Ph: 9947 4135

MARTIN BROS MONITOR

(For Clients and Friends of the Martin Bros)

www.martinbros.com.au

June Quarter 2006

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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 - Sonic Healthcare

Sonic Healthcare Ltd (SHL) is a medical diagnostics company providing pathology and radiology services. Services include testing, infection control advice, consulting services and performing diagnostic procedures. Sonic operates across Australia, New Zealand, Hong Kong, Germany, North America, and the UK.

SHL has recently lost the contract to provide Auckland pathology services from financial year 2008. SHL were not expected to lose this contract and as a result the share price has fallen from the high $13 range to the high $12 range.

ABN AMRO's analyst has reduced his earnings per share forecasts for SHL for FY08 and FY09 by 4.1% and 3.6% respectively on the back of the contract loss in New Zealand.

The analyst's DCF/SOTP valuation and 12 month price target for SHL has decreased by 3.7% to $15.60. The investment case for SHL is based on forecasts of strong market growth and potential synergies in SHL's offshore pathology markets (ex NZ). This has not changed as a result of the recent news.

A Buy recommendation has been maintained on SHL and will be good buying on any further weakness.

Lower Returns with Higher Volatility

The Year Ahead – An 8.3% total return is expected for the Australian sharemarket.

According to the modelling of ABN AMRO Morgan's analyst Michael Knox.

We are forecasting the fair value for the Australian stockmarket to be 5,026 points in June 2007, which together with consensus dividend growth of 4.1% should total a return of 8.3% for the year to June 2007.

This forecast is behind the average for the last 16 years of 11.6% which is surprisingly close to the 100 average of the Australian market.

What drives this model? Answer: Bond yields.

Over the last couple of years the US Federal Reserve has been tightening interest rates, moving from 1% to the current 5.25%. This is the biggest tightening (upward movement) in the last 20 years. The tightening has been gradual, and only since September last year has this tightening had an impact on the US and Australian bond yields.

The result of those rising bond yields, together with declining earnings growth (as many cost pressures are present – inflation) is to break the upward momentum of the equities market.

This liquidity withdrawal (as a result of global interest rates increasing) is the major factor impacting global economies and financial markets over the medium term. The synchronised global lifting in interest rates is in response to the escalating threat of global inflation.

In recent periods higher prices at the producer (company) level have not been passed through to the end consumer (that's all of us). Instead they have been absorbed by producers, resulting in corporate profit reductions. This will not continue indefinitely and price increases will be passed on resulting in additional inflation. As such we believe further interest rate increases are likely to occur over the short term.

The oil markets continue to present risks to domestic and global growth given our continued reliance on this energy source. As noted above, with raw material and energy costs now starting to reduce company profits any further oil shocks will result in additional costs being passed to the consumer, increasing the inflationary effect and resulting in further interest rate increases.

Australian equities remain attractive relative to other asset classes in the domestic arena when comparing on a yield basis (largely due to the grossed up value of franking credits).

Mr Bernanke the US Federal reserve chairman recently stated that the economy is moving towards slower growth.

What we now have is a market that is transitioning from a strongly bullish market to a slightly bullish market. The great bull market is behind us and modest returns lie ahead.

Source: Michael Knox Economic Strategy 19th July 2006

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Budget Update – What a Budget It Was!

Magic May – at least that's what it should be called if we are going to keep getting budgets like the one just handed down.

If last year's budget was referred to as the year of the 'Big Budget', like many called it, then this year's budget must be called the 'Super Budget'. You would be very hard pressed to find someone not better off as a result of the latest budget, if not immediately, definitely when they come to retire. The two changes to have the most impact from a financial planning perspective are the change in personal tax rates and the complete overhaul of the superannuation system, including the abolishment of Reasonable Benefit Limits (RBL's) and tax on withdrawals for people over the age of 60 (these changes are to take effect from 1st July 2007).

The new tax rates included a substantial lift in the Marginal Tax Rate (MTR) thresholds for middle to high income earners – those earning up to $150,000. The rates for last year and the new rates for this financial year and beyond are as follows:

Tax Rate %	2005/06 Thresholds		Tax Rate %	2006/07 Thresholds
0	$0 - $6,000		0	$0 - $6,000
15	$6,001 - $21,600		15	$6,001 - $25,000
30	$21,601 - $63,000		30	$25,001 - $75,000
42	$63,001 - $95,000		40	$75,001 - $150,000
47	$95,001 +		45	$150,001 +

As you can see, a person will not exceed the 30% MTR bracket until they now earn more than $75,000 of taxable income from the 2006/07 year and beyond. The top MTR, now reduced to 45% from 47%, will only apply on income in excess of $150,000 from 2006/07.

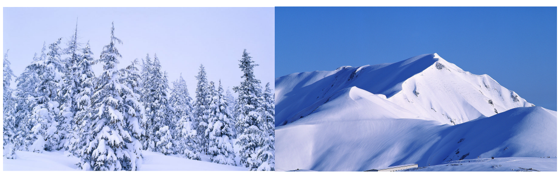
Another change that was announced regarding superannuation is, as of budget night, personal undeducted contributions are to now be restricted to $150,000 per annum. However, there is a three year averaging provision which allows a person to contribute up to a maximum of $450,000 in one year (providing their average annual contributions over a three year period do not exceed $150,000). Changes have been made to deductible superannuation contributions (which include employer contributions and salary sacrifice contributions), such that as of 1st July 2007, there will be a flat limit of $50,000 per annum for everyone under 50. For people aged over 50 on this date, or who will turn 50 within five years from this date, the higher limit of $100,000 per annum will apply (to over 50's) for a grandfathering period up until 30th June 2012.

These changes have shifted more focus onto superannuation even for those who may be in their thirties. Due to the abolishment of RBL's and tax free withdrawals upon retirement (when at least 60 years of age), there is now a very strong incentive for the young to start saving into super - particularly now that deductible contributions are to be limited to $50,000. This removes the ability for people to contribute larger amounts immediately pre retirement. So start early! The tax savings on deductible contributions can make it particularly worthwhile.

The majority of the Budget changes to superannuation are only proposed at this stage. However, given the government's (and opposition's) commitment to finding solutions to help the baby boomers to be self funded retirees, these changes are very likely to be passed.

For those who will be 60 years of age or older on 1st July 2007 and are still working, under the new rules, there is no reason you should be paying more than 15% tax in total for the rest of your working life, unless you earn more than about $125,000 a year. Even then, your tax will still be substantially reduced, with the right planning.

Here Comes Winter – Well Maybe!



Client Dinner News – Stephanie Alexander

The Victorian State Government announced in its recent budget that it will be providing $2 million funding to the Stephanie Alexander Kitchen Garden Program to provide approximately 40 schools with $50,000 each to set up vegetable gardens and install kitchens. Great news.