connect

Autumn 2015

New year financial detox

When making financial decisions, many people are held back by fear and bias. Boosting the amount available to invest by borrowing can be an effective strategy if you have medium to long term financial goals. It's time to detox some misguided ideas by looking at five common investment mistakes.

1. Value not amount

We tend to think about money in terms of amount not value. If you have $100 today and $100 in six months, it's tempting to think you haven't lost money. If filling the petrol tank costs $100 today but $120 in six months' time then you have lost value.

Your savings need to do more than just earn enough to replace erosion by inflation.

Are you at risk of having your goals drift out of reach?

2. Dragging an anchor

Among the many tricks our minds play is anchoring. We latch onto a point and unconsciously accept only information that validates that point.

For example, after buying a red car you notice more red cars.

The first reaction for many people when talking about borrowing to invest is margin call phobia. Their minds are most likely anchored on the global financial crisis. This fear can impair your ability to make rational decisions based on current information.

While the chances of experiencing a margin call are rare there are steps you can take to manage the risks.

Is it time to check the anchors slowing down your financial progress?

3. About birds and trees

We all know a bird in the hand is worth two in the bush. We prefer a smaller certain gain over a larger uncertain gain. A funny change happens when we consider losses.

Would you prefer the certainty of losing $100 or flipping a coin; heads you lose $20, tails you lose $200? Many people opt for the coin toss; becoming risk takers to avoid a loss. Many people hang onto a losing investment well past its usefulness date.

Are you avoiding risk in the pursuit of gains and taking risk to avoid losses?

4. Apples and oranges

Stories about improbably successful investments often fail to count all the costs; repairs to a rental property for example.

Measuring the success of a term deposit by looking at the starting and ending balance is easy. Measuring the success of a borrowing strategy is not as straight forward because of ongoing cash flows, buying and selling activities and tax.

Are you rationally assessing financial outcomes or comparing apples and oranges?

5. Beware the herd

Following the herd is often not the best strategy. The more the herd moves toward one investment the more you should be looking for crocodiles.

Diversification is the art of mixing your investments so capricious economic events cannot wipe out everything and you'll be less likely to get caught in a fad.

Does your financial plan give you the confidence to step away from the herd?

Source: Leveraged Equities, January 2015

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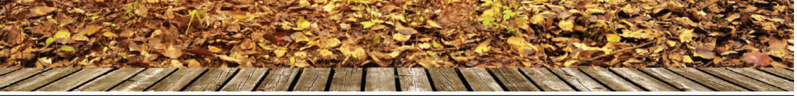


Covering life's stages

At different stages of life you may want to adjust your personal insurance needs to protect your lifestyle and your financial security.

Life insurance is more than just a lump sum payment to your family upon your death. There are a number of life insurance policies that have been designed to protect you and your family, regardless of your stage in life.

Some financial institutions offer an insurance package that may include life insurance, income protection, total and permanent disability insurance, trauma insurance and business insurance.

Each type of policy covers different risks. Below are some examples of typical life insurance policies and their purpose. Make sure you always check the detail of your policy to understand what you are covered for and discuss it with your financial adviser.

Life insurance

Life insurance helps protect you and your family against the financial consequences of death or terminal illness, with a tax-free lump sum.

Income protection

Income protection helps protect you against the financial consequences of a temporary or permanent loss of income due to illness or injury, with regular payments of up to 75 per cent of your current income.

Trauma insurance

Trauma insurance helps protect you against the financial consequences of a major illness, with a lump sum to assist with major expenses and maintaining your family's lifestyle while you recover.

Total and permanent disability insurance

Total and permanent disability insurance helps protect you against the financial consequences of an accident that leaves you disabled and unable to ever work again.

Business insurance

Business insurance helps protect your business against the financial consequences of a business owner or key employee becoming injured or dying. It provides money to cover lost revenue, and business expenses, and allows for a smooth change in business ownership.

Another way to think about what type of life insurance may be appropriate for you is to think about your stage of life.

Young and independent

When you're young, you are more likely to enjoy leisure activities that involve a high level of risk, such as snowboarding or rock climbing. At the same time, at the start of your career you are less likely to have assets to draw on if you are temporarily unable to work because of an illness.

Young families

This is the time when you and your family may be stretched financially, from school fees to the cost of your first home. Your family may also be relying on a single income. It's important to think about what would happen if the family breadwinner became ill or injured and was unable to work.

Maturing families

Cost pressures may ease as you get older but won't disappear completely. Also, while you may be approaching your peak earning years, you may still have to fund your children's education. Protecting your health and income may be especially important to you during this life stage.

Approaching retirement

As you approach retirement, you may have paid off your home loan and built up other assets, such as superannuation. However, you still need a safety net for you and your family. If you or your partner suffers a serious illness or dies, insurance may help you avoid the risk of having to sell your home and other assets.

Source: Macquarie Life, January 2015.

Speak to your financial adviser to discuss your life insurance options.

Five common super mistakes and how to avoid them

Your super is the key to having enough money to live comfortably in retirement. Yet many of us are letting our retirement dreams slip away by falling into some common, and easy to prevent, super traps. Here are the top five super mistakes you should avoid.

1. Losing track of your super

There are over 3.4 million lost super accounts worth more than $16 billion[1]. If you've ever changed your name, switched jobs or done casual work, you might have lost track of some of your super without realising it.

2. Keeping more than one super account

In 2012 there were nearly 32 million super accounts in Australia, which is an average of almost three accounts for every worker[1].

If you have different super accounts, you could be chipping away at your super savings by paying multiple fees and insurance premiums. That's why it pays to always keep your super in one account. It will also cut down on your paperwork and make it easier to keep track of your super if you change jobs.

But before you move all of your super into one fund, make sure you consider any withdrawal fees, your investment mix and any insurance you may lose if you leave a fund. So be sure to speak to your financial adviser before making any decisions.

3. Assuming your employer's default fund is right for you

Every Australian employer has to offer their employees a default super fund. If you don't choose a separate fund to have your super paid into, this is where it will all go.

Around 80 per cent of Australian super fund members are in their employer's default fund — and, for many, it could be the right choice[2].

That's especially the case now that the Government's MySuper regulations have created a new breed of default super funds, with lower costs and standard insurance benefits.

But if you would like more control over how your money is invested, you might prefer a fund that offers more investment choice.

4. Relying solely on super guarantee contributions

Under current laws, your employer must contribute 9.50 per cent of your salary to super each year. But research shows that at this rate, the average wage earner won't even have half the super they need for a comfortable retirement.

That's why it's worth considering options like pre-tax salary sacrifices or personal contributions from your take-home pay to help grow your super nest egg.

5. Leaving it too late to boost your super

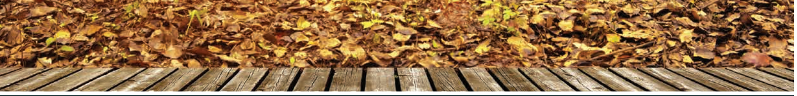
Even if your retirement is still a long way off, it pays to start building your super sooner rather than later. You might be surprised at how a small increase to your super now could have a big impact in the long run.

1 Lost and Unclaimed Superannuation Money, Discussion Paper, Australian Government Treasury, June 2013.

2 Stronger Super, Australian Government Treasury, 2013.

Source: Colonial First State, October 2014.

To find out more ways to optimise your super, speak to your financial adviser.



2015: the year ahead

Australian shares collectively will need to demonstrate an ability to increase the pace of earnings growth if they are to make meaningful progress.

Consensus earnings growth expectations for financial year 2015 have come down recently, but still suggest earnings will grow by around 6 per cent. The semi-annual earnings reporting season in February 2015 will, therefore, be an important barometer of how Australian companies are tracking towards this target and could have an important influence on sentiment.

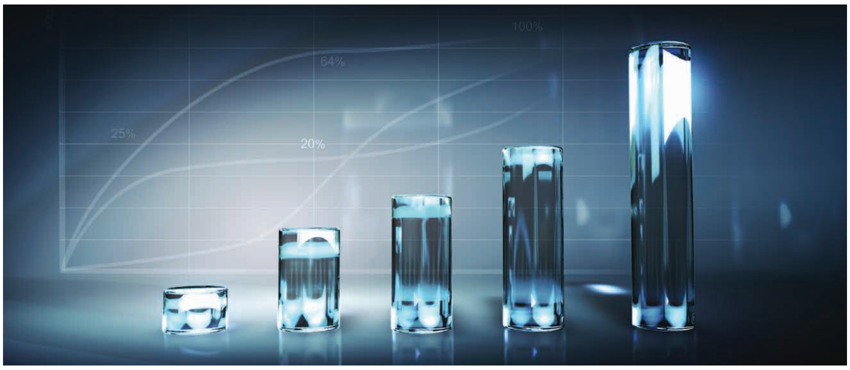
In the meantime, it's likely that the market will continue to be dominated by offshore events. The timing of the US interest rate rise remains the key driver of financial markets globally. There is also increasing scrutiny on interest rate policy in Australia, with some commentators anticipating that the next move in interest rates will be downwards. Speculation about interest rate cuts could continue to support shares which are perceived to have a relatively high and stable dividend yield.

From a sectoral perspective, the recent aggressive selling in energy names means that several energy stocks are now trading well below their average recent trading ranges.

In the materials sector, the iron ore price is showing signs of stabilising following a period of sustained weakness. Miners have been successful in cutting costs and capital expenditure while production volumes are increasing. However, revenues and margins will continue to be affected by underlying commodity prices.

In the finance sector, profitability for the banks appears likely to remain strong in 2015, but the sector appears to be towards the end of its earnings upgrade cycle, as the tailwind from lower bad debts fades.

Source: Colonial First State, January 2015.



Did you know?

Changes to Fringe benefits tax (FBT)

Fringe benefits tax (FBT) is paid on certain benefits employers provide to their employees in place of salary or wages.

From 1 April 2015, the FBT tax rate will be increasing to 49 per cent (from 47 per cent) for a period of three years to 31 March 2017. After that date, the FBT rate will return to 47 per cent.

This reflects the three year temporary deficit repair levy of 49 per cent for those who earn more than $180,000 starting from 1 July 2014.

This means that if you earn below $180,000, the new FBT rate will impact you even more so as you will be paying above your marginal tax rate on fringe benefits.

If you have existing salary packaging arrangements in place, contact your financial adviser to ensure they remain appropriate for your particular situation.

To find out more about the opportunities available in investment markets, please speak to your financial adviser.

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