



AVENUE CAPITAL  
*Management*

# Newsletter

SPRING 2005

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## One small step for the financial markets, one giant step for China.

The recent revaluation of the Chinese currency came as a welcome surprise for many economists. Initially it was only a small change – but one that is likely to have a significant impact in the future.

**A bit of history:** China is moving from a “command” economy – where decisions are taken centrally by the Government – to a more market driven approach. Making such a dramatic change requires careful timing and steady steps to avoid derailing the booming Chinese economy.

Since 1994, the Chinese currency has been pegged against the US\$. The Chinese economy has been growing at about 10% a year for the last decade and economists estimate that the Yuan is undervalued by 15-40%. Low production costs has meant China has become the “factory of the world”, exporting very competitively priced goods.

Recent falls in the value of the US\$ has meant the Yuan fell too, making Chinese exports even more competitive. However, the downside for China is that imports like oil, iron ore, copper and aluminium are more expensive. This means production costs increase and there is pressure on inflation and reduced consumer spending.

**The new approach:** On 21 July 2005, China announced it would revalue the currency by 2.1% against the US\$. In future they will use a more flexible currency management system similar to the one used in Australia up to 1983.

The new system means the value of the Yuan is set by the People’s Bank each day based on a basket of currencies

weighted by China’s major trading partners. These are USA, Europe, Japan, Korea, Singapore, Britain, Malaysia, Russia, Australia, Canada and Thailand. Since the announcement, the Chinese government has allowed the currency to marginally appreciate.

Importantly this gradual approach will allow the Chinese financial system time to adjust. Over time we expect to see an increase in the price of Chinese exports and a reduction in the cost of goods they import.

**What does it mean directly?** For our exporters, it’s all good news. We export over \$12 billion of commodities like iron ore, wool, petroleum, coal and LNG to China. In addition, Austrade says there are 3,245 small companies exporting products and services to China – for instance, on infrastructure for the 2008 Olympics. Tourism and education will also receive a boost.

For manufacturers and consumers enjoying the benefits of cheap Chinese products, the news is not so good, though the revaluation has so far been small.

**What does it mean long term?** The integration of China with the world economy will be a major stimulus to all economies and will help raise living standards and reduce poverty in China. Malaysia followed the Chinese lead



### The Importance of Regularly Reviewing Your Investment Portfolio

The importance of regularly reviewing your investment portfolio and your personal circumstances to ensure that your investments remain appropriate to your needs can not be overstated. From our experience investment portfolios need to be adjusted over time, not only in response to changing investment markets and economies, but also in response to changing personal circumstances.

If you are currently not reviewing your financial affairs on a regular basis we encourage you to contact your Avenue adviser to discuss their review services.

demonstrating increased integration of Asian economies.

The trade imbalances between the United States and China have been a major concern to economists for some time. The US deficit with China has grown to \$210 billion whilst China had a \$13.5 billion trade surplus with the US just in the month of July. China invests significantly in US Treasury bonds and there are concerns any reduction in support would force US interest rates up, scuttle the housing boom and force the United States into recession. The “steady as she goes” approach taken by the Chinese may indeed be the best global solution. 

## FACTS ABOUT MONEY IN CHINA:

- Money in China is called Renminbi – literally the “people’s currency” commonly abbreviated to RMB.
- The basic unit of currency is the Yuan (pronounced wan) meaning “round coin”.
- There are ten Jiao in a Yuan and ten Fen in a Jiao. The Yuan is written as ¥ with one cross bar whereas the Japanese Yen has two.
- One Aussie dollar will buy about RMB6.25.

## Keeping your identity safe

Having their identity stolen costs Australians over \$2.2 billion a year. How can you protect yourself and what do you do if it happens to you?

Identity theft means someone uses your personal details to borrow money and incurs debts in your name. By the time you discover what’s happening it’s too late and you are left with debts to pay, a damaged reputation and the inconvenience of having to restore your credit rating.


**How to protect yourself:** Preventing identity theft is mostly common sense. Like signing your credit cards, checking credit card slips against your statements, changing your PIN and password often and keeping your personal and bank account details secure.

Other strategies are:

- Write on your credit card next to your signature “Requires photo ID”. This will prevent the thief using your card in person.
- Lock your mail box to prevent mail being stolen.
- Use a credit card with a low credit limit for Internet purchases. If your credit card details are stolen it will put a cap on how much can be charged to your account.
- Copy the contents of your wallet or purse – back and front. Keep the copy in a safe place together with the phone numbers of your banks and credit card issuers. You can then be prepared to report a loss quickly.
- Ensure your bank and credit providers have your up to date contact information. Computer systems are becoming more sophisticated and they may be able to detect unusual buying patterns. If they can contact you promptly, they will be able to put a stop on the card.
- Do not lose sight of your credit card – especially when you are travelling.

**And if it happens?** Report the details to the three major credit agencies. If anyone tries to get credit using your ID, the credit provider will contact one of the agencies and find out about your report. They will contact you personally.

Baycorp Advantage	1300 739 553
Dun & Bradstreet	13 23 13
Telecheck Payments	1300 367 299

Electronic banking has provided thieves with new avenues to separate you from your cash and credit. Common sense and vigilance can reduce the risk of it happening to you. 

## THE LIGHTER SIDE

“ They usually have two tellers in my local bank. Except when it’s very busy, when they have one. ”

Rita Rudner

“ A verbal contract isn’t worth the paper it’s written on. ”

Samuel Goldwyn

“ I’m living so far beyond my income that we may almost be said to be living apart. ”

e.e.cummings

“ Two can live as cheaply as one, but it costs them twice as much. ”

Frank Sullivan


# The surcharge is dead

**The scrapping of the super surcharge brings to an end nine years of a complex and unpopular tax – and brings improved opportunities for serious savers.**

The surcharge was introduced in 1996 as an extra tax of up to 15% on superannuation contributions made on behalf of people whose “Adjusted Taxable Income” (ATI) was in excess of \$70,000 pa. ATI was assessable income plus the value of the super contributions. The maximum rate of 15% applied when ATI exceeded \$85,000 pa. With indexation, these figures were \$99,710 and \$121,075 for the year 2004-05 but the maximum rate had been reduced to 12.5%.

The extra tax was calculated by the Tax Office based on details provided by all super funds and from tax returns. It was a clumsy and error prone system and there were often long delays before the tax due was known. The surcharge was payable by your super fund and in most cases they deducted the liability from your account.

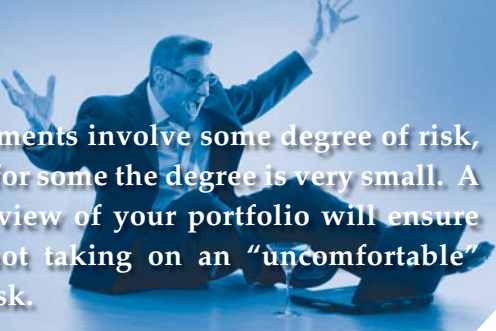
The extra tax was payable on employer contributions (including the Super Guarantee), salary sacrifice contributions and any contributions for which a tax deduction was claimed. At its worst, it meant only 70% of your contribution went towards your retirement savings.

Although there will be no new surcharge assessments from 2005-06, the liabilities from previous years will continue to work their way through the system. 

As an example, consider Nancy’s situation in 2004-05. She was paid \$98,300, had fringe benefits worth \$5,000, received SG contributions of \$11,700 and salary sacrificed \$15,000 in the year. Her super fund will still deduct a surcharge tax of \$3,337 from her account for 2004-05.

If her position is the same in future years, the \$3,337 will go into her retirement savings. If her fund earns 8% a year it will mean an extra \$48,349 in her account after ten years.

## Is your portfolio changing shape?



All investments involve some degree of risk, although for some the degree is very small. A regular review of your portfolio will ensure you are not taking on an “uncomfortable” level of risk.

When you start to build an investment portfolio, one of the key decisions is to decide how much of your money to allocate to the various asset classes – cash, fixed interest, property and shares. Over the longer term, growth assets like shares and property can be expected to outperform fixed interest and cash.

However, over the shorter term, the returns from growth assets are often volatile. Sometimes they rise rapidly – like property in 2001-03 and Australian shares in 2003-04. Sometimes they take a dive – like international shares in 2000-02.

**What happens to your portfolio over time?** Let’s say you are a “balanced” investor. You are investing for the long term (5-7 years) and want to take advantage of the higher returns from shares and property. But you are not comfortable with wide variations in returns so you put 30% in the more stable asset classes like cash and fixed interest.

With your adviser, you agree on the following asset allocation.


Cash	5%
Fixed interest	25%
Listed property	15%
Australian shares	30%
International shares	25%

In the last two years, Aussie shares and Listed Property Trusts have produced stellar returns whilst International shares have been more subdued. Fixed interest and cash returns have been steady – as would be expected.

If you had invested \$100,000 on 1 July 2003, your portfolio would have grown to almost \$129,500 – an annual return of 13.8%. Attractive returns, but what about the future?

**What’s your portfolio risk now?** Without doing anything, your portfolio allocation has now changed. The strong returns from some asset classes have restructured your portfolio so that now almost 75% is in growth assets.

Cash	4.3%
Fixed interest	21.3%
Listed property	15.9%
Australian shares	35.6%
International shares	22.9%

The change in your portfolio’s asset allocation may be acceptable. On the other hand it may not. This is a primary reason for regular portfolio reviews. Hence we recommend (as a minimum) that you review your investments, strategy and financial position generally with your Avenue adviser on an annual basis. 

# See the world on foot



## "The world is a book, and those who don't travel, read only one page"

Source: A Chinese fortune cookie.

There is so much to see and so little time that travellers often only get a fleeting impression of other places and cultures. To really see a country, you need to travel on foot.

Now don't stop reading, because walking has become a lot easier than you think. If your impression of walking is of having to carry all your worldly possessions on your back, think again. Enter the 'guided walk'. A team of knowledgeable and experienced guides will take you to places you may never consider on your own.

You walk carrying a day pack – just a few personal possessions, drinks and food. The rest of your gear is transported to the overnight stop where all the creature comforts await you. Try entering 'guided walk' and a country of your choice into Google and you will be amazed.

Here's a selection of options from around the world.

**New Zealand.** Well known walks include the Milford and Routeburn tracks. Accommodation is in well appointed lodges with bunk rooms, hot showers, fully catered meals and a bar. And the scenery is spectacular. At the other end of the South Island are the tracks around Queen Charlotte Sound where your gear is moved by boat each day.

**Northern Territory.** The Larapinta Trail follows the backbone of the West MacDonnell Ranges tracing the ancient song lines of the Aboriginal Dreamtime. You camp Territorian style – sleeping in swags and tents. Your guides will prepare all the meals and run the camp.

**South West Ireland.** Walk along the rugged shoreline of the Kerry coast staying in pubs and cottages along the way.

**Nepal.** Trek among the world's highest mountains, along ancient trails, encountering the warmth and generosity of the Nepali people staying in mountain lodges. One walk goes to the largest Buddhist monastery at Tengpoche (3867 metres) through the Sagarmatha (Everest) National Park.

**Patagonia.** Southern Chile and Argentina provide spectacular mountains and glaciers above the beach with guaranteed sightings of armadillos, rheas and condors.

**Spain.** See another side of an ancient country walking through Cantabria with stunning mountains, peaceful meadows, beautiful waterfalls and amazing gorges. You stay at a central point and head off in a different direction each day

**Italy.** Cinque Terre on the rocky coastline north of Pisa encompasses five unique little villages built into the rocks between the beach and the hills. Centuries old footpaths and mule tracks wind about leading through olive groves and vineyards, orchards and chestnut woods.



At Avenue Capital Management, we are committed to providing you with quality service, ongoing care and attention to detail.

We promise to always treat you, our clients, with respect, honesty, integrity and professionalism.

We will be open and transparent in all our dealings with you.

We will answer all your questions to the best of our ability.

And we will provide you with advice that is objective and suited to your needs.

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