

# The Hudson Report

Thursday  
22nd October,  
2009

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**Helping Our Adult Kids  
Say Good Bye to**



**THE MONEY TREE**

Dear [membersalutation],

In this weeks Hudson Report, we look at issues in intergenerational financial planning, and the importance of parents encouraging their adult children to take an active interest in their financial health early in their working lives. Despite recent strong returns in the Australian share and property markets, the Global Financial Crisis has damaged the retirement portfolio's of Australian's approaching or in retirement. In this environment, it has become harder for these people to assist their adult children with financial goals.

**This weeks Hudson Report will show parents how they can help their kids, help themselves.**

As usual, if you would like any further information or would like to discuss your financial options in more detail, please make an appointment to speak with your Hudson Adviser on freecall 1800 804 296 or [make an appointment with an adviser](#).



*All the best,*

**Andrew MacDonald - Financial Adviser**

**The Hudson Institute**



*Is it Time to Cut the Apron Strings?*

In the last 10-15 years, a new phenomenon has risen in Australia where more and more adult children are living with their parents for a longer period of time. This phenomenon has been given the Acronym '**KIPPERS**' by some demographers. This stands for **Kids In Parents' Pockets Eroding Retirement Savings**. Many reasons have been given for this cultural change, the fact that more young people go to university than in the past, and that they are now leaving with large education debts, when previously university education was either free or very cheap. Also, the housing boom of the late 1990s and early 2000s, has made it harder for first homebuyers to enter the

market then other times in Australian history.

Whatever the reason, there is no doubt that this phenomenon is on the rise. Before the Global Financial Crisis (GFC) struck in late 2007, this situation was manageable because the baby boomer generation had benefited from the share market and property market booms, and many were in a position to help their adult children out financially. Then, the sharemarket plummeted 55% from November 2007 until March 2009. This was the second largest fall in Australian stock market history, and it did some significant damage to superannuation balances and other retirement savings. With this in mind, it may be time for parents to start looking after their own future needs, and be a little less generous with the 'KIPPERS'.



### Be open with communication

Parents who are offering financial support to adult children should be open with communication, and let the children know the effect the recent economic turmoil has had on their retirement savings. It may no longer be possible for the parents to support their children to the same extent financially, and without jeopardising their own long-term security. If this is the case then some hard truths need to be explained to the KIPPERS.

### What ifs?

An element of financial planning that is often overlooked is what would happen to the older generations if something were to happen to their adult children. When things go really wrong for young people, the first people they look to for help are their parents. Issues ranging from bankruptcy, divorce, premature death or disablement can all have severe impact on finances.



Imagine if a young family where mum stays home and looks after the kids and a 30 year old Dad works. They have recently bought their first family home and have a \$400,000 mortgage to go with it. Dad thinks accident or income protection insurance is a waste of money, so doesn't bother to get any. Driving home from work on Friday afternoon he's involved in **a serious car accident** that leaves him paralysed. He can never work again. Who are these people going to turn to for financial help? No doubt it will be their parents who will step up to help. If this young family had planned ahead, and taken out appropriate insurance cover to help manage some of life's risks, then neither they nor their families would have the extra burden of financial stress on top of the substantial emotional and physical trauma of the accident. Often these unpredictable risks can be managed through good financial planning, and it need

not be the case that poor planning on behalf of the younger generations, should result in financial ruin on the older generation. [Our insurance expert Peter Dale can assess your circumstances and your needs to determine which policy will give you the best value for your dollar.](#)

### Start planning early

The earlier you start planning once you start working, the better off you will be in the long run. As with most things in life, the earlier you start, the less the effort required at the end to reach your goals. This is the investment equivalent of 'a stitch in time saves nine'. The reason for this is the compounding effect. That is, interest earned on interest. When you reinvest dividends from shares or interest from bank accounts, these new amounts also earn interest. Initially this amount is small, but gathers momentum like a 'snow ball down a mountain gathers speed and eventually becomes an avalanche'.

To illustrate, take the following scenario. Four people are given \$10,000 to invest in an index share fund which will track the performance of the Australian sharemarket. They cannot access this money until they are age 65. The investment is projected to pay 5% dividends, which must be reinvested and 6% capital growth. The four people are aged 25, 35, 45 & 55. Below is what there investments would be worth before tax at age 65, if the investment returned as projected.

Age 25 - \$650k :: Age 35 - \$228k :: Age45 - \$80k :: Age 55 - \$28k.  
So the earlier people start investing, the longer they give the compounding affect a chance to work, and the less effort and risk they



will need to take in the years preceding their retirement.

## Give the gift of education

People who are approaching, or are in retirement, need to be realistic and a bit more pragmatic about the financial assistance they give their adult children given the retirement savings losses they have suffered. Instead of giving cash support, it may be better to educate, or give their adult children access to solid financial advice, so they can take control of their own financial affairs. To use yet another cliché, **"Give a man a fish and you'll feed him for a day. Teach a man to fish and you'll feed him for a lifetime."**

### A SPECIAL OFFER for the children of Hudson Members...

For a limited time family members of current Hudson Members will receive a discount off full Membership to allow them to take control of their financial future. Please contact our office on **1800 804 296** for details.

If you want to discuss your plans and how your investments are helping you towards your goals, [contact your Hudson Institute Financial Advisor](#).

*This is not advice. Do not act on any of these strategies without first consulting your financial adviser. Book a consultation with your Hudson Financial Adviser by calling (free) on 1800 804 296 or [book online](#)*



## HUDSON SELECTION



### Finance:

As mentioned in the first article the strong performance of the Australian residential real estate market over the past 10-15 years has made it harder for people to buy their first home than in other times. Many parents have assisted their children with deposits to fund their first purchase. But due to the fall in retirement portfolios, it may not be realistic at this time for parents to be giving up front cash for their children's house deposits any more. There are other ways parents can assist their children to achieve the great Australian dream, without parting with their own hard earned cash.

One option is what's known as a "Family Guarantee". Under this option, parents and in some cases grandparents, or aunts and uncles, can provide a guarantee for a set amount secured by their own property. This is known as a "limited guarantee". The guarantee amount is the amount required in order for the borrower to avoid mortgage insurance (normally 20%). This can amount to a saving of up to \$9,000 for a purchase of \$400,000. For example John's son Des is buying a house for \$400,000, and only has enough deposit to cover the stamp duty on his purchase and thus needs to borrow the full \$400,000. John will be able to provide a guarantee for \$100,000 over his own property. This will make the loan 80% of the total security held by the bank, being \$400,000, plus the \$100,000 guarantee. The loan and the new property will still be in the name of Des. If John has his house mortgaged to a different lender, to where Des is getting finance, they can simply take a second mortgage over his property.

### Insurance:

As was highlighted in the main article, people who have large debts such as mortgages, and don't have appropriate insurance's in place, are leaving themselves and their loved ones, wide open to financial ruin should they suffer a health problem or an untimely death. People with large debts and families should have appropriate life and total & permanent disability insurances in place to manage the risk of unforeseen events.

Another insurance policy that should be strongly considered is income protection insurance. People insure their car and their house against accidental damage, but don't insure the thing that pays for these goods, that is their income. **Imagine if you had a magic toaster that spat out \$65K/year, would you get it insured so that if you lost it or it was broken you could replace it?**



Of course you would. Well your ability to work and earn an income is that toaster, and it's certainly worth protecting that asset.

### Super:

Most people in the 20s and 30s couldn't care less about their superannuation and many don't even know where it's invested. After all, they're young and they won't be able to get their hands on these funds for several decades, so who cares? You should encourage adult children to take a keen interest in where their super is invested, as it can have an enormous effect on their final payout, and hence their retirement lifestyle. People who are in the 20s & 30s will not be able to access their super for 30-45 years, which is obviously a large investment timeframe. Given this large timeframe, it can be a good strategy for these people to invest their super balance in a aggressive asset allocation, weighted heavily to mainly growth assets such as domestic & international shares and property. The reason being, over the long term, these assets have produced higher returns than defensive assets such as cash and fixed interest securities, and there's good reason to believe this will be the case over the long term into the future. **When you have an investment, compounding over 30-45 years, a small percentage difference in return can make a large difference to the final payout.**

Some funds such as Colonial First State even offer Geared Share options, which are internally geared products, which increase your exposure to the share market and as such have a higher expected return over the long term. They can be volatile and fluctuate significantly in value in the short term, but when you have an investment time frame as large as 30-45 years; these fluctuations will be smoothed out.

As always there is no one size fits all asset allocation that is appropriate for all people's superannuation, and you should speak to your Hudson adviser to find out what asset allocation is best for you.

Andrew MacDonald

***Disclosure:** Andrew MacDonald's own super fund is with Colonial First State and he holds some of his funds in the CFS Geared Share option.*

behind the investment news...



Before Lehman Brothers collapsed in late 2008 and sparked a financial panic, the Australian dollar was headed towards parity with the US dollar. Parity means that one Australian dollar would buy one US dollar. When the panic ensued, people dumped the Australian dollar and rushed into the US dollar. This may seem confusing as the Australian economy was performing better than the US economy, so shouldn't investors want to hold our currency? Well the reason our currency fell was that, despite its problems, the US is still the largest economy in the world, and is still viewed as a safe haven when things turn sour.

Since then, the outlook for the global economy has improved and our dollar has rocketed back up to over 93c US, and many pundits, including members of the RBA, expect **our exchange rate will again attempt to reach parity with the \$US**. So why is our currency increasing in value? Here are a number of reasons:

### Interest rate differential

The US Federal Reserve has set their cash rate at effectively 0%. The Reserve Bank of Australia has our rate at 3.25%. This reflects the stronger health of our economy among other things. Because of this large difference, traders perform something known as a 'carry trade'. They borrow money in the US at the low rates, and invest in the

Australian currency at the higher rate. Because more people are buying Australian dollars, the value of them increases.

### Quantitative easing

This term is just fancy financial talk for printing money. The US economy was in such a mess, that the Federal Reserve started effectively printing money to stop deflation (falling prices of assets and goods). Because they increased the supply of US dollars, the value of the US dollars in circulation lost some value. The RBA has not had to revert to this extreme action because our economy is stronger. The Americans printed more dollars, and we didn't, which helps our dollar increase in value compared to the US dollar.



### Resource prices & our links to Asia

Australia is a resource commodity exporter. When the prices for commodities are strong our dollar tends to increase in value. The massive stimulus packages in China, and their continued strong demand for our resources have caused commodity prices to rise over the past 6 months. Our dollar has risen in line with these commodity price rises. For these reasons there is a possibility that our currency will again test parity with the US dollar in the next 6-12 months.



**What does this mean for us?** Imported electronic goods of the like should become cheaper in our stores, and anyone going to the USA for a holiday should have a very good time at a discounted cost.

Andrew MacDonald



from the floor...



Lodging the annual tax return can be a bit of an ordeal these days. There are a million and one rules that seem to change at the drop of a hat. There are rumours circulating in the financial press, that the Henry Review into taxation is considering sparing millions of tax payers from filling in annual tax returns as part of a radical plan to simplify Australia's tax system.

Under the proposal taxpayers would receive a one-page summary from the tax office. This page would show what the tax office calculated their income position to be. The taxpayer is happy with the ATO's calculation, they would simply tick the form and lodge it via the Internet - then wait for their refund.

This system would only work for people with simple tax information, as it wouldn't include investment income and deductions. Furthermore, there seems to be a new rumour every week about what will be the recommendations of the Henry Review into taxation, and we are just going to have to wait and see what the recommendations are. Treasury secretary Ken Henry is due to deliver the report to the government in December this year.

\SOURCE: www.abc.net.au :: www.news.com.au



Share market update for the week ending 21/10/2009

The Australian sharemarket as represented by the All Ordinaries closed at 4,846.20 up 2.51% for the week. The All Ordinaries have now rallied 55% from the March 6 low of 3112. In Australia on Wednesday, disappointing US data saw modest falls in the key finance and raw materials sectors, pulling Australia's share market lower. This was led by falling global equity markets, and comments by BHP that they were cautious of the pace of the recovery in the developed world. Despite BHP's caution, they also reported their first quarter iron-ore production had risen to a record level. BHP closed the day down 8c to \$39.83, whilst their main competitor, and Australia's other large diversified miner Rio Tinto, closed down 20c to \$66.60. Of the big four banks, only ANZ was up for the day, when it closed at \$23.84, up 5c.

In international news, the major event of the week was the US Federal Reserves release of their report known as the "Beige Book", which is published eight times per year. The Beige Book gathers anecdotal information on current economic conditions in its 12 Federal Districts, through reports from Bank and Branch directors, and interviews with key business contacts, economists, market experts, and other sources. It effectively gives a snap shot of the health of the entire US economy. The report showed US consumer spending was weak in most parts of the US during September and early October, leaving unexciting prospects for economic growth into the rest of 2009. This led the US Dow Jones to fall 0.92% on Wednesday. On a more positive note the Beige Book noted that one of the more positive sector reports among the Districts, was for the residential real estate sector. This is perceived as further evidence that **the US housing market has bottomed, which is an important step to economic recovery in the worlds largest economy.**

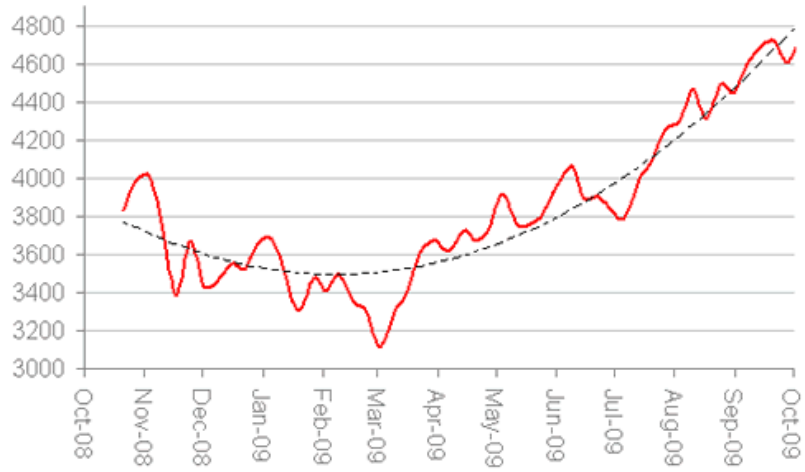
Index	Close at 21/10/09
<b>All Ordinaries</b>	closed at 4,846.20 up 2.51% for the week
<b>Dow Jones (US):</b>	closed at 9,949 down 0.60% for the week
<b>Nikkei 225 (Japan):</b>	closed at 10,333 up 2.64% for the week
<b>Hang Seng (Hong Kong):</b>	closed at 22,318 up 1.93% for the week
<b>S&amp;P 500 (US):</b>	closed at 1,081 down 1.00% for the week
<b>FTSE 100 (UK):</b>	closed at 5,258 up 0.03% for the week
<b>Australian Dollar</b>	Trading at .9288c US

Source: ABC.net.au :: TheAustralian.com.au :: The Australian Financial Review

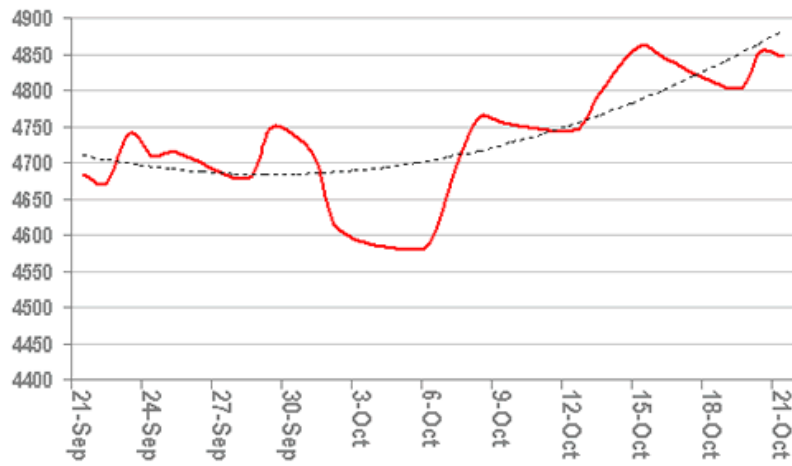
### All Ords Price History Oct 84 - Oct 09 (monthly)



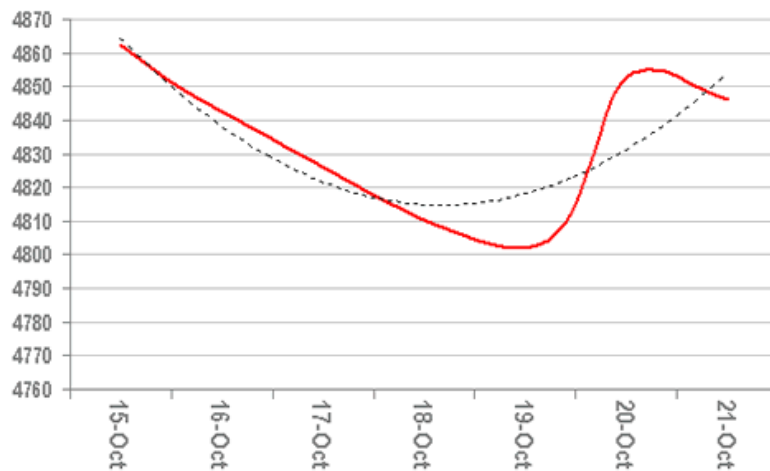
### All Ords Price History Oct 08 - Oct 09 (weekly)



### All Ords Price History Sep - Oct 09 (daily)



### All Ords Price History week of 15-21 Oct 09 (daily)



SOURCE: Finance.yahoo.com.au



# Whisper of the Week...

## PRIMARY HEALTH CARE (PRY)

Primary Health Care Ltd is one of Australia's leading listed healthcare companies. Primary Health Care is a company that provides a wide range of services to health care professionals in Australia who provide comprehensive care for patients. Primary Health Care also provides pathology services, specialist eye clinics and day surgeries. The operations of the company include 87 Medical centres, 87 Pathology Labs with 782 collection centres, 161 Diagnostic Imaging sites and health technology software.

Like the rest of the western world Australia's population is ageing and healthcare is going to be one of the largest growth industries to benefit from this demographic change. As a leader in the health care field Primary Health Care Ltd is well placed to grow its earnings on the back of this ageing population and its increased need for health care.

In 2008 Primary Health Care Ltd acquired Symbion Healthcare. The merged group is now the largest domestic pathology provider.

[www.primaryhealthcare.com.au](http://www.primaryhealthcare.com.au)

<b>Current P/E Ratio</b>	19.47	<b>Long-term buy at around \$5.45</b>
<b>Dividend cents/share</b>	7c	
<b>Dividend Yield</b>	3.1%	
<b>52 week high</b>	\$6.56	
<b>52 week low</b>	\$3.46	

1. Based on the 2009 calendar year forecasted earnings

**Primary Health Care (PRY) 5 Year Historical Prices (monthly)**



## Want to know more about Investing?

Book a consultation with your Hudson Financial Adviser by calling

**free call 1800 804 296 or [book online](#)**  
**[READ OUR GENERAL ADVICE WARNING](#)**



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[helpdesk@hudson-institute.com](mailto:helpdesk@hudson-institute.com) | free call 1800 804 296 | Fax 07 3368 3028 | GPO Box 1875, BRISBANE QLD 4001 website | <http://www.hudson-institute.com>