PlatinumHouse
FINANCIAL PLANNERS

HouseBulletin

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Jeanie & Roy Awarded Top Rating

PlatinumHouse IMA - Proving Popular

Our newly launched **PlatinumHouse** IMA service is proving popular with clients, as they elect to swap some of their direct equity portfolio and/or managed equity funds for an IMA.

Clients are enjoying the dual benefits our IMA provides; having individual share ownership and an investment manager making the decisions on their share portfolio.

Transparency and ownership are key features.

The benefit of this type of investment compared with a traditional managed fund is that the portfolio can be tailored for higher franked dividends, which within a self-managed superannuation environment provides some very tax effective income. The capital gains tax position can be managed rather than having a fund manager distribute capital gains at their discretion.

So what is an IMA?

An IMA (Individually Managed Account) combines the advantages of a managed fund with the flexibility of individual share ownership. An IMA allows an investor to retain the beneficial ownership of shares, cash and other investments with the overlay of active management by an asset manager.

IMAs are open to investors with a minimum of $100,000 to invest.

Investment Strategy

The portfolio consists of 15-20 large cap stocks at any one time, typically with an equal weighting to each stock. The portfolio is designed to have a low turnover and is aimed to provide growth, stability and diversification.

The objective of the portfolio is to outperform the benchmark ASX 100 Index over the medium to long term.

PlatinumHouse IMA offers a direct share methodology (sourced from van Eyk equities research team) to maximise returns with an acceptable level of risk. Stocks are chosen for their investment fundamentals, rather than to mirror the index.

The IMA is monitored on an ongoing basis and changes can be made at any time. In addition, the portfolio is formally reviewed quarterly to determine whether a re-weighting is needed.

Investor Profile

The portfolio is suited to investors seeking a low turnover portfolio of high quality large cap Australian shares with a medium to long-term view. A moderate degree of risk is assumed. Returns are expected to be in the form of both dividend income and capital gains.

The Advantages of IMAs

Transparency: unlike a managed fund, investors know exactly what their IMA is investing in and how it is being invested

Active management: IMAs provide professional research, stock selection and fund management

Tax management: IMAs allow the investor's tax position to be considered

Costs: the costs associated with IMAs compare favourably with other investments

The PlatinumHouse IMA Service can provide additional value to an overall investment strategy. Please contact us for further information.

Spotlight on Hybrids

We have seen a changing focus from investors moving away from capital growth assets to income generating assets especially during the last few years where equity markets have disappointed. Although we have encouraged this trend, this does not mean that equities are now being replaced but rather further diversification is being sought away from the traditional fixed income investments such as term deposits and government bonds.

Hybrid securities have plugged the gap between the traditional fixed-income and equity markets offering investors alternative investment opportunities. Last year we saw a number of quality hybrid securities being issued and this will continue over the coming year as companies are undergoing restructuring of debt, share buy-backs or acquisitions.

Hybrids have gained popularity with investors because of the high interest (or coupon) payments which are fixed over a preset period of time. When investing in hybrids investors need to look at the credit risk of the issuer and the duration (the term of the investment).

Because Hybrids pay a fixed interest payment, there is some concern that in a higher interest rate environment they would look less attractive and hence the price may trade below the issue price. This is true for most fixed interest investments in so far that interest rates do have an effect on the value of the investment. However, if the purpose of the hybrid security was to hold until maturity then volatility of the day to day price is irrelevant. Therefore, the focus is then shifted to the credit worthiness of the company issuing this debt.

The outlook for Hybrids over the next 12 months in our view is still positive especially given the high yields on offer and a low interest rate environment.

Advisers Receive Highest Rating

Independent ratings group, Adviser Ratings, has given their top rating "Premium Adviser" to both Jeanie Sinclair and Roy Todarello. This is a great honour, as only 7% of all advisers rated receive this top Premium Rating.

Investors looking for a reputable adviser can log on to www.adviserratings.com.au and find an adviser that matches their criteria.

A lengthy questionnaire and an on-site audit were conducted to achieve this rating which covered the following areas:

Personal & Professional History
Areas of Expertise
Continuing Professional Development
Investment & Strategic Research Resources
how we are Remunerated
Service & Quality Assurance

So next time you are referring someone to us, you can tell them about this independent rating.

We thank you for your continuing support.

We Have a Winner!!

Getaway to Hyatt Regency Coolum, QLD

A weekend away in luxury accommodation at the Hyatt Regency Coolum has been won by Gary & Diane Munns.

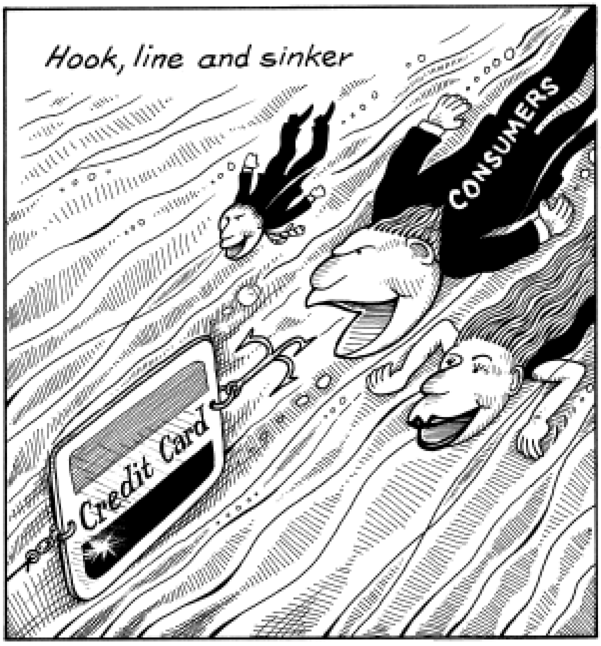
Congratulations, Gary & Diane! We hope you have a wonderful getaway!

Thank you to everyone who participated, keep watching this space for our next competition…

Snap! Crackle! Pop! - The US Debt Bubble

If you listen very carefully over your rice bubbles at breakfast you could almost hear the snap, crackle and pop. The more rice bubbles you have in the bowl the louder the snap, crackle and pop! Try it.

So what has rice bubbles got to do with the US debt situation? Well not much really except that they share the same word - "bubbles".



Could the biggest bubble of them all be the ballooning US debt?

According to the latest Federal Reserve data, the US debt bill has grown from $US4 trillion in 1980 to $US31 trillion by the end of 2002. (For those that don't know, $1 trillion is one thousand billion dollars!) This debt comprises of household, business and government borrowings. Moreover, the US is funding the biggest military expenditure in history all during a period of global economic slowdown and with a large current account deficit.

Over the last 5 years, the international community has increased holdings of US financial assets from $2.7 trillion to $6.3 trillion on the premise of a vibrant, productive technology-driven powerhouse. US financial assets were not accumulated with the expectation of massive a federal deficit and a wartime economy.

So what has caused this explosion in debt?

Well according to many economic commentators, credit expansion has been the key problem. Credit expansion is the result of the central banks around the world increasing the supply of money. During periods of low interest rates and increasing credit supply there is a tendency for over-investment and over-consumption. This over-investment leads to inflated valuations such as the technology boom in the late 1990's and more recently, the US housing market boom.

The US economy over the last few years has been primarily supported by pent-up demand from the consumer. Until recently, US consumption was boosted while the savings rate declined. In the absence of strong stock market gains it is likely that consumption growth will be contained.

Finally, the US consumer has become so highly leveraged that they might finally succumb to this debt overload. The mortgage-refinancing boom has led to an overheated real estate market which is simply not sustainable in the long run. At some point something will have to give way.

Morgan Stanley economist Stephen Roach views the US debt load as a serious problem. "There's no question that we have a debt bomb, but I'm not sure how long the fuse will turn out to be. It won't detonate if the economy remains strong enough to continue to generate enough real consumer-income growth and corporate cash flow to support the debt. Otherwise, we'll experience the darkest scenario of debt deflation, as a result of the worst set of policy mistakes committed by the Fed since the Great Depression."

So with this backdrop of a debt laden economy in the US and the fight against deflationary pressures what are the implications going forward for investors?

History has proven that when investment expectations are high they attract more investment capital which in turn leads to increases in supply relative to demand (ie bubbles - technology boom) and which ultimately results in lower or negative returns. This lowering of returns after a bull market is best illustrated by a widely used analytical tool or measurement called "mean reversion".

Mean reversion is the principle that over a period of time, the market price of a security (eg shares) will revert back to its mean (average) level. At any point in time the security can be referred to as cheap, expensive or fair value relative to that mean level. Basically, it determines the long-term trend of a security.

One of the most widely watched measures of valuation for both the stock market as a whole and an individual stock is the Price Earnings Ratio or PE Ratio. It can be used to give some idea of the whether the market or stock is "cheap" or "expensive".

For example, let us examine the S&P 500 which is the most accepted index used by investment managers. The "mean" historical PE Ratio for the S&P 500 is about 15. The current PE Ratio is about 27. The last 10 years average is about 23. If we use the mean reversion principle then it suggests a stormy medium-term prognosis. In 1996 the Federal Reserve Chairman, Dr Alan Greenspan, spoke about the "irrational exuberance" when the Dow Jones was 6,000 or so. Today, the Dow Jones is still well above the 6,000 mark.

Where to from here?

Well there is a consensus view that the economic outlook in the US is still weak and we expect this to continue. We have seen in recent times "rallies" in the US equity markets on any positive news from the Iraq conflict. This rally may continue on any further good news from the war however, the underlying deficit problems in the US will undoubtedly weigh on consumers and corporate America which will in turn subdue any sustainable economic recovery over the medium term.

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In our previous **HouseBulletin**, we spoke about reducing exposure to the international sector especially in the US. Our strategy is supported by a recent report by Dr Shane Oliver, Chief Economist and Head of Investment Strategy at AMP Henderson regarding "*should Australian investors go global*"?

He argues that the quality of earnings and valuations of Australian companies is still relatively attractive compared to the US. In addition, the relatively high yields are viewed very positively by investors. In the medium term he concludes that investors should maintain a strategic bias towards Australian shares for the time being.

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