Why Australian shares now?

Australia's economy is slowing, commodity prices are dropping as China's economy cools. But there are **five** reasons why you can still expect Australian shares to deliver decent returns.

1. **Firstly**, while our domestic economy faces challenges, the underlying resilience of the corporate sector is strong. Companies are aware that China is slowing and they have taken prudent action to cope with tougher times. It's not as though Australia has experienced a period of frothy optimism and unsound lending that often precedes a nasty recession.

2. **Secondly**, as a general rule, companies in Australia are well managed. This is because the dividend-imputation tax regime forces companies to manage their capital well. Under the tax system that abolished the double taxation of company profits in 1987, companies are forced to pay out reasonable proportions of their profits in dividends so they have little left to reinvest.

3. The **third reason** to be optimistic about Australian shares is that while China's economy is slowing it is also rebalancing towards consumption. The increased purchasing power of China's growing middle class will help Australia's tourism and education sectors, our second and third most-important export industries.

4. The **fourth reason** is that share valuations in Australia are reasonable. In an aggregate sense, the Australian share market is trading around or slightly below its long-term average. In comparison, some global share markets are trading at elevated multiples.

5. The **fifth reason** is that the time to invest your marginal investment dollar in foreign assets was a couple of years ago when the Australian dollar was worth more than the US dollar but now that our dollar is trading at or around 80 US cents, Australian assets are better value than more expensive foreign assets.

These reasons provide encouragement that investors will enjoy a decent return from Australian shares in the years to come. What's important to remember is that, at a time that returns on bonds and term deposits are low Australian shares are expected to remain as worthwhile investments.

Source: Fidelity

TGFS
FINANCIAL PLANNING

TGFS Financial Planning

Suite 9, 18 Main Street
Pakenham VIC 3810

PO Box 513
Pakenham VIC 3810

T 1300 755 521
E trent@tgfsfinancialplanning.com.au
tgfsfinancialplanning.com.au

Speak to your financial adviser today to discuss your investment options.

Maximise your opportunities for the end of financial year

June 30 is fast approaching but there's still time to consider the strategies available to you to build your wealth. Below are simple tips that could help maximise what you've got this financial year.

1 Pay interest in advance

Borrowing to invest may be a tax-effective means of wealth accumulation. This type of strategy lets you purchase property, shares, or any other asset that generates assessable income, by bringing forward next year's interest cost, and allowing you to claim a tax deduction for those costs this financial year.

2 Make a concessional contribution to super

If you are self-employed, or earning less than 10 per cent of your income from an employer, you can generally claim a tax deduction for super contributions up to $30,000 (or $35,000 if you were aged 49 or over on 30 June 2014).

The Federal Government also pays a 15 per cent low income superannuation contribution of up to $500 on concessional contributions made by individuals with a taxable income of less than $37,000.

3 Protect your income and save on tax

Income protection insurance not only pays you a monthly benefit of up to 75 per cent if you become unable to work due to illness or injury, but also allows you to pre-pay your premiums and claim a tax deduction. If you pay your premiums in advance, you can claim a tax deduction for next year's premiums in this financial year.

Speak to your financial adviser today for further tips and strategies.

After July 1, consider the following:

1. Have your financial goals changed?

Major life events such as serious illness, the birth of a child, or the death of a parent or spouse can all result in significant changes to your wealth management goals.

2. Prioritise your goals

It's important to be realistic about how soon you can accomplish your financial objectives. For example, reducing credit card debt is likely to be a short-term goal, whereas saving for a home deposit would often be a medium-term goal. Paying off your mortgage and providing for retirement are long-term goals.

3. Be investment savvy

Make sure that your investments support your appetite for risk and your objectives. A tailored analysis will address your individual risk preferences. Regular portfolio reviews with your adviser are essential to determine any sell-downs or top-ups that would benefit you.

Source: Zurich

The average Australian could earn around two and a half million dollars[1] in their lifetime. Yet the majority of income earners don't insure their largest asset – their income earning capacity.

Protect your earnings and reap the tax benefits

Your most important asset is your capacity to work and generate an income. If you are unable to work due to sickness or injury, how would you continue to meet your financial obligations?

Being unable to work due to sickness or injury is a very real and frightening circumstance. Six in ten Australians will be disabled for more than one month during their working life and one in four will be disabled for more than three months[2]. This leaves many unable to earn an income. Insurance is one way of managing this risk – income protection provides a monthly income stream to compensate you for your lost income when you are unable to work due to sickness or injury.

Income protection premiums are generally tax deductible as the premiums represent the cost of protecting your income stream. The benefit of the tax deduction is tied directly to your taxable income and can represent a substantial reduction in premium in your after tax cost.

As we approach the end of the financial year, reviewing your current income protection needs may have an added tax incentive. After discussions with your adviser, you may be able to pay for the annual cost of cover in this tax year and secure a full tax deduction for the cost of cover.

Income protection insurance inside superannuation offers a cash flow advantage by using the accumulated balance in your superannuation account. This strategy does not require you to pay any additional premium from your earnings or savings. Your financial adviser can arrange this.

It is important to note that income protection inside superannuation is not always appropriate as it can erode your retirement savings.

Source: TAL

Speak to your financial adviser to find out the best income protection strategy for you.

1 Based on full-time adult average weekly ordinary times earnings multiplied by 40 years of continuous employment [Earnings Source: Average Weekly Earnings, Australia, February 2009, ABS, Category number 6302]

2 Fabrizio, E (2007) Australia & NZ Disability Income Experience www.actuaries.org/IAAHS/Colloquia/Cape_Town/Walker_-_Income_protection.pdf AIHW (2008) Cancer in Australia: an overview 2008, Cancer series no. 46, Cat. no. CAN 42, Canberra

Is an SMSF right for you?

Self-managed super funds (SMSFs) are the largest and fastest growing super sector in Australia and for many good reasons. But before you start an SMSF, it's important to weigh up both the advantages and disadvantages.

The advantages

More investment control

You can establish your own investment strategy and directly control where and how your super is invested.

More investment choice

You can select from a wider range of investments including all listed shares, some unlisted shares, residential and business property, and collectables such as artwork, stamps and coins.

One fund for the family

You can set up a fund for yourself and up to three other people. This consolidates your super balances enabling you to invest in assets of higher value and achieve greater estate planning flexibility, and reduce fund costs.

Borrow to invest

Your SMSF could make a larger investment in assets such as shares and property by using cash in your fund and borrow the rest.

Tax savings

You can take greater control over the timing of tax events such as starting a pension without triggering capital gains tax when your superannuation assets move into pension phase.

Estate planning certainty

You can nominate who you would like to receive your super when you pass away without having to meet some of the constraints that apply to other super funds.

The disadvantages

Higher costs for lower balances

SMSFs generally only become cost-effective if the fund has $200,000 or more invested. This is particularly true where you outsource and pay for most or all of the fund administration.

Greater responsibility

You and any other fund members will generally need to be trustees (or directors of the corporate trustee) and will be responsible for meeting a range of obligations.

Harsh penalties for breaches

The Australian Tax Office has the authority to impose various treatments to deal with SMSF trustees who have breached super laws.

Source: MLC

Speak to your financial adviser to decide on the best superannuation solution for you.

Retirement priorities

Retirement requires a different approach to finances as you go from saving to spending those savings. Whether you are a long way from retirement or you are close to retiring, where do you start? Research from National Seniors Australia has identified retirees' highest priorities as:

- **Health** – affording aged care and medical expenses.
- **Longevity** – how long will your income last?
- **Peace of mind** – will income cover all essential expenses?
- **Inflation** – is the income inflation adjusted?

Other research also identified four clear risks in retirement:

1. **Market** – what assurance is there that savings won't be eroded by the market?
2. **Inflation** – how will inflation undermine the purchasing power of those savings?
3. **Political** – will unforeseen policy changes undermine retirement plans?
4. **Timing of negative returns** – how does the order of negative returns affect savings?

In planning for retirement, these are some of the things to discuss with your adviser and are factors your retirement plan should address.

Source: Challenger

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