# MARTIN BROS MONITOR

**(For Clients and Friends of the Martin Bros)**

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

## September Quarter 2005


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## 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
## Transurban Group Ltd

Transurban Group (TCL) is involved in the development and management of tollroads. TCL's main investments include Melbourne Citylink, a 40% interest in the Westlink M7 development in Sydney and recently the M2 motorway in Sydney after acquiring Hills Motorway earlier this year.

ABN AMRO analysts rate TCL a buy with a price target of $8.33. They are currently trading at approximately $7.13. "The past 12 months have seen TCL spreading its wings, with the acquisition of Hills Motorway, increased distribution forecasts and entering negotiations on a number of US opportunities. We believe the stock looks relatively cheap compared to its peers. Buy maintained."

Many infrastructure stocks such as TCL pay distributions out of cash flow from toll revenues and refinancing debt against assets. The basic principal of these infrastructure investments is to fund part of the distributions from debt initially so that distributions over the life of the investment will be consistent. As the cash flows increase over time, less of the distributions are funded by debt and eventually the cash flow from operations (tolls) begin to pay down the accumulated debt as well as funding distributions. Another example of this is Macquarie Infrastructure Group.

## Black Gold, Supply & Demand or Speculators?

Unless you were camping in south western Tasmania for the past two months you would be well aware of the direction in which the price of oil has gone since the end of the financial year. The $US per barrel of oil has risen approximately 20% since 1st July this year. From the beginning of 2005, the oil price has risen over 50%.

Why is this so? Where will it go from here? Is this time different? The quick answer to these questions is: many reasons, we wish we knew for sure and we don't believe so.

There are arguably many factors why the oil price has risen so much. Some of these include:

- Decreased supply from some of the oil rich Arab producers
- Concern over long term supply constraints
- Concern over middle east tensions
- Speculators pushing the price up on fears of the above
- Increased demand through world economic growth

So what factors then would cause the oil price to fall:

- A slowing in world economic growth
- A decrease in demand caused by a warm northern hemisphere summer
- A decrease in demand caused by consumers due to substantially higher petrol prices
- Speculators selling, taking profits, on concerns of the above

Some 'bulls' are forecasting the oil price to go above $US100 in the next couple of years. There is a lot of fear in the market place about the long term shortage of oil. The bulls paint a picture that we (the world) now consume more oil annually than we are discovering, hence we will eventually run out. But has this just come to light? Did everyone just work this out? We don't believe so. People that want to believe 'this time is different' (re the oil price rise) would do well to remember that this saying is the most dangerous saying in markets. Wasn't every bull saying this about the tech boom five years ago? Now it's the oil boom.

Certainly long term (20-30 years plus), we believe there is some credibility in the argument about supply constraints on oil. But that is a long way away. What if alternative fuel sources prove successful, or cars do all become hybrid or fully electric, or new significant oil discoveries are found? This would surely ease pressure on oil demand and supply.

We believe there is a compelling case for the oil price to fall back quite substantially over the next six to twelve months. We do believe this time is **not** different. The speculators won't keep pushing the price up. In a recent newspaper article, Chip Goodyear, CEO of BHP Billiton Ltd, when pushed, predicted the $US oil price would fall back to the $40-$50 range within the next twelve months.

What about technically? Seasonal patterns over the past four years provide an interesting insight. In 2004 oil fell 5.1% in Nov. and 11.3% in Dec. In 2003, the price fell 7.8% in Sept, and 2.4% in Oct.. In 2002, the price fell 10.7% in Oct. and 1.2% in Nov. In 2001, the price fell 14.7% in Sept., 6.5% in Oct. and 11.9% in Nov. Time will tell though!

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## Child Allocated Pensions

Child Allocated Pensions are those commenced for the benefit of a dependent minor upon the death of a parent. A child allocated pension is a tax effective way to pass on superannuation assets and provide income to a child in the event of death. These income streams can form part of a comprehensive estate planning strategy.

Upon the death of a parent an account is established using the deceased parents super entitlement (or part of), and the account balance is used to pay an income stream. The pension payments can be varied each year at the direction of the surviving parent or guardian, within government set minimum and maximum limits. Lump sum withdrawals are also possible and the parent/guardian can decide at which age the child can receive a lump sum.

Traditionally, one of the only options parents had to provide an income stream to their children after death was to use a testamentary trust. This is simply a trust established upon the death of a person. Income paid to a minor from a testamentary trust is taxed at adult rates rather than penalty child tax rates. All income and realised capital gains from a testamentary trust must be distributed to beneficiaries in the year it is received (the same as an ordinary discretionary trust) and taxed at their Marginal Tax Rate (MTR) as adults (ie. first $6,00 tax free etc.).

Some of the major benefits of a child allocated pension are:

- earnings within the pension fund are tax free
- the annual income paid to the minor is variable (within government minimum and maximum limits)
- a portion of the annual income will be tax free if the deceased had any undeducted contributions within their superannuation
- the balance of annual income above the tax free amount will receive a 15% tax rebate (provided the deceased's total super benefit was within the pension RBL limit of $1,297,886 for 2005/06)
- lump sum payments on top of the annual pension amount may be drawn if required
- income paid to a child under 18 years of age is not counted towards their Reasonable Benefit Limits

In comparing a testamentary trust to a child allocated pension, a look at the tax effectiveness of the income streams highlights the benefit of a pension over a testamentary trust distribution. Take an example of two children, where one is the beneficiary of a testamentary trust and the other receives a child allocated pension (assuming there are no undeducted contributions in the deceased's superannuation (worse case scenario)).

If $24,000 income was produced by the testamentary trust in one year (which has to be distributed), the tax payable by the child receiving this would be approximately $3,420 (including medicare). If an equivalent pension of $24,000 was drawn in one year, the tax payable by the child would be approximately nil.

As you can see, child allocated pensions offer an attractive alternative, where appropriate, for estate planning. Self Managed Super Funds offer the greatest flexibility for estate planning in this regard, because upon the death of a member, the remaining trustees can control how the benefits are paid out, including a child allocated pension, if the trust deed permits. Macquarie Super Manager also offer child allocated pensions, but these need to be nominated.

### 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.

### MBM News

Paul will be away on leave from Thursday 8th September until Monday 19th September.
Margot will be away on leave from Monday 12th September until Tuesday 20th September.
Poor old Jarrod will be holding the fort. Andrew as backup.



ABN·AMRO Morgans

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