MARTIN BROS MONITOR

(For Clients and Friends of the Martin Bros)

www.martinbros.com.au

September Quarter 2007

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Welcome Andrew Thomson

As many of you will already know, Andrew Thomson has been working with us part time for over two years whilst he was a professional sportsman.

Like all of us, time has caught up with Andrew and his professional sporting days are behind him now. He is now working with us full time and building his knowledge and technical skills whilst helping us manage the growing compliance & administrative demands of private wealth management.

Andrew is married (Sophie) with three children.

Stock Review
Suncorp-Metway

Suncorp-Metway Ltd (SUN) is a Queensland based bank assurance (banking / insurance) company.

Over twelve months ago, SUN made a successful takeover offer for Promina Ltd, one of Australia's largest stand alone insurance companies.

Since this acquisition the market has discounted SUN on fears of the integration risk of successfully incorporating such a large business into the existing SUN group.

We believe this discounting has been overdone with the share price currently trading below $19 per share.

SUN's recent result in August was a solid one and management have previously flagged that dividend growth should be in the order of 10% over the next year. Based upon the current share price this equates to a 6.30% fully franked yield, or 9% grossed up.

We believe the SUN management team should be given the benefit of the doubt due to their good track record and progress so far with the Promina integration.

ABN AMRO Morgans has a Buy rating on SUN with a $22.99 price target.

China – will the boom ever end?

The short answer is yes. As you would know, booms don't last forever. That is not to say that China won't continue to experience expanding economic prosperity over decades to come. The West will continue to source products from China at increasing rates and this will lead to continued rapid growth in China's industrialisation.

However, like all countries, China will experience fluctuations in the level of growth and development over the next few decades. This will lead to market volatility as people try to predict when these events might occur.

China is less reliant on the US now and the optimists are quick to point this out. However, China and its domestic prosperity are not immune to the US and its economy. The US is still the largest consumer in the world. So imagine if the US did go into a recession. Consumer spending in the US would soften dramatically and this would have a flow on effect to demand for products coming out of China.

All that we are forecasting is that China (and India for that matter) will go through economic cycles like the rest of the developed world. Their economic cycles might last for longer than other parts of the world but it does not mean they will be spared periods of slower growth.

In the early nineties Japan was booming and did so for many years. The vast expectation was for Japan to take over the world stage as the largest economic powerhouse and continue to do so well into the future.

Whilst China (and India) does not have the same set of circumstances as Japan had, they do have their own economic opportunities and threats and will be subject to economic cycles. If not in the short term, at some stage they will.

ABN AMRO Morgans economist, Michael Knox, recently visited China and wrote an interesting piece on his experience titled "Three things I learned about China". Below is his conclusion which we believe summarised the most interesting fact he concluded from his visit.

"China is in the grip of a widespread high rise residential boom. It is the accelerated construction of high-rise residential buildings that is generating a huge demand for structural steel. This demand for internally manufactured steel is in turn generating accelerated demand for Australian Iron Ore.

China, although it has a rapid trend growth, is likely to experience major economic business cycles based on swings in dwelling demand. Eventually in 2 or 3 years time, the Central Bank will be successful in drying up enough credit growth to reduce the upward trajectory of dwelling activity.

As this happens, the demand for China's structural steel should dramatically slow and with it the demand for Australian iron ore exports. Australian resource exporting companies are exposed to major fluctuations in the prices of their exports at the tail end of the China dwelling cycle."

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Salary Sacrifice

There needs to be a good reason for you not to do it.

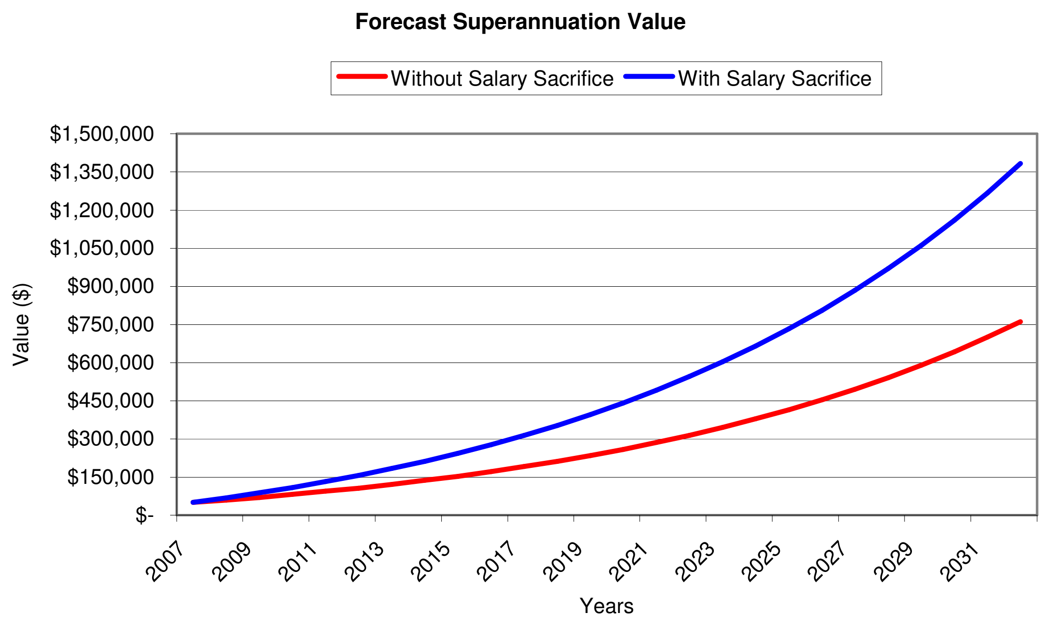
In this edition, we want to explore using salary sacrifice for superannuation contributions. This is where an individual elects to take part of their remuneration in the form of additional superannuation contributions (to the standard 9% superannuation guarantee). These contributions come from a person's gross income, which means before tax has been taken out.

The contribution to superannuation attracts the standard 15% contributions tax on the way into the super fund. If you are earning more than $30,000 (taxable income) then your marginal tax rate is at least 31.5% including Medicare on every dollar of taxable income over this level. Therefore, any amount sacrificed to superannuation above this level is saving at least 16.5% in tax (31.5% - 15%). This is quite a tax saving. For people on higher incomes the tax saving can be up to 31.5% on every dollar salary sacrificed into superannuation.

Whilst the tax savings certainly make it attractive, the other advantage is that investment income and realised capital gains within superannuation are only taxed at 15% (10% on capital gains for investments held greater than twelve months).

The greatest reason though that everyone earning more than $30,000 should consider salary sacrificing is to increase their retirement benefits. Foregoing a small amount of extra money in the pocket each month will have a **HUGE** impact on your retirement lifestyle. Unless you're extremely confident of winning tattslotto or ending up in the BRW Rich 500, then you can eliminate the risk of having a sub standard living in retirement by acting now.

Below is an example of how stark the difference can be between someone salary sacrificing and someone who is not. This example is based upon someone who is 35 years old, 25 years from retirement, income of $75,000, earning 8% per annum on their superannuation. The only difference is a $10,000 per annum salary sacrifice into superannuation.



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