

your money your future

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Looking at life another way?

Discussing life goals with a financial adviser can have unexpected benefits.

Take the case of Toby and Michele, a young couple with kids living in Adelaide. Toby and Michele were thinking about buying a holiday house on the Fleurieu Peninsula. Toby's high-pressure job had him working long hours, which meant less time at home with his family. A holiday house seemed like a good idea.

But when Toby and Michele canvassed the idea with their financial adviser, they set in motion a rather unexpected chain of events.

At first glance their adviser commented that, in conjunction with their current financial commitments, a holiday house wasn't financially practical. But after delivering the bad news, their adviser put forward a number of thought-provoking propositions. Could they

live on less in retirement? Would they consider selling their home in Adelaide? What did they think about alternative education options for their kids? These questions prompted Toby and Michele to wonder if there might be something else they could do.

What happened next was unexpected. Toby decided to take a part-time position at his company so Michele could enter the work force. Although reducing their overall income slightly, the arrangement improved Toby and Michele's life balance markedly. Toby was able to spend more time with the kids, Michele was happy to return to work, and even more interestingly, their desire for a holiday home dissipated.

Talking with your financial adviser can sometimes prompt you to see things another way.



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Your life insurance is too valuable to take lightly

Are finances tight just now? Thinking about saving some money by cancelling your life insurance?

Before you go ahead stop and think about what you're actually giving up.

What benefits does my life insurance provide?

Life insurance provides a lump sum to help your loved ones cope financially in the event of your death. They might use the money to pay off the mortgage or other debts, to reimburse funeral costs, pay for child care or home help, or as an income source.

If I let my policy lapse, what will happen?

If you don't pay your premiums and your policy lapses, if it's for less than a month you will generally be able to reinstate your policy with no questions asked.

But if your policy lapses for a month or more you will probably find that your insurer will want you to take further medical tests to see whether or not you are in good health.

Based on new information about your health, you may be asked to pay a higher premium or even worse, you may not be able to get your insurance cover back. If the medical examination found you had suffered serious injuries or illnesses during the period you were covered, then the insurer may not be prepared to accept the risks this time.

I'm already covered for life insurance through my super – so why do I need another life insurance policy?

A number of super funds automatically provide you with some level of insurance. But many people find the level of cover offered is not enough to meet their needs.

In fact, recent research commissioned by AXA has measured the amount of under-insurance in Australia at \$468,000 per person (including insurance for life, income, trauma recovery and total and permanent disability).*

I just can't afford the annual premium at the moment – is there any way I can manage the cost?

If you are currently paying yearly, you could consider moving to quarterly or monthly payments.

Or, you could review your insurance cover as you may find circumstances have changed to the point where you don't need your current level of cover. By reducing your cover you can also reduce your premium.

Where can I obtain more information?

The best place to go for more information is your financial adviser.

* DEXX&R data expertise & research, "Estimates of the extent of under-insurance in Australia" July 2004

Better budgeting

A carefully considered and realistic budget can boost your spending power, whether it's to splash out on a luxury, channel more funds into your investment portfolio, or reduce your home loan.

We all lose track of what we spend at one time or another. Keeping on top of credit and debit card transactions, mortgage repayments, bills, as well as other expenses, can be bewildering if left unmanaged. But setting a realistic budget can quickly help you regain control of your cash flow and pave the way to achieving your financial goals.

Key to creating a successful budget is establishing your aims and regularly reviewing progress. Setting milestones will also help chart your path and keep you motivated. Whether you're saving a deposit for a property, planning an investment or just eliminating debt, working towards a target will increase your chances of success.

Achievable aims

An unrealistic budget will not only limit your motivation, but you'll also risk failing to meet

your financial goals. Keep your expectations reasonable and tangible to ensure you stay on track.

Chart your spending

Most of us underestimate our monthly outgoings. Obtain an accurate idea of what you spend each month by tracking every dollar. Identify regular outgoings that must be met and highlight areas with scope to trim back.

Keep an eye on credit

Always pay credit debts during the interest-free period and get payments in on time. Consider consolidating multiple high-interest debts into one manageable low-interest loan to minimise repayments.

Review your mortgage

Look closely at your interest rate and keep an eye out for more competitive products. Speak to your financial adviser to ensure you're getting the best deal available.

Stay focused

Use your milestones to keep your motivation up. Don't be too hard on yourself – you don't

have to eliminate all the fun from your life, just find cheaper alternatives. If you have a blow-out, try to make up for it somewhere else.

Five steps to saving:

- 1 Cut back on takeaways – pack your lunch and avoid fancy café coffees
- 2 Never impulse buy – stick to a shopping list so you buy what you need, rather than what you want
- 3 Minimise credit – one credit card is enough; reduce the limit to avoid temptation, or better still, consider replacing the credit card with a debit card
- 4 Earn interest – channel a proportion of your salary into a savings or investment account that earns a higher rate, or if you have a mortgage, use a 100 per cent offset account
- 5 Go wholesale – non-perishable food, beer, wine and grocery items are a lot cheaper when bought in bulk; you can also save on phone, internet, or electricity by using wholesale providers or bundling and taking advantage of 'cap' contracts.

Credit crisis 101 – your guide to weathering the storm

As turmoil in global financial markets continues, fuelled by the deepening credit crisis, it's becoming increasingly difficult for everyday investors to hold their nerve and avoid panic-driven reactions.

But the longer this current spell of turbulence continues, the more important it is to remain committed to long-term, sensible wealth-creation strategies.

As you've no doubt heard before, share markets are by their nature volatile and will rise and fall over time. They reward patience, well-diversified portfolios and investors who are willing to put up with some short-term pain in order to achieve long-term gain.

Markets have a habit of bouncing back

History has demonstrated again and again that investment markets not only recover from bouts of turmoil such as we're currently experiencing, but invariably rise again and go past their previous highs.

Over the past 20 or so years the Australian share market has been 'hit for six' by events like the 1987 stock market crash, the Gulf War, the so-called 'tech wreck' and the September 11 terrorist attacks. But the market has always bounced back.

While emotion can take over during volatile periods, as an investor you need to try and ignore all the 'noise' and continue to make rational decisions, rather than emotional ones. That way, you can reap the benefits when markets eventually recover.

Significant global action to ease the credit crisis

All over the world governments and central banks, including our own Reserve Bank, have been taking significant positive action to ease the credit crisis, stabilise financial markets and avoid the risk of a global recession.

To recap on some of the most important developments here and overseas:

- In early October 2008, the Reserve Bank of Australia slashed its cash rate by an unexpectedly large full-percentage point, taking official interest rates from 7 per cent down to 6 per cent. At that time, Prime Minister Rudd endorsed the decision, saying that the Government wanted to ensure that those who are currently borrowers received relief and at the same time, maintain the stability of the Australian banking system.
- Several days before this, the US Congress passed its much discussed



\$US700 billion rescue package to buy back 'toxic' sub-prime mortgage assets from troubled financial institutions. The plan aimed to restore confidence and stability in the financial system and was received positively by investors.

- A consortium of 10 global commercial and investment banks – including Barclays, Citigroup, Goldman Sachs and Deutsche Bank – have formed a lending facility set at \$US70 billion that will provide additional liquidity to the market.
- Central banks around the world have pumped billions of dollars into the financial system. This cash injection and initiatives to make it easier for banks to borrow has helped provide liquidity for financial markets.
- The US Federal Reserve can move interest rates lower to provide more stimulus if required. Similarly, the European Central Bank, the Bank of England and the Swiss National Bank have indicated they are ready to provide added liquidity if needed.
- Similar to a number of other countries, the Australian Government has guaranteed all deposits of Australian banks, building societies and credit unions and Australian subsidiaries of foreign-owned banks for a period of three years.¹

Good reasons to remain optimistic

And there are a number of other reasons for you to remain optimistic about the outlook

for investment markets and the economy, both globally and in Australia:

- The Australian banking sector is generally better regulated than the US market, meaning our banks are less exposed to poor mortgage loans.
- Lower world oil prices will help consumers resume spending and provide additional support to the domestic economy.
- The global economy has been remarkably resilient, powered by developing economies that continue to make a substantial contribution to world growth.
- Lower mortgage rates and lower housing prices are helping home affordability in the US, which in turn supports their economy. The US economy has also been helped by a significant rise in exports.
- Central banks around the world will act to lower interest rates and enhance liquidity to combat slowing economic growth if required.

Talk things through with your financial adviser

If you have any questions about your investments or about the state of play in investment markets, please call us for further information. Your best 'insurance' in the current environment is quality financial advice.

¹ http://www.pm.gov.au/media/Release/2008/media_release_0534.cfm

Turn sacrifice into super success

Most people automatically balk at the idea of sacrifice because it usually means they'll have to give something up. But there's one kind of sacrifice that can result in you receiving more – salary sacrifice.

Salary sacrifice is a popular strategy for boosting retirement savings. Its big incentive is the tax savings that result from putting pre-tax salary into superannuation.

And what makes salary sacrifice even more attractive right now is the tax breaks that take effect from 1 July 2008. Because of these, many Australians may be in a position to boost their superannuation savings without affecting their everyday financial budget.

Case study – Melissa sacrifices take-home pay to take more later

Working as a vet in country NSW, Melissa has taxable income of \$80,000.

As a result of the new tax cuts coming into effect on 1 July 2008, she can expect to pocket an extra \$500 each year. However, if Melissa asked her employer to salary sacrifice this tax saving on her behalf, an

additional employer contribution of \$730 per year would be made (equivalent to \$500 after tax (31.5 per cent) = \$730).

The \$730 salary sacrificed into superannuation will be taxed at the concessional rate of 15 per cent, resulting in her superannuation fund receiving a boost of \$620.

Melissa has been able to convert a \$500 'take-home' saving into a \$620 'take-later' superannuation increase.

How to salary sacrifice

The first step to starting a salary sacrifice strategy is to ask your employer to make pre-tax contributions from your salary into your superannuation fund. Note that salary sacrifice may not be available to some employees. Ultimately, your employer needs to endorse your salary sacrifice activity.

Salary sacrificing will mean you receive less take-home income, and it will be considered a preserved benefit within your superannuation fund. However, the pay-off is two-fold:

- Firstly, provided that your marginal tax rate is more than 15 per cent, you will effectively reduce the total amount of tax you pay, because superannuation contributions are generally taxed at 15 per cent.
- Secondly, the tax saving means you're able to inject more funds into your superannuation fund. Over the coming years, it will benefit even more as the money it invests compounds.

For more information on how to salary sacrifice, speak with your financial adviser today.



Do you invest with your head or your heart?

One of the most surprising facts when it comes to investing is that the difference between success and failure is not necessarily what happens in the market. It turns out that one of the big differentiators is how investors perform, not how markets perform.

Independent US research conducted by DALBAR Inc found that:

- between 1985 and 2005 the US S&P 500 Index delivered average annual returns of 11.9 per cent, and
- the average share fund investor over the same period earned just 3.9 per cent.

Why did so many investors fail to achieve even average investment returns?

The answer is simple. People buy and sell investments at the wrong time. That is, they move their money out of low-performing share funds just before a recovery in performance and move into high-performing funds just before a fall.

Irrational investing and the fear of losing money

But why do people make poor buying and selling investment decisions?

According to Daniel Kahneman and Amos Tversky, who studied the emotional impact of investment loss and profit, the answer is people's natural fear of losing money. In fact, they found the pain of loss was roughly twice as great as the pleasure of an equivalent gain.

Instead of investing rationally, people make emotional decisions based on short-term market happenings that can end up costing them long-term investment returns. And, by being risk-averse, these investors:

- seek to avoid short-term regret; hence, they fail to take calculated investment risks and end up negatively impacting their portfolio returns, and
- hold losing investments too long – to avoid the regret of crystallising the loss, investors hold losing investments too long, hoping they'll come good, which inevitably leads to greater losses.

Research conducted in Australia in 2007 similarly found that the most significant factor holding back many people's financial ambitions with their retirement savings was the fear of losing money. In fact, 58 per cent of Australians said they should be doing more with their retirement finances but more than two thirds of respondents said they didn't have the confidence to invest for greater investment growth.

Profiting through long-term planning

Fortunately, your financial adviser can be a great source of objective and independent investment advice. They can help you avoid making emotional investment decisions and provide a systematic approach to building a long-term and rational investment plan that is based on your personal risk profile.

For more information, make an appointment to speak us today.