The **Australian**

Australian Expat Investment & Taxation News

A new bi-monthly issue of **The Australian** from **Imperium Capital**.

This document will be made available on our website theaustralian.biz / imperium-capital.biz

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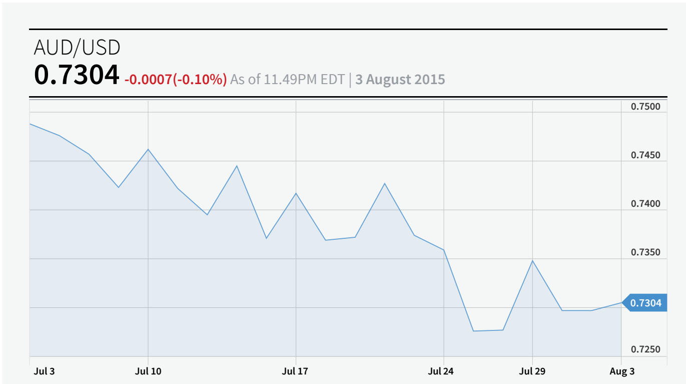
Currency View



Last week recap (AUD/USD)

Reversed direction, gaining a fraction last week as traders' expectations for an RBA rate hike next week dropped to only 10 percent, while both countries reported mixed economic data. The week began with the rate consolidating at a slightly lower level on Monday after better than expected U.S. Durable Goods Orders data. The pair then gained on Tuesday after U.S. CB Consumer Confidence printed 10 points under expectations. On Wednesday, the rate fell after the Fed left rates at record lows and the FOMC Statement indicated the committee was still not sure when to begin tightening. The pair then consolidated on Thursday after Australian Building Approvals declined -8.2% m/m, which was significantly lower than the -0.8% expected, and

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Australian Import Prices, which increased +1.4% q/q, as was widely expected. The pair then made both its weekly low of 0.7233 and its weekly high of 0.7365 on Friday as commodity and gold prices recovered. Also, Australian PPI increased +0.3% q/q versus +0.2% expected. AUD/USD closed at 0.7300, with an overall weekly gain of +0.2%.

The week ahead (AUD)

The Australian economic calendar is rather busy this coming week, featuring the RBA's Cash Rate Decision on Tuesday. Sunday is a Bank Holiday, and Monday starts the week's highlights off with ANZ Job Advertisements (1.3%). Tuesday's key events include Retail Sales (0.5%), the Trade Balance (-3.06B), the RBA's Cash Rate Decision (unchanged at 2.00%) and the RBA Rate Statement. Wednesday then offers little of note, while Thursday features the Employment Change (12.5K) and the Unemployment Rate (6.1%). Friday's important releases then conclude the week with the RBA Monetary Policy Statement and Home Loans (5.2%). Resistance for AUD/USD is seen at 0.7532/0.7682, 0.7448/95 and 0.7348/71, with support noted at 0.7271, 0.7233/59 and 0.7016.

Commentary Data are the latest available as at 3 August 2015

Stock Market Update

Hartleys

John Goodlad Interview by **Darren J. Casson**
Senior Adviser at Imperium Capital &
Director of Financial Partners Australia Pty. Ltd.

I interviewed **John Goodlad**, our preferred stockbroker in Australia to ask him about the Aussie market. John, who is a former diplomat and global private banker. He is a Senior Investment Adviser with Hartleys Ltd and he specialises in assisting offshore clients. He manages a number of portfolios for our clients.

I began by asking John for his views on the current market. "The Australian market is trending in a band between about 5500 and 5950. When it swings to the 5500 level it is an 'Accumulate' as many of the companies that comprise the index hit those levels themselves. For instance, the Australian Banks with their solid dividend yields of 5-6% are now all firmly in the Accumulate range and, in our view, offer good long term value at these levels." John is particularly keen on picking up Commonwealth Bank. "CBA is arguably Australia's most impressive Bank. It briefly hit AUD$79.00 a few weeks ago (it is now $87.00), and this – plus its dividend flow – provided a rare opportunity to acquire it for the first time or add to existing holdings."

Global uncertainty continues to provide opportunities for "buying the dips", according to John. "The Grexit, the Chinese Stock Market volatility, and commodity and energy price downturns, have all provided an opportunity to 'lean in' to this market." In addition, many offshore investors have seen the decrease in the Aussie dollar as an opportunity to transfer funds to Australia in order to invest for long term growth. "We have seen a number of clients use this to increase their exposure to their home market." Many expatriate Australians plan to return eventually and are using this as an opportunity to increase their exposure to Australian property and some of our outstanding listed companies like CSL, Wesfarmers, Lend Lease, Ramsay Health Care, etc. Many of these offer the opportunity for global earnings as well, so there is a "double whammy" of lower AUD and higher global earnings.

"This is not a great trading market," says Goodlad. "They happen on average 2 years in every 7." It is however, he states, a good market for investors. The last few years have seen steady growth in the financial, industrial and property, infrastructure and utilities sectors. When you add on the dividends that investors have received, investors have enjoyed double digit returns.

The two areas that have not fired have been the resources and energy sectors. Goodlad believes there is good buying in the oil and gas sector for those with a higher risk tolerance. "Certainly large caps like Woodside and Santos seem to have found a floor at current levels and we have Accumulate recommendations on both of these companies." It all depends on the oil price going forward.

The resources sector is in the grip of the Bear. "Bear markets are always more protracted and worse than we dare fear – and then, eventually, they turn." Goodlad is only buying BHP at present and this is his bellwether stock. In the mid-20s it represents a solid buying opportunity. It was $39.00 several months ago and, one day, it will return to those levels. The question is, when." Could this be the year?

Finally, I asked Goodlad for his top stock pick for the short to midterm. "Flight Centre" (FLT) he replied. FLT was trading well in to the 40 dollar levels and it plunged by over 30% on a profit warning. "The market update referred to a 3% (only) decline in market share. Given this companies strong record of earnings growth and impressive management it looks like a good pick up at current levels (i.e. in the mid to high 30s).

He quite likes Graincorp (GNC) as well. The Government knocked back an offshore takeover offer for this company at much higher levels. "There has been press speculation about a potential reconstituted bid that takes into account some of the earlier objections. In any event, the agribusiness sector will continue to be supported in this market."

John is available for consultations with any of our clients via your Imperium Capital/Financial Partners Australia adviser.

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John Goodlad owns shares in many of the companies mentioned in this report.

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Tax & The Aussie Expat

AUSTRALIAN TAXATION LAW CHANGES

Australian taxation law changes on a daily basis and it can be difficult to keep track. We have therefore provided below a quick snap-shot of what we think are the most important changes in recent months for Australians living offshore and foreigners with Australian connections.

Australia to significantly increase income tax for temporary foreign workers

The 2015 Australian Federal Budget introduced strict tax residency rules affecting temporary foreign workers, meaning significantly more income tax, starting next year. Existing tax residency law treats foreign workers as Australian residents if they have been in the country for more than six months, with an entitlement therefore to Australia's tax-free threshold of AUD 18,200 and lower tax rates for income bands up to AUD 80,000. From 1 July 2016, however, foreign workers will be treated as non-residents for tax purposes regardless of the length of their stay in Australia. Of significance, they will be taxed at 32.5 per cent on all of their earned income up to AUD 80,000. By way of example, the tax liability for a foreign worker who earns AUD 37,000 per year will increase from AUD 3,572 to AUD 12,025. The changes will also affect the cost effectiveness for thousands of companies that use temporary working visas for employees.

Foreign resident capital gains withholding tax regime: draft legn released

On 6 November 2013, the Australian Government announced (draft legislation has been released) that it would proceed with a 10% non-final withholding tax on the disposal, by foreign residents, of certain taxable Australian property from 1 July 2016. The purpose of the regime is to assist in the collection of foreign residents' Capital Gains Tax liabilities.

Where the seller of certain Australian assets is a foreign resident, it is proposed that the buyer will be required to pay 10% of the price to the ATO as withholding tax. The withholding obligation will apply to the acquisition of an asset that is:

- taxable Australian real property (TARP);
- an indirect Australian real property interest; or
- an option or right to acquire such property or interest.

This withholding obligation will not apply to residential property valued under $2.5m. An arrangement that is conducted through a stock exchange, or an arrangement that is already subject to an existing withholding obligation, will also be excluded from the withholding obligations.

Australia Super funds removed from UK's QROPS approved list

The UK tax authorities have decided that the vast majority of Australian pension schemes ('super funds') do not qualify to receive tax-free transfers of UK pension funds under the QROPS scheme, because they allow some pensioners to withdraw funds before they reach the age of 55. Only one Australian scheme (the Government super fund) remains on the official QROPS list issued on 2nd July 2015.

HMRC will usually pursue any UK tax charges (and interest for late payment) arising from transfers to overseas entities that do not meet the QROPS requirements even when they appear on this list. This includes where taxpayers are overseas. HMRC will also charge penalties in appropriate cases

The HMRC list was suspended on 17th June 2015 and we understand that transfers made to funds listed on the HMRC list prior to that date should not be subject to UK tax charges – however, you should seek specific advice from your taxation advisors.

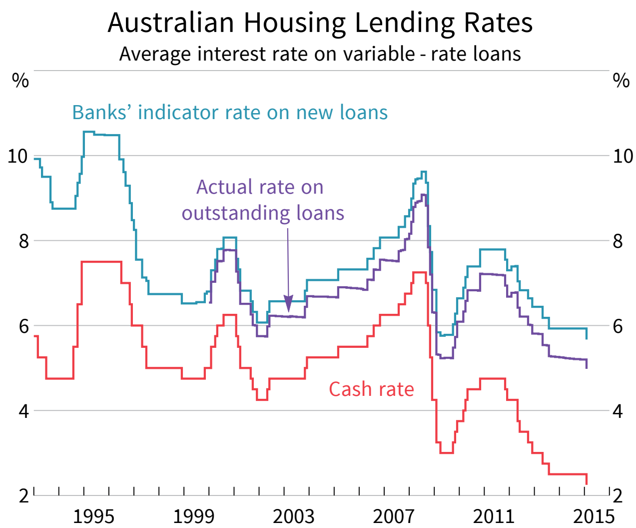
This is for general information only and should not be relied upon for individual circumstances. Should you wish to discuss your tax residency or have any queries relating to the above article please contact: **Craig van Wegen** (craigvanwegen@pinnaclegroup.com.au) or **Nora Fairbanks** (norafairbanks@pinnaclegroup.com.au) at the **Pinnacle Advisory Group**.

Mortgage Rates

Recent policy changes by Australian banks in relation to investment property lending has muddied the waters a little and may be causing some confusion for would be property investors. Put simply, banks are still lending for investment properties, however they have generally increased interest rates by around 0.29% over owner occupied loan rates and some are insisting on 20% deposit.

The tightening of lending policy on investment loans has been driven by the government regulator, APRA, instructing banks to limit the growth of their investment loan book to 10% pa. Some banks have already exceeded this and have tightened policy even more or temporarily ceased lending for investment properties. The driver for the APRA intervention is to try and 'cool' the property market, which is predominantly 'hot' in Sydney and to a lesser extent in Melbourne. Obviously these policy changes impact right across Australia.

If you are considering purchasing an investment property, you should not let this deter your longer term wealth creation plans. Banks are still lending for investment properties and interest rates of around 4.9% variable and sub 5% fixed are on offer. We expect interest rates to remain steady for the foreseeable future. Please contact us to discuss your personal plans and we can offer guidance and direction to help you fulfil your goals.



Sources: ABS; APRA; Perpetual; RBA

Client Wins

HOW WE HAVE BEEN HELPING AUSSIE'S AROUND THE WORLD

This year we've taken on new clients in Perth, Jakarta, Manila, Japan, Melbourne, Hong Kong, Singapore, Ho Chi Minh City, Batam & Kuala Lumpur.

Have you checked out **Paul Milbourne's** LinkedIn Profile lately? He's had a flurry of activity with some very kind words and recommendations added by some of his fantastic clients who he's helped recently **https://my.linkedin.com/in/australianexpatconnection**

Recently we've been working with Aussie expat's throughout Asia helping them understand how their superannuation policy works and helping them become better engaged with the management of their retirement assets. We do this through actively managed professional portfolio's that allow clients to have direct ownership of where they invest.

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