



# MARTIN BROS MONITOR

(For Clients and Friends of the Martin Bros.)

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

## March Quarter 2007 (belated)

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



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### Congratulations Rochelle !

Rochelle and her partner Dunstan are expecting their first child in October. Rochelle will be on maternity leave from the end of August and plans to return part-time once she has settled into motherhood.

We are well on the way to appointing someone to fill the big shoes of Rochelle and will hopefully update you in the June quarter MBM, which will be published in a more timely manner.

### Magellan Flagship Fund

Recently listed Magellan Flagship Fund (MFF) is a Listed Investment Company (LIC), that is focused on international equity holdings. It offers global diversification while remaining a listed Australian company.

MFF invests in blue chip international equities with a focus on the US (but not exclusively). Some of its top ten holdings by market value include American Express, Ebay, Johnson & Johnson, Bank of America, WalMart, Home Depot & Nestle.

The primary focus is on medium to long term value creation through typically a more passive approach. As an Australian company they will pay fully franked dividends, however the main attraction is long term growth through ownership of quality companies.

The Management Expense Ratio (MER) of the fund is a base 1.25% plus a performance fee of 10% of investment performance provided it exceeds both the MSCI performance in A\$ (World Index) and the Aust. 10 year bond rate.

MFF was listed in December 2006 at \$1.00 and currently trades at approx. \$0.94. It has a Net Tangible Asset (NTA) backing of \$1.00 per share as at the end of April. The NTA will increase and decrease in line with the underlying investments and movements in the Australian / US dollar exchange rate. At \$0.94 per share it is trading at a 6% discount to its NTA.

### Our View on the Markets

Long time readers of the MBM will be very familiar with the graph below. This graph is the Australian sharemarket over the past twenty years, as represented by the All Ordinaries (top 500 companies by market capitalisation).



As you can see, the market performance since the lows of 2003 immediately prior to the commencement of the Iraq war (mark II) has been nothing short of spectacular. So what brought about this exceptionally strong performance? A number of things. The economies of America and parts of Europe started to recover after threatening to go into recession. Interest rates have remained at historically very low levels, particularly in the US. Japan started to recover from an economic downturn that lasted for over a decade. Commodity prices have reached new highs substantially above previous records and inflows to superannuation have grown exponentially, with the majority finding its way into Australian shares.

All of these factors have led to company profits growing at double digit rates across most sectors for the past four years. As we know, company profit growth and the expectation of future company profit growth drive equity markets long term. Sometimes these expectations can be either overly pessimistic or overly optimistic.

In early 2003 the former was the case, and equity markets were factoring in poor company profit growth (or even negative growth) for the foreseeable future. When economic conditions changed and global economic recovery gathered pace, this negative sentiment changed and equity markets bounced as a result. Since this time, equity markets have continued to climb on the back of sustained corporate profit growth across most sectors.

At the present time, equity markets are factoring in for current corporate profit growth to continue at a similar or higher rate than the preceding few years. The risk to this equation is corporate profit growth slowing, thereby creating a correction of people's expectations and a subsequent sell off in equities to correct the current optimism.

With the All Ordinaries currently at 6400 points, we see the possibility of the market correcting to under the 6000 point barrier at some stage in the next six months, but see no catalyst at present for a sustained medium term fall. We would be happy with a period of sideways consolidation because further gains into the high 6000's in the short term, we believe, would risk the market suffering a circa 15-20% fall.

*'Creating long term financial success for our clients'*



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## Are You Ready for the 30<sup>th</sup> June?

The end of financial year is fast approaching and there is limited time to make sure all things necessary have been tied off. Some things to consider that may be applicable to your individual circumstances are:

- Final superannuation contributions – all contributions you wish to claim a tax deduction for this financial year, such as employer or self employed contributions, must be received by your super fund before 1<sup>st</sup> July.
- Government Co-contribution – to qualify, a person must have received at least \$1 of employer superannuation support during the financial year and earn less than \$58,000 taxable income. If you fall into this category, it may be worthwhile making a personal undeducted contribution to superannuation.
- Pre paying interest – if you incur interest on a tax deductible loan it may be worthwhile pre-paying your interest expense in advance and effectively receiving a double deduction this financial year. This is particularly worthwhile if your income is likely to be higher this year than next year.
- Paying all tax deductible expenses this financial year. Whether it's income protection premiums, home office expenses or car expenses (when the car is used for business purposes), it's worthwhile paying the expense this financial year and getting a tax deduction for it sooner rather than paying it in July and having to wait another full year to claim it.

If you think any of these tips above, or anything else, may be applicable to you and we have not discussed it, please feel free to call us and we will be happy to run through things with you.

## Budget Update – The budget that didn't rate

After last year's bumper budget this year's budget was largely expected to be a non event for the financial / superannuation industry. This is exactly what it was. Which is just as well. Many of last years announcements commence this July.

One small change was to the tax rates for the next two financial years. These will now be:

Tax Rate %	2007/08 Thresholds		Tax Rate %	2008/09 Thresholds
0	\$0 - \$6,000		0	\$0 - \$6,000
15	\$6,001 - \$30,000		15	\$6,001 - \$30,000
30	\$30,001 - \$75,000		30	\$30,001 - \$80,000
40	\$75,001 - \$150,000		40	\$80,001 - \$180,000
45	\$150,001 +		45	\$180,001 +

### It's a Boy!

Paul and his wife Simone welcomed a new baby son into their family on May 3rd. Mackenzie Newton is a beautiful little brother for Lachlan, Charlotte and Pippa. They claim this is their last!



### Did You Know?

- "Almost" is the longest word in the English language with all the letters in alphabetical order.
- Coca-Cola would be green if colouring was not added.
- It is against the law to have a pet dog in Iceland
- It is impossible to sneeze with your eyes open

### MBM Team News

Tim is off for five weeks in July/August with a planned attempt at summiting Mt Saint Elias in the middle of nowhere (far far from civilisation somewhere in the wilderness of Alaska). We will publish a photo or two in our September edition of the Martin Bros Monitor. Good luck Timmy!

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