



360° Newsletter

Welcome

Hello and welcome to our Autumn newsletter for 2008. In this issue we consider how Australia's commitment to the Kyoto Agreement on climate change will affect investors and the economy as a whole. We examine both the negative and the positive impact on investment and look at the consequent impact on company profits.

This issue also shows you how a simple savings program can provide for children's or grandchildren's education by using tax free insurance bonds as an investment tool. We explore the often misunderstood difference between "value" investment managers and "growth" investment managers. If this seems all too serious, our final article is bound to lower your blood pressure and replenish your immune system or at least give you a good laugh.

Thank you for all the positive comments on the new look newsletter, we hope you like this issue as much as the last. Enjoy!

Kind regards,



and the team at Logiro



New Horizons

Will the new investment climate put the heat on your share portfolio?

Australia has committed to the Kyoto agreement and we are now officially part of the world climate change slowdown campaign – a decision that will have far reaching effects for shareholders and fund managers.

Some of these effects will be positive, and some negative. On the negative side, carbon emissions produce greenhouse gases and if the proposed legislation comes into effect, companies may have to pay a carbon tax based on the amount of carbon they produce. This means that the cost of using "dirty" fuels such as coal that produce a lot of carbon, may be higher and this may increase production costs and bite into profits.

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On the positive side, with the new Carbon Trading Scheme in place, clean industries that produce less carbon than their competitors, can trade their carbon credits to dirtier companies and add to their profits.

It is also important to remember that every problem presents an opportunity. In the post-Kyoto world, the opportunity is to develop low or no carbon energy sources such as solar, wind, tidal or water power. These have always been far more costly than dirty, old-fashioned coal, but if the carbon emissions tax bites deep enough, the cost of using coal will increase, making the alternatives more competitive. And as more users switch to cleaner energy, the price of green energy must come down.

The other wild card in the pack is nuclear power. Uranium is a carbon-free fuel. Unfortunately, it also produces deadly toxic waste with a shelf life of thousands of years, but if we can find a way of disposing of the waste safely and cheaply, Australia's uranium industry should continue to expand. (Uranium shares have already shot up in anticipation, even though there is no acceptable solution in sight).

And finally, there is a chance for traditional power generators to clean up their act by installing new equipment that burns coal more efficiently and produces less carbon. There is a high cost involved, but it may also be the cost of staying in business!

As you can see, there is a new trend emerging in the post-Kyoto investment balance sheet. Those companies who can reduce their carbon emissions through better production management and using clean energy will see the benefit on the bottom line. Not only will they pay lower carbon taxes, they can also trade their carbon credits.

Greener companies will reap another important reward. Climate change was an important issue in the recent Federal election and there is no doubt that the Australian public now firmly supports greenhouse gas reduction – after all, the world they are saving is their own and will be the one their kids inherit.

This means that companies who actively reduce their carbon emission, voluntarily undertake greener behaviours and support green causes can publicise these policies in the media and attract and hold new customers.

So from now on, green in the boardroom may translate to black in the bottom line and fund managers and investors will be scrutinising corporate greenhouse policies as closely as they analyse earning ratios, share price history and market trends. We will certainly be keeping a close eye on what's happening in the greenhouse! ■



Child's play

Tax-free Insurance Bonds are kid's stuff!



It has been estimated that by the time a child born in the year 2000 reaches high school age, the total cost of a secondary education at a private or independent school could easily top \$200,000. No wonder more and more parents are wondering how they will ever afford to give their kids the best start in life!

In many families, both parents already work just to pay school fees and some families are extending the mortgage on their home to pay the increasing education costs.

What about the kids who make it to uni? They are landed with a large HECS debt the day they graduate – it could take them years to pay it off!

To make matters worse, if you start a conventional investment plan in a child's name, you (and the child) have a huge tax problem, because 45% of the earnings of the investment must be paid in tax once the child earns more than \$1,666. (This tax law is designed to discourage wealthy individuals from putting assets in a child's name to avoid tax).

However, there is one type of investment that is tailor made to give a child a head start

and can be absolutely tax free! It is called an insurance bond and it is tax free to the investor because the insurance company pays the tax at a rate of 30% throughout the investment period on behalf of the investor.

This is how it works:

You can make a one off investment, or invest every year, or even every month, from as little as \$1,000 a year or \$100 per month. (One excellent way to maintain a regular savings plan for future education is to deposit the Federal Government Childcare Allowance directly into an insurance bond). Any withdrawals after 10 years will not result in any assessable income to the child investor. You can also make additional contributions up to 125% of the previous year's contribution and the investment can still be tax free.

To take advantage of the tax free status, there is a minimum investment period of 10 years during which time you cannot touch the capital or earnings. After that, you can withdraw all or part of it as you wish. If you do withdraw the capital or earnings within the first 10 years, the investor is required to pay some of the tax otherwise paid by the insurance company.

Stepping out



Should you invest for value or for growth? It's a matter of style!

There are two basic categories of fund managers: those who invest for value and those who invest for growth.

Growth investment managers seek out shares that have rapidly growing earnings and are in strongly growing industries. Growth managers believe that continuing business and earnings growth will drive up the share price. These are quality shares that are relatively "expensive", since their growth potential is built into the share price.

Value investment managers are bargain hunters. They search for shares they believe are undervalued by the market. These shares are currently "cheap" and there is potential for a rapid increase in their price and substantial profit taking. Value shares tend to be in mature industries where there is not huge growth potential.

The debate about which style is better is inconclusive. In some periods value managers have outperformed growth managers but in different time periods, this is reversed. It depends to some extent on the relationship between management style and the strength of the economy, inflation, interest rates and currency rates. The choice of investment style in your portfolio however, can make a huge difference to your returns. If we could see the future, we would always be right and soon be rich. Since we cannot see the future, we have to be more careful.

The obvious solution to the dilemma of which style is preferable, is to choose a portfolio containing a balance between growth and value shares (or growth managers and value managers). This should provide some protection against the highs and lows often associated with growth shares, whilst also exposing your capital to the potential increase offered by value shares.

A mix of growth and value managers is usually the cornerstone of any balanced share portfolio, sometimes in a 50:50 ratio (called "style neutral") and sometimes leaning more towards a value style or a growth style. The balance all depends on your personal risk profile and your long term investment strategy.

A word to the wise: Although value shares generally perform better in falling markets, while growth shares generally blossom in rising markets, it is important to note that swapping from one to another in an attempt to outguess the market could prove to be dangerous. You might make the switch at just the wrong time and miss out on the recovery of the market you left behind, only to be caught up in an unexpected slump in the market you just entered. Better to balance the two styles – especially as one tends to do badly when the other does well! ■

Education funds can build up impressively over a 10 year period. This table shows the effect of an investment of \$100 per month in a balanced portfolio insurance bond over 10 years, with and without the optional increasing contributions. In this example there is an initial investment of \$1,000 and the investment grows at an average after tax rate of 8% per year.

Years	Bond A \$100 per month	Bond B \$100 per month for first year, then increasing contributions by 25% p.a.
After 2 years	\$3,766	\$4,077
After 5 years	\$8,838	\$13,134
After 7 years	\$12,959	\$24,269
After 10 years	\$20,514	\$55,102

As you can see, the tax free investment quickly builds and it is even more impressive if you increase your contributions to the maximum tax-free threshold of 25% per year. In this example, Year 1 contributions were \$100 per month for both Bonds. In Year 2,

Bond B contributions increased to \$125 per month and increased by 25% each year for the remainder of the example.

Insurance bonds are just about as flexible as any other managed fund investment – there is a choice of investment categories and individual managed funds and you can make changes any time you wish (subject to the rules of the insurance company offering the bond).

The reason for the special tax status of these bonds is that they are classed as life insurance policies not investment assets, and this is another advantage. By nominating the child as the beneficiary, a grandparent can ensure that the child's education is financed tax free even if you should pass away before the bond matures.

Dollars for scholars: Start planning now if you have young children or grandchildren. An insurance bond could give them a much needed head start in life! ■

Knock knock...

Laughter... The health drug of the nation

It's no secret that laughter is actually good for us and positively affects our physical and mental well-being. A good laugh can also lower blood pressure, increase vascular flow and boost and replenish our immune system. Laughter gives our bodies a complete workout. It's like a gymnasium program targeting our abdominal muscles, diaphragm, facial muscles and respiratory system. The harder we laugh, the more other body muscles are used such as arms and legs. There's no doubt I'll be watching re-runs of Seinfeld, cancelling my gym membership and laughing all the way to work come Monday.

Laughter also induces the release of 'happy' chemicals (endorphins) in the brain. The more you laugh, the more endorphins are released and you are likely to be happier and healthier and see things in a positive light. Scientifically, endorphins are neurotransmitters that attach to the brain receptors the same way opiates do. This is perhaps why through fits of laughter, we hit a natural high, lose touch with reality, forget our worries and for a few minutes, numb our brains. Laughter is the best drug being peddled in society. It's like taking a shot of morphine or an opiate. It's legal, addictive and has no nasty side-effects. It's no wonder we all want a bag of laughs.

So where exactly do you get this bag of laughs? There are no shady characters down back alleys selling it from beneath their trench coats. A good start is in your

own backyard. If you're a father of a primary school child, you may have sadly heard this a few times, "Huh...that's not even funny Dad." Or should you have teenagers, you may have overheard the hallway whispers as their friends arrive, "Just ignore my Dad; he thinks he's funny but he's not. He's soooo embarrassing." And if you're a future parent, relax and take advantage of the 'green room' backstage as long as you possibly can.

Many believers of the laughter drug have now adopted a 'DLP' or (Daily Laughing Plan). The DLP's determine the quota of laughs to be exercised each hour on a daily basis. On average, most adults laugh around fifteen times a day and because it's known to be good for us, even doctors suggest we should laugh more to keep them away. From the DLP home system, laughter addicts are joining membership driven laughing clubs in droves, attending laughing conventions, laughing camps,

before work 'jog and laugh' workout sessions and even making a career out of the craze.

So, what if you can't join a laughing club or are unable to muster the required dose of laughter. Don't despair! There are plenty of community based support strategies at hand. Stand-up comedians, slapstick and situational comedy TV shows, side-splitting movies, cartoon strips, daily radio programs, celebrities at war with themselves and not forgetting our somewhat laughable politicians. These strategies are available 24/7 to assist with endorphin release, the drug of choice, handing you a bag of tricks, a barrel of laughs to dip into and enjoy, as you start preparing for those twenty-first speeches. Give it a go, tell a joke. The worst thing that can happen is that people will laugh at you but you know you're really doing them a favour that just might become contagious and the prescribed health drug of the nation. ■



Are you serious...

Economists...

Economists are great.
They have actually predicted
14 of the last 4 recessions.

