



MARTIN BROS MONITOR

(For Clients and Friends of the Martin Bros.)

www.martinbros.com.au

March Quarter 2006

Paul & Jarrod Martin are Authorised Representatives (259367 & 259249) of ABN AMRO Morgans Ltd



Ph: 9947 4135

Ph: 9947 4136

Welcome Rochelle

As you know Margot returned home to Perth in February and Rochelle has taken over the role as directorate of the Martin Bros team. Rochelle may have helped some of you with your queries already, but in case she hasn't, feel free to contact her with all of your day to day admin queries on 9947 4137 (Margot's old number). Rochelle's email address is rgordon@abnamromorgans.com.au

Warren Buffet & Charlie Munger

Due to popular demand, below are some more quotes from two of the world's most famous investors. We last included some in the June 2003 edition of Martin Bros. Monitor.

- "Wide diversification is only required when investors do not know what they are doing"
- "Our favourite holding period is forever"
- "Bull markets go to people's heads. If you're a duck on a pond, and its rising due to a downpour, you start going up in the world. But you think it's you, not the pond"
- "Risk comes from not knowing what you're doing"
- "In the business world, the rear-view mirror is always clearer than the windshield"
- "Our goal is to find an outstanding business at a sensible price, not a mediocre business at a bargain price."
- "Success in investing doesn't correlate with I.Q. once you're above the level of 25. Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing."
- "You don't need to be a rocket scientist. Investing is not a game where the guy with the 160 IQ beat the guy with a 130 IQ. Rationality is essential."

Risk Management – It's About Staying True to Yourself

Risk Management is a general term used to describe how you analyse different types of risk and then determine how to best handle those risks.

In investing, the most common form of risk people understand is loss of capital. The expanded version of this is volatility. Volatility refers to the upwards and downwards movements of the capital value of an investment. For example, the rise and fall of a share price.

Volatility is a characteristic of all growth assets or investments. Any asset or investment which can grow in value has the ability to decrease in value too. Unlike an income investment (eg. term deposit), growth assets have their prices determined by market forces. Simply, this means by supply and demand. So when the price at which a willing seller and a willing buyer are prepared to transact at are the same, a sale occurs and the market price is set. This applies to property and shares.

Unlike shares which are very liquid (generally easy to sell or buy quickly), direct property purchases or sales can take months. This does not mean however that property will not move up and down. If direct property could be traded as quickly as shares (if there was sufficient demand and supply and fewer taxes), then you would see daily increases or decreases to direct property prices, much the same as you do with shares.

So now we have established the essence of volatility, you can probably see that it is necessary to have price falls at some stage when owning a growth asset because the flip side of this is price gains. Over the long term, investors will hopefully have larger increases than decreases, thereby creating asset/investment price growth.

Because these fluctuations in investment prices, particularly with shares, can be quite large at times, investors need to avoid allowing emotion and hysteria to affect or alter their investment strategy.

When investing it is important to have an investment strategy which considers how much of your portfolio will be invested into the various asset classes (cash, fixed interest, property and shares). Within these asset classes it is also important to have a strategy as to what type of investments you will invest in. For example, in shares, will you invest in small companies or insurance companies etc?

At times though, our investment strategy can be challenged by external factors such as tips from a friend, the media or the performance of a particular asset or investment class eg. property or technology shares.

At these times our emotions and/or fear of missing out can lead us to stray from our long term investment strategy that 1. will deliver the long term outcome that we are hoping for, and 2. will provide the maximum level of risk that we are prepared to accept with our money to achieve this strategy.

So, if you feel tempted to buy the latest hot uranium company that has no earnings or profit, ask yourself, is this really suitable for me?



Ph: 9947 4135

MARTIN BROS MONITOR

(For Clients and Friends of the Martin Bros.)
www.martinbros.com.au

March Quarter 2006



Ph: 9947 4136

Super Splitting is Simply Super

The superannuation contributions splitting bill has finally been passed and is effective from 1st January 2006. This means that from this date, members of accumulation funds (everyone except those that have started drawing a pension or people who are members of defined benefit funds eg. government Superannuation Service) will be allowed to split deductible (eg. employer) and personal contributions. This includes a persons superannuation guarantee contributions paid by their employer and salary sacrificed amounts.

At the end of every financial year the member can elect to 'rollover' the contributions made to their account to their spouse. Some of the conditions are:

- A maximum of 85% of the deductible contributions can be split (to allow for 15% contributions tax to be paid by the members account)
- 100% of personal or undeducted contributions can be split
- The receiving spouse, if over age 55, must not have met a condition of release for their superannuation benefits. This is to stop people splitting contributions to a spouse who is retired and can withdraw the benefits immediately
- The split amount is preserved in the spouses superannuation account until they meet a condition of release.

The request to split contributions must be made to the trustee of the superannuation fund in the financial year after the contributions were made. At this stage, no other specific time frame has been given that the 'split' request must be made by. Common sense tells us though that the 'split' request should be made before the financial accounts of the fund are prepared for the previous financial year.

It is important to note that the legislation does not require all superannuation funds to offer splitting to its members. With a self managed fund (SMSF) however, as the members are also the trustees, it is up to them if they wish to engage in such a strategy. Note though, that the trust deed must allow super splitting. As this is relatively new legislation, some SMSF trust deeds may not be set up to allow these 'splits'. In these cases, an amendment to the trust deed will be required. This is relatively easy and inexpensive and can be done at the time a decision is made to proceed with such a strategy. We will discuss this with those of you who this strategy may apply to.

The beauty of this legislation is that it will allow people to help equalise their superannuation assets between their spouse and themselves, thereby increasing the tax effectiveness of their superannuation in retirement.

ASX Trading Days

The Australian Stock Exchange hours over the upcoming public holidays including the Easter period will be as follows:

- Easter Thursday – closes 2pm
- Good Friday – Closed
- Easter Monday – Closed
- Anzac Day (Monday) - Closed

As always, we will be contactable on our normal numbers throughout the entire holiday period, except on days when the market is closed.

Christmas Hamper Competition

Answers: The Sun is the closest star, Gold is heavier than Silver, Beethoven became deaf near the end of his life and Paul McCartney wrote the song 'Yesterday'. Those people that said Lennon & McCartney wrote 'Yesterday' were included in the draw. Congratulations to Stephen & Carol Higginbottom who won the \$250 Christmas Hamper. Good luck this year.

MBM Team News

Rochelle will be on leave on Thursday & Friday the 30th & 31st March. She is a mad keen formula 1 fan! No kidding. Amber and Jarrod are expecting their second child in August, a brother or a sister for Lucy. They still have some work to go to catch Paul and Simone and their three children.

ABN AMRO Morgans Limited and its associates hold or may hold securities in the companies/trusts mentioned herein. Any general advice included in this email has been prepared without taking into account your objectives, financial situation or needs. Before acting on the advice, you should consider its appropriateness or discuss with one of our investment advisors.

Personal information held by ABN AMRO Morgans Ltd may have been used to enable you to receive this publication. If you do not wish your personal information to be used for this purpose in the future please advise us, including your account details to your local ABN AMRO Morgans Ltd office or to Reply Paid 202, GPO Box 202 Brisbane Qld 4001.