

Special points of interest:

- A 'Transition to Retirement' super pension strategy can be a tax-effective way for workers over 55 yrs to maintain cashflow while increasing retirement savings and reducing work days.
- Pinnacle Wealth Management is a 'Fee for Service' Practice.
- **Helpful Hint:** When opening a bottle of wine, first allow it to breath.....if not breathing apply mouth-to-mouth resuscitation!
- **Please be advised that the offices of Pinnacle Wealth Management will be closed from Christmas Eve—Friday, 24th December 2010 and reopening on Tuesday, 4th January 2011.**
- From all at Pinnacle we wish you and your families a very happy Christmas and a healthy, safe New Year.

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'The Pinnacle Brief'

The year that was...

2010 Market Review

The past year has not been an ordinary one for financial markets and investors alike! You could be forgiven for wondering where did the past 12 mths go as it seems we have suffered a successive 'lost' year in terms of asset values. In particular, the Australian share market as measured by the All Ords Index is at approx the same level as it was in Oct 2008. But boy what a ride!!

Indeed, the Aust share market is now back at levels where it was 5 yrs ago at around 4,700. But where to from here?

We are firmly in the grip of a two-paced global economy with the developed economies (USA, UK, Europe) struggling to overcome the credit crisis fallout with high unemployment, little or no room to lower interest rates to stimulate a faltering economy, high public sector debt loads, forced quantitative easing programs, restructuring banking sectors, currency weaknesses, falling house prices and surplus stocks, credit rationing restricting small business growth and poor consumer confidence. But at least the issues are out in the open.

Conversely, the developing/emerging economies of Asia, Sth America, some Eastern bloc countries, China & India did not suffer a credit crisis as these economies were not heavy users of credit and much of their economic progress was more structural (roads, rail, airports, housing) rather than consumer driven (flat screens etc). Three years on and these emerging economies are now leading global thematics with a significant appetite for resources and growing consumerism fueling global GDP.

The more difficult issue facing a more sustainable global economic recovery is the uncertainty surrounding the Eurozone and the prospect of further sovereign debt crises and where this might lead in the short-term.

There are several points worth noting. First, while European public debt woes will likely remain a source of fragility for the moment, policy action should be enough to prevent a full blown crisis. Spain could be the short term concern. Secondly, just as the outlook for the US dollar is weak so does the Euro look soft. The experience of Iceland, which now seems well on the way to recovery thanks in part to a plunge in its currency, highlights the benefit of allowing a weaker currency in response to debt problems. Thirdly, the public debt problems in Europe are part of a wider debt problem in major advanced countries, including the US and Japan. Finally, while Australia has little public debt and has little trade exposure to Portugal, Ireland, Greece and Spain, it is contaminated via broader global financial markets and economic sentiment. Fortunately, it is more exposed to strongly growing emerging countries.

Pinnacle's view is that the year ahead will still be full of pot-holes, speed bumps and head winds. Provided the Eurozone can overcome the present concerns of a possible flow-on of sovereign risk issues for Spain in particular, and USA can build on the early but small gains towards better economic health, together with emerging market demand for resources, we could see a cautious uplift in valuations towards the second half of 2011.

The most optimistic call on the Aust share market we have seen recently is a suggestion for the All Ords to achieve 5,800 by December 2011. A consensus view would be for the market to be circa 5,200/5,300 which is a 10%-12% increase from early December levels.

Here's hoping!



Heard it on the staff grapevine



Introducing Matthew Anderson—Senior Para-Planner

Following the departure of Sam Kennedy to pursue a primary school teaching career, we are delighted to announce that Matthew Anderson has taken over the key role of Senior Para-Planner within Pinnacle Wealth Management.

Matthew was formerly with Colonial First State in its para-planning team having spent 3 years providing technical advice and strategy design support to a pool of CBA Financial Advisors.

Matthew holds a Bachelor of Economics Degree from University of Adelaide and is presently studying a Masters of Applied Finance. He is DFP qualified (DFS).

Matthew is a keen sportsman and enjoys football, cricket, fishing and golf. Having recently purchased his first home, he is still to extend his interests to gardening but very happy to have his foot on the property ladder.

A very new arrival at Pinnacle...

For those of you who may not yet have heard the news...Selena gave birth to a baby boy, Jobe Christopher Launer on the 2nd July, weighing 6 lb 3 oz in the old scale or 2.83 kg. Both father and son are doing well!!



Not unexpectedly Selena has taken to motherhood in grand style and enjoying her time away from Pinnacle but we are still hopeful Selena will return some time next year.

In the interim, Selena says that Jobe has many of his father's traits, is an attention seeker, will be an avid Crows supporter, keen fisher-child and enjoys his bottle (milk of course).



Happily, and on the positive side, Jobe looks like Selena and is a perfect, beautiful bouncing boy.



MAGELLAN

ASSET MANAGEMENT LIMITED

Pinnacle's Investment Research Committee—Investment Manager Snapshot

Magellan Global Fund offers investors an opportunity to invest in a specialised and focused global equity fund.

Objectives:

- To achieve superior risk adjusted investment returns over the medium to long-term.
- To minimise the risk of permanent capital loss.
- To find outstanding companies at attractive prices.

Magellan considers outstanding companies to be those that have sustainable competitive advantages which translate into returns on capital materially in excess of their cost of capital for a sustained period of time. Magellan also considers outstanding companies will usually have some (or ideally) all of the following characteristics:

- A wide economic moat. An economic moat refers to the protection around an economic franchise which enables a company to earn returns materially in excess of the cost of capital for a sustained period of time. A company's economic moat will usually be a function of some form of sustainable competitive advantage.
- A moderate to high potential to continue to re-invest

capital into the business at high incremental returns. This is a very important metric which is often overlooked by investment analysts.

- Low business risks. They assess business risk taking into account factors such as cyclicity, operating leverage, financial leverage, competitive strength, regulatory and political environment and profitability. They carefully assess business risk to determine the certainty of cash flow and earnings projections which are central to making an assessment of intrinsic value.
- Low agency risks. Agency risk refers to the risk surrounding the deployment of the free cash flow generated by a business.

The Magellan Global Fund will comprise 20-40 individual investments, with the portfolio weighted towards their highest conviction investment ideas. **Pinnacle Wealth Management have appointed Magellan Global Fund as a 'core' Fund Manager selection for clients.**

As of 31st October 2010, Magellan Global Fund has achieved an excess return over benchmark for 6 months, 1 year, 2 years, 3 years and since inception (1st July 2007) of between 3.32% and 12.19% (after fees/costs but excluding individual tax & platform fees).



Australian Housing — is it a bubble? What's the risk?

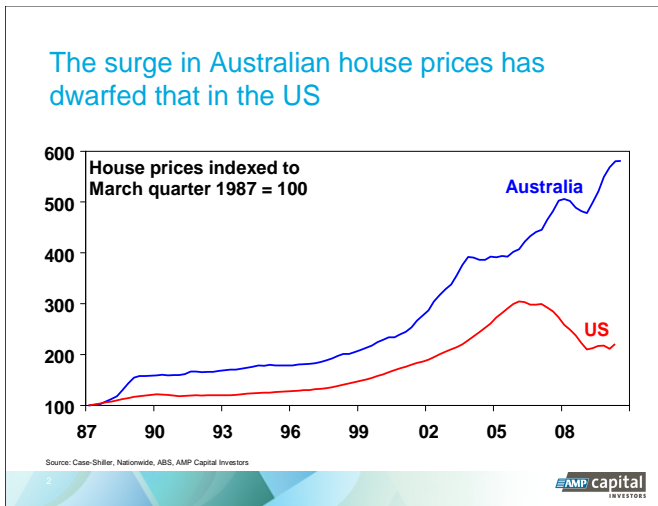
Post-GFC, residential property has attracted investor interest with a resultant 'up-tick' in valuations. This does not mean Australian housing is in a bubble but it is very overvalued and combined with high debt levels, leaves Australian households vulnerable should anything significantly threaten house prices.

Poor and worsening affordability will likely lead to soft house prices over the next year or so. Key factors to watch for in terms of the risk of a substantial housing slump are a lengthy economic slow down in China leading to much higher unemployment, excessive tightening by the RBA and a big increase in the supply of housing. None of these seem likely in the short term, but they are worth keeping an eye on.

Lately the debate has focused on whether Australian housing is in a bubble, with some saying it's expensive and therefore must be a bubble, which will burst with disastrous consequences. The counter view is Australian housing may be expensive but not dramatically and can be justified by a severe undersupply.

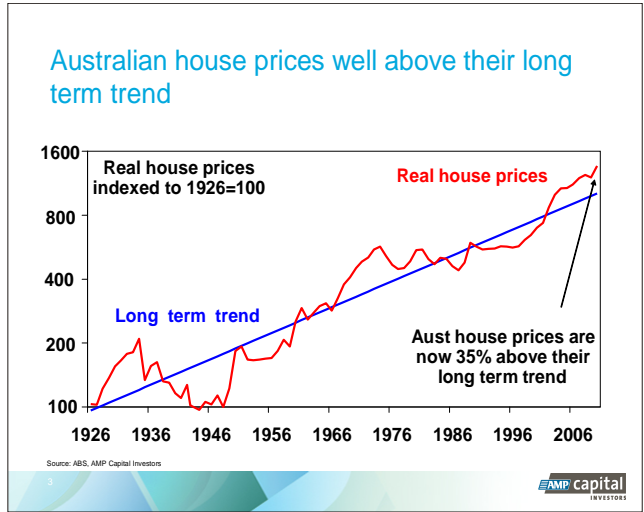
Is Australian housing in a bubble?

However, there is one nagging concern — and that is excessive house prices and associated household debt levels. Australia has come through the global financial crisis in good shape and compared to the US, Australian house prices may seem to be in a bubble. Australian house prices have outpaced the rise in US prices over the last two decades.



But is it really a bubble?

An asset bubble is thought to require overvaluation, easy money fuelling price gains and speculators buying on the basis that past price gains will continue amidst euphoric investor psychology. In terms of overvaluation, Australian housing gets a tick. On most measures Australian housing is very expensive. Australian house prices are running at around 35% above their long-term trend (see the next chart). According to the OECD the ratio of house prices to incomes is about 36% above its long-term average and the ratio of house prices to rents is 58% above its long-term average, both of which are at the top end of OECD countries.

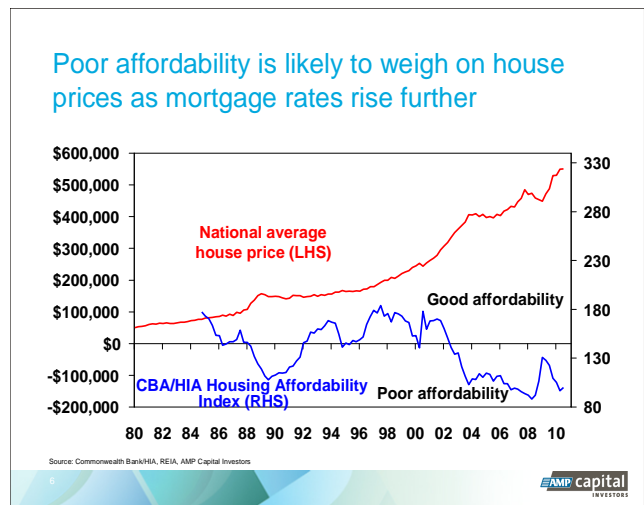


But other indicators of a bubble are absent:-

- Housing credit is only growing at about 8% p.a. (well down from the 20% pace seen about seven years ago).
- Only 39% of housing finance is going to investors (compared to more than 50% seven years ago).
- Buyers are not rushing in for fear of missing out.
- Weekend auction clearance rates have slumped.

Outlook

While Australian housing might appear quite overvalued, it's not inevitable it will have a bust. However, there is little doubt the intersection of high house prices with high household debt levels leaves Australia vulnerable.



Total return from housing versus other assets

Over the long term, returns from housing/shares tend to be similar. Both have returned an average 11.5% p.a. over the last 80 years. While housing is less volatile than shares it offers less liquidity and diversification. Once the similarity of returns are allowed for, there is a case for both in portfolios. For the time being, housing looks expensive and with net rental yields of circa 1.5%, shares are probably better value on most measures and offer a more attractive dividend yield of circa 5-5.5% once allowance is made for franking credits.

Conclusion

At this stage a housing bust in Aust seems unlikely. Key things to watch for would be a surge in supply, much higher interest rates and anything that sharply pushed up unemployment.

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Selena Launer
Practice Manager
(on maternity leave from mid June 2010)



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Matthew Anderson
Senior Para-planner



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Chairman, Investment
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Prostate Cancer - Trauma Insurance claims now paid on diagnosis - time to review your cover?

Movember is an event which takes place for the month of November aimed at raising awareness of prostate cancer and depression in men. Information from the Australian Institute of Health and Welfare showed that prostate cancer accounted for 29 percent of all cancer diagnosed in men in 2009 and was double that of the second most common cancer in males- bowel cancer. In fact 4,179 more men were diagnosed with prostate cancer than females diagnosed with breast cancer last year.

Prostate cancer occurs when the cells in the prostate gland grow more quickly than a normal prostate, forming a malignant lump or tumor. Low stage prostate cancers usually show no symptoms, which is why screening is vital. Prostate cancer can be cured if detected early. The method used to screen men is a Prostate Specific Antigen (PSA) blood test and a Digital Rectal Examination (DRE). The prostate cancer foundation of Australia recommends that all men over the age of 50 and those with a family history from the age of 40, should seek annual assessments in the form of a PSA blood test together with a DRE.

It's important to note that these two tests, whilst they do not give a conclusive diagnosis, can indicate the presence of prostate cancer. If there is evidence of prostate cancer, further tests include a biopsy, which involves an ultrasound probe called a transrectal ultrasound or TRUS. This test is a probe passed into the rectum. During this process between 6 and 12 samples of tissue are taken from different parts of the prostate. Other tests may also include bone scans, CT scans or an MRI.

Under products referred to as Trauma Insurance a lump sum benefit is paid to the client to help offset medical expenses and loss of income that may occur as a result of a diagnosis of prostate cancer. Traditionally, many insurance companies have paid a benefit dependant on the T1 level and the Gleeson score. That has lead to a situation where you either received "all or nothing" of the insured benefit. What is becoming more common with newer products is that a partial payment e.g. 20%, is made simply on the earliest diagnosis of prostate cancer. The remainder of the benefit then remains for future payment.

If you have existing trauma insurance it may be a good time to ask our Insurance specialist, **John Menelaou 1300 73 93 63** to review your cover, alternatively if this is not a style of personal insurance that you have considered then maybe now is the time to act.

The Value of Referrals...



Pinnacle Wealth Management has always prided itself on the fact that many existing clients over the years have paid it the compliment of referring friends, family or colleagues to the Advisory team.

Pinnacle is an independently-owned financial planning Practice and with our own Australian Financial Services Licence via PWM Advisor Services Pty Ltd, is in a clear position to offer our clients absolute freedom of choice in investment strategies and solutions, without the conflict of corporate sales budgets and associated alliances. Our clients' best interests rank first, second and always.

We thank you for your past referral support and look forward to your continuing advocacy.

The information herein is of a general nature only and has been provided without taking account your objectives, financial situation or needs. Because of this, we recommend you consider, with or without the assistance of a financial advisor, whether the information is appropriate in light of your particular needs and circumstances.



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