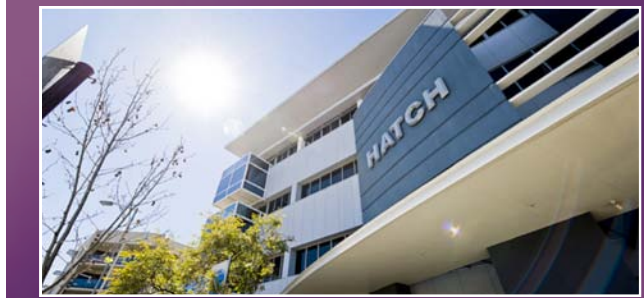
Debt to Equity

During the GFC, companies with high debt to equity levels were forced to raise equity at very low prices. A debt to equity level of more than around 50% raises a caution flag.

There are other factors that are considered when selecting companies, which we will discuss in future newsletters.

OFF MARKET

INVESTMENT OPPORTUNITY



Charter Hall Direct Property – 144 Stirling St is an unlisted property syndicate investment located in the CBD of Perth. This investment will provide exposure to the Perth CBD office market, which is forecast to provide the best opportunities for outperformance of both the rental and capital growth over coming years.

This investment is expected to provide clients with an opportunity to invest for an estimated return of around 9% income and an estimated 4% pa capital growth.

Your spare cash and maturing term deposits are paying you around 3 - 5% pa income and no capital growth, so we believe this an excellent and less volatile investment relative to say the volatile sharemarket at the moment.

The quality of the tenants, the discounted purchase price of the property and the low gearing give us some comfort that this investment may achieve the estimates and Lonsec research backs up this view.

Dornbusch Partners have requested $4,000,000 of units for sale to our clients and we believe this off-market investment should be considered by our clients as part of their overall portfolio.

Please contact your adviser if you wish to invest to obtain personal advice as to whether this investment is appropriate for you.

Please note this article is general advice only and it has not taken into account your personal circumstances, attitude to risk or goals and objectives. Before investing in Charter Hall Direct Property 144 Stirling Street, please read the Product Disclosure Statement which is available from our office.

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BUDGET SUMMARY

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

The Government announced its intention to deliver the first budget surplus for Labor in 25 years of $1.5 billion in 2012/13. The budget surplus is forecast to increase to $7.5 billion in 2015/16. The budget outlined the governments intention to shift money away from corporates and high income earners to the 'battlers' including families, small business and the disabled.

A budget surplus is certainly a positive and puts us in an enviable position relative to other major developed countries, many of which are struggling with high budget deficits relative to their Gross Domestic Product (GDP). Australia can also boast its AAA rating from the major international rating agencies, relatively low unemployment, our economic resilience, high terms of trade and banking strength.

A balanced budget is important but the real question remains whether this is the best time to deliver a surplus? The risk is that the spending cuts become a drag on the economy and place undue pressure on the RBA to stimulate the economy at a time when they are attempting to manage borrowing costs, the impact of the Australian dollar and restore confidence. Lower cash rates are and will be disappointing for investors, particularly retirees seeking a safe haven in cash and term deposits. Of course, in the shorter-term, the stability of cash and TD's is offering reprieve from the intense share market volatility we are experiencing.

From a shareholder perspective, the budget measures would be considered a negative overall for shareholders as the promised cuts to the corporate tax rate will not come to pass. These tax rates were originally intended to provide companies with some reprieve from the higher employment costs stemming from the gradual increase in the superannuation guarantee contributions from 9% to 12%. Franking credit levels will therefore remain the same.

On the super front, the primary negative announcement was the deferral of the maintaining of the $50,000 tax deductible (concessional) contribution level for investors with super balances below $500,000. The deferral means that for the 2012/13 and 2013/14 financial years everyone will have a concessional contribution cap of $25,000 per year, with the only possible increase through indexation.

We strongly urge all clients over age 50 to review their Salary Sacrifice and Transition to Retirement arrangements from 1 July 2012 to ensure they do not exceed the $25,000 concessional contribution cap.

For a detailed outline of the Budget recommendations, head to: http://www.budget.gov.au

END OF FINANCIAL YEAR STATEMENTS FOR TAX PURPOSES

The end of the financial year is almost upon us, and once again we will be mailing Annual Statements to clients for their share portfolios. We will be sending 30 June 2012 statements to all Superannuation Funds and portfolios that with a valuation over $100,000. If you have additional portfolios which are under this value that require a statement, please contact our office at advice@dp.net.au or speak to one of our Support Staff on (07) 4639 2588 to request a copy.

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

Staff Profile

Melissa Humberdross

Melissa's primary role for the past 6 years has been to work alongside John Gouldson and assist his clients. Now that John has been appointed as a councillor in TRC Melissa has taken on a new role. As well as continuing to look after John's clients and their unlisted investments, Melissa will also now be assisting Andrew and Jason and their clients.

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