Partner
FINANCIAL GROUP

Update

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And you thought Aussie politics got ugly...

Whilst agreement between the Democrats and the Republicans was reached at the very last minute — this time, it would be nice to just ignore it all, if the downstream consequences of a permanent deadlock weren't so dire. The following article from political blogger Kevin Drum sheds some light on how the US has got to this point. It makes fascinating reading...

For most of the past year, the Republican Party has been threatening to refuse to raise the federal debt limit unless Democrats give in to a broad and varying set of demands.

To understand just how reckless this brinkmanship is, you have to understand just what the debt limit is and what it means to breach it. So here's an explanation in 10 short sentences:

1. On May 19, total US debt reached $16.7 trillion, the maximum currently allowed by law.

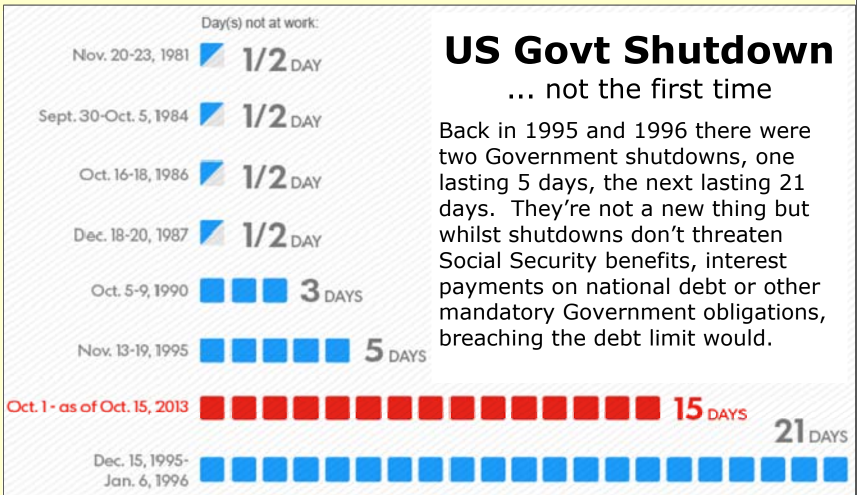
2. The Treasury Department has been playing various games since then to continue paying all our bills while still technically remaining under the debt limit, but within a few days they'll run out of tricks and the government will no longer be allowed to spend more money than it takes in.

3. These Treasury tricks are very much *not* business as usual, and the fact that we've been reduced to these kinds of shell games means that normal governance is already dangerously crippled.

4. The Congressional Budget Office estimates that in FY 2014 (which runs from October 2013 through September 2014), total federal income will be $3,042 billion and total spending will be $3,602 billion, a difference of $560 billion.

5. This is the amount of debt we need to issue to pay for everything in the budget, which means that if the debt limit isn't raised, we need to *immediately* cut spending by $560 billion, or $46 billion per month.

6. That's roughly the equivalent of wiping out the entire Defense Department; or wiping out two-thirds of Social Security; or wiping out all of Medicaid + all unemployment insurance + all food assistance + all veterans' benefits.



US Govt Shutdown

... not the first time

Back in 1995 and 1996 there were two Government shutdowns, one lasting 5 days, the next lasting 21 days. They're not a new thing but whilst shutdowns don't threaten Social Security benefits, interest payments on national debt or other mandatory Government obligations, breaching the debt limit would.

7. What's worse, because the government's computers are programmed to simply pay bills in the order they're received, it's not clear if the Treasury can specify which bills get paid and which don't.

8. This raises the additional risk that interest on treasury bonds might not get paid—something that would put US debt in default and could be disastrous in a global economy that depends on US bonds being rock solid.

9. So those are our choices if Congress fails to raise the debt limit: Either we suddenly stop paying for critical programs that people depend on, or we default on US treasury bonds—or both.

10. The former would immiserate millions of people and probably produce a second Great Recession, while the latter would likely devastate the global economy.

Not much of a choice, is it? That's why it's time for Republicans to stop playing games with the financial equivalent of nuclear weapons and agree to raise the debt limit.

And what does the holder of $1.28 trillion worth of US Govt bonds think of all the this ...? ... not happy Jang. It's kind of ironic that two erstwhile enemies—politically and militarily, should be so economically dependent on each other ...

Govt. scraps super & FBT reforms

The coalition government will scrap a series of tax proposals introduced under the previous Labour government, including planned changes to the fringe benefits tax and moves to raise taxes on earnings from superannuation pension funds. Treasurer Joe Hockey confirmed the moves, which are the result of an audit of 96 unlegislated and unresolved tax and superannuation reforms dating back to 2001. Four of those proposals were dealt with by the coalition's plan to repeal the carbon and mining taxes, leaving a total of 92 proposals.

Cont/ ...

Govt. scraps super & FBT reforms

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Notably, the government has scrapped a proposal that would have levied a tax on superannuation pension earnings above $100,000, as well as a $1.8 billion fringe benefits tax (FBT) on the car industry that had been announced in April.

Mr Hockey described the proposed changes to superannuation as "undeliverable".

Mr Hockey said the superannuation industry was screaming out for stability "and we are delivering it". He accused the former Labor government of using superannuation as a "milking cow" to address its "budget problems".

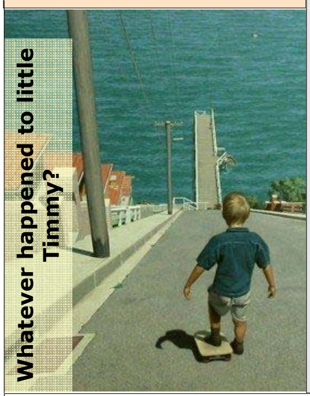
The government will proceed with just 18 of 92 unlegislated and unresolved tax and superannuation changes, which Mr Hockey said would add $10.9 billion to the budget. Some date as far back as the later years of the Howard government.

Mr Hockey said today's announcement was the coalition "drawing a line in the sand".

"You cannot go forward with a complicated and unresolved taxation system if you want to give business and consumers the best hope that what they work hard to achieve will be achieved," he said.

Mr Hockey said any taxpayer who had already complied with any of the Labour tax proposals which the government won't proceed with will get a tax refund.

Source: AAP



What is a testamentary trust?

In general, a trust is an ownership structure in which the assets of the trust are owned by one person or organisation (the trustee) but held for the benefit of other individuals or organisations (the beneficiaries).

A testamentary trust is a trust that is created within and by a person's Will but does not take effect until after their death. It differs from a family trust (also known as an inter vivos trust) because a family trust is created by deed and commences during a person's lifetime.

A testamentary trust may be created using specified assets, a designated portion of an estate or the entire remaining balance of an estate. Multiple trusts may be created by the one Will.

What is a testamentary life interest trust?

A testamentary life interest trust (also called a life interest) can be used to ensure that a surviving spouse receives adequate support for the remainder of their life. Once the spouse no longer needs support, the estate will be distributed according to the instructions in the Will. While a life interest can be constructed according to your wishes, the trustee may or may not be given discretion as to how the income generated by the trust is applied to the beneficiaries, both primary and other.

The defining feature of a life interest trust is that the primary beneficiary does not control access to the capital of the trust.

When the trust vests (ie when the life interest period ends) or is no longer required, the terms of the Will dictate who receives the assets that are subject to the life interest.

Depending on the terms of the trust, the primary beneficiary may have the power to allow the trust to run for the term set out in the Will or vest at any time after the death. The terms of the Will, however, ensure that the distribution of the trust capital will occur in accordance with your wishes regardless of when the trust vests.

What are the advantages of a life interest?

There are a number of advantages of creating a life interest including:

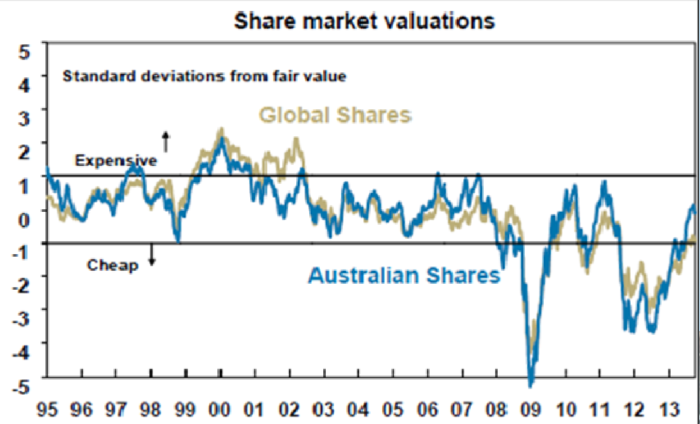
- flexibility for the primary beneficiary
- protection of assets, and
- taxation advantages.

Source: IOOF

(Call for a chat to discover whether a testamentary trust might be right for you)

VALUE — fair, or not fair?

In a rerun of past fiscal debates the US Congress has agreed a last minute increase in the US Government's debt ceiling and an end to the partial Government shutdown. Although this was already partly anticipated, share markets have naturally celebrated as the threat of a US debt default hitting confidence and global economic growth has been averted.



The agreement has seen Republicans achieve almost none of their demands but the big negative of the deal is that it only funds the Government through to January 15 and raises the debt ceiling to February 7. So expect a lot of talk about "kicking the can down the road yet again".

With the worry list for investors continuing to diminish and US politicians showing yet again that they can work constructively when push comes to shove, our assessment is that shares will have a solid rally into year end with further gains next year. Share market valuations remain reasonable, monetary conditions are set to remain easy and profits are likely to improve next year as global and Australian growth picks up. Australian shares look like they could hit 5500 by year end, with a little help from a Santa rally.

Dr Shane Oliver

Head of Investment Strategy and Chief Economist AMP Capital

Long Service Leave 2013

As reported in the last Update Newsletter Robert Latimer headed back to Vanuatu this year to assist with providing remote access medical transport. The mission ended in October with the return of his jointly owned yacht Chimere. Over the five months a total of 36 volunteer sailors and medicos were involved with 15 separate islands visited, 33 clinics conducted and 1,532 patients treated.

To read the daily Ships Log, plus view photos and a range of other material, go to **www.msm.org.au**

A big thank you to all those who have offered assistance.

Images from Vanuatu 2013

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