MARTIN BROS MONITOR

(For Clients and Friends of the Martin Bros)

www.martinbros.com.au

Ph: 9947 4135

June Quarter 2005

Ph: 9947 4136

Previous MBMs

We have been asked about copies of old Martin Bros Monitors, now that it is into its fourth year of production. Sometimes it can be interesting to look back at what was said and what eventuated. For those interested we keep a history of all MBMs on our website, www.martinbros.com.au.

All you need to do is click on the 'Existing Clients' icon on the home page and then the 'Martin Bros Monitor' link.

In addition, your family, friends or associates are welcome to visit this same area to read these publications.

Stock Review - Souls Private Equity Ltd

Souls Private Equity Limited (SPEL), stock code SOE, is a small cap long-term investment company investing in both unlisted and listed securities within Australasia, in particular, small to medium sized enterprises. The company has equity interests in the following investments: Pitt Capital Partners Limited, Soda Incorporation P/L, Austgrains P/L, Specialist Oncology Property P/L, Cromford P/L, InterRisk Australia P/L and Marine Produce Australia Ltd.

SOE aims to invest in small to medium unlisted companies with a view to helping them grow their business to a point where they (SOE) can exit their investment usually via an Initial Public Offer (float) of the company.

SOE has an excellent track record and was separately listed by it's parent company, Soul Pattinson, in December last year, and retains a 6.35% interest – the largest shareholder.

SOE stock was issued at 25 cents per share and is currently trading at 20 cents. As a listed investment company, SOE must report their Net Tangible Asset value, per share, to the market each month. At the end of April the NTA per SOE share was 24.6 cents. We expect May's NTA to be similar.

Avoiding Profit Downgrades

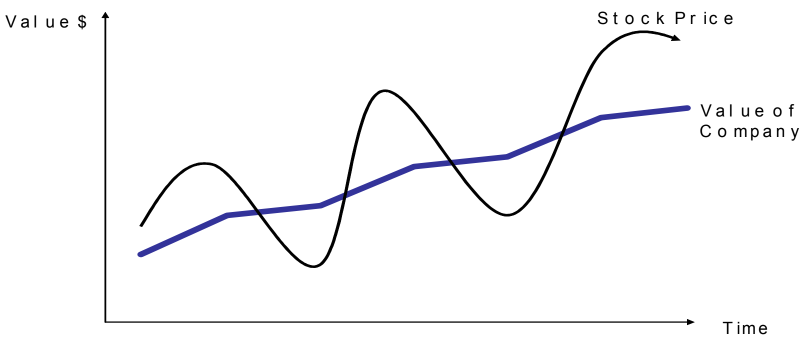
Easier said than done. Even with complete disclosure rules now in force by the ASX, companies can still disappoint with profit downgrades out of the blue, as the information of a downturn in profits has to be released at some stage. Stocks most affected or at risk of profit downgrades are cyclical companies where their earnings are directly linked to the strength of the economy, and in particular, the consumer. Examples of these are retail stocks such as Just Group, Harvey Norman, Pacific Bands, Coles Myer and to a lesser extent Woolworths because the majority of its earnings are in staple consumables rather than apparel or furniture / white goods.

The difficult thing is trying to pick the timing of these events. One indicator is a slowing of consumer spending brought about by slowing or falling house prices. Australians are more highly leveraged than ever before. Consumer spending has been boosted over the past few years through equity drawdown against inflating property prices. Over recent times, Australians have had a negative savings rate. That means we have been spending more than we are earning. Where is the money coming from? Credit cards and loans against property. This cannot be sustained for very long without major problems down the track.

Investing in Growing Income Streams

One often overlooked feature of investing in Australian shares is the growing income stream they can provide. If the sharemarket is performing well, such as over the past couple of years, the income generated from investments can pale into insignificance, therefore not really rating a mention. On the flip side, when the sharemarket is reversing and shares are falling in value, such as the couple of years before the recent good returns, income is often overlooked because natural human behaviour kicks in and the panic signals can go out after seeing negative numbers on portfolio valuations.

One constant with good companies is their ability to continue to pay dividends, at least in line with, if not above, the previous years payments. As you know, dividends are paid from profits. So if a company can keep paying growing dividends, their profit is almost always increasing. Therefore, you would expect the share price to follow suit, eventually. But share prices rarely represent fair value – if you could accurately measure fair value anyway (it is partly subjective). Share prices will move up (sometimes overvalued) and down (sometimes undervalued). Over the long term though, if profits are increasing, so is the companies fair value, so the share price will reflect this. An example of this is the below simple graph:



'Creating long term financial success for our clients'

MARTIN BROS MONITOR

(For Clients and Friends of the Martin Bros)

www.martinbros.com.au

Ph: 9947 4135

June Quarter 2005

Ph: 9947 4136

Budget Updates – What Changes Might Affect Me?

It is that time of year again when the Federal Budget has been handed down, and if you're like us, you probably get quite excited anticipating the changes that will come from budget night – but then again, we can't all be tax and superannuation nerds!

This year, the year of the 'Big Budget' as they have called it, most people will be better off, albeit to different levels. The two changes to have the most impact from a financial planning perspective are the change in personal tax rates and the complete abolishment of the superannuation surcharge. Although the changes have not as yet been legislated, it is extremely likely they will go ahead, given the government's position.

The new tax rates included a substantial lift in the Marginal Tax Rate (MTR) thresholds for middle income earners – those earning up to $125,000. The current rates for this year and the new rates for next year and the new rates for the year afterwards and beyond are as follows:

Tax Rate %	2004/05 Thresholds	2005/06 Thresholds	2006/07 Thresholds
0	$0 - $6,000	$0 - $6,000	$0 - $6,000
(17) 15	($6,001 - $21,600)	$6,001 - $21,600	$6,001 - $21,600
30	$21,601 - $58,000	$21,601 - $63,000	$21,601 - $70,000
42	$58,001 - $70,000	$63,001 - $95,000	$70,001 - $125,000
47	$70,001 +	$95,001 +	$125,001 +

As you can see, a person will not exceed the 30% MTR bracket until they now exceed $70,000 of taxable income from the 2006/07 year and beyond. The top MTR will only apply on income in excess of $125,000 from 2006/07. Therefore, if a person was receiving fully franked dividends and their taxable income was below $70,000, then from 2006/07 ($63,000 2005/06) they will not pay any additional tax on that income (excluding 1.5% medicare levy).

As mentioned above, the superannuation surcharge, which was to be reduced to 10.5% next financial year, is now being **completely abolished**. The superannuation surcharge was an additional tax on top of the ordinary 15% contributions tax for superannuation contributions (except undeducted contributions made by a member of a superannuation fund or their spouse from after tax money). The surcharge tax was to be levied next financial year at 10.5% for those people with an Adjusted Taxable Income (ATI) in excess of $121,075 (this amount would have been indexed next financial year). For those with an ATI less than this but greater than $99,710, the surcharge rate was pro-rated. Therefore, before the budget night announcement, people with an adjusted taxable income above the maximum threshold, would have paid 25.5% total tax on deductible contributions to super. (eg. employer contributions and salary sacrifice amounts). This is now a flat 15%. So what does this translate to in relation to a tax saving? As an example, a person with an ATI of $170,000 who was contributing $30,000 to superannuation through salary sacrifice arrangements, would have paid total (super) contributions tax of $7,650, versus a total tax from next year and beyond of only $4,500. The overall tax saving the individual now makes by making super contributions of this level rather than taking the full $170,000 as ordinary income, is $10,050 (Top marginal tax rate of 48.5% including medicare less the super contributions tax rate of 15% equals a saving of 33.5% on $30,000).

Would you prefer NOT to get MBM?

Hardly, but perhaps you would rather receive an email link each quarter so that you can access the MBM online rather than receive a paper copy in the mail. If so, call or email Margot on 9947 4137 or mbiggs@abnamromorgans.com.au.

Finally !!!!

For all of those who have politely, almost always, pointed out to us over the years that the photos we have on the top of the MBM are outdated, odd, strange looking etc., we have, as of this edition, updated them. We hope the new pictures are a little easier on the eye!

Here Comes Winter – At Last!

MBM News

Paul and his wife Simone already have two 'active' children, Lachlan and Charlotte, who will shortly have a baby brother or sister – due mid November.

Jarrod will be away on leave from Thursday 21st July until Monday 15th August. Paul and Margot will be available.