

Your money Your future



Financial Planning newsletter



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Understanding your super investment options and performance

The global financial crisis and the ensuing financial downturn has prompted much speculation about the impact of share market volatility on super fund returns.

The reality of low or negative returns for the last year has led many people to question the performance of their super fund.

You may have considered switching your own super from a growth or balanced option to a more sheltered capital-stable or capital-guaranteed option. And perhaps you have even thought about joining an entirely new fund, or switching to cash.

But what you need to keep in mind is that super is essentially a long-term investment and making hasty decisions in response to market volatility could leave you worse off in the long term.

Switching investments when markets are down can mean you lose out by selling at a low price, and miss the upturn when markets eventually bounce back.

And moving from one fund to another based on short-term performance indicators could also be a risky strategy.

How can I assess the performance of my super fund?

So how do you assess the performance of one super fund against another? Well, the Australian Securities and Investments Commission (ASIC) has identified four important principles to keep in mind:

- 1 Look for a history of reasonable performance rather than trying to pick next year's top performer.
- 2 Judge fund performance over at least five years. As super is a long-term investment, figures from short-term timeframes are of little value.
- 3 Compare like with like. If a fund has 70-80 per cent of its money in shares and property, compare it only with other similar funds, not funds with 60-70 per cent invested in cash and fixed interest.
- 4 Try to use the same start and finish dates for each fund. Five-year performance from June to June will differ from January to January¹.



The following ASIC table displays the average returns to Australian super fund members over five and ten years:

Five and ten-year average returns per annum to members of Australian super funds (after management costs)²

	Growth	Balanced	Capital stable	Capital guaranteed
As at 30 June 2008				
5 years	7.8 – 9.9% pa	6.8 – 9.2% pa	5.1 – 6.7% pa	4.4 – 4.8% pa
10 years	5.3 – 7.6% pa	4.9 – 7.3% pa	4.3 – 5.7% pa	4.1 – 5.4% pa
As at 30 June 2007				
5 years	9.5 – 11.5% pa	8.2 – 10.8% pa	6.3 – 7.5% pa	4.7 – 5.3% pa
10 years	7.2 – 9.0% pa	6.3 – 8.6% pa	5.2 – 5.8% pa	4.8 – 5.2% pa
As at 30 June 2006				
5 years	5.7 – 7.5% pa	5.1 – 7.4% pa	4.8 – 5.9% pa	3.7 – 4.3% pa
10 years	7.6 – 9.4% pa	6.8 – 9.3% pa	5.7 – 7.3% pa	4.2 – 5.9% pa
As at 30 June 2005				
5 years	3.7 – 5.6% pa	3.6 – 5.3% pa	4.2 – 5.5% pa	3.7 – 4.4% pa
10 years	7.0 – 8.7% pa	6.5 – 8.8% pa	5.6 – 7.2% pa	5.1 – 5.8% pa
As at 30 June 2004				
5 years	3.6 – 5.4% pa	3.0 – 5.3% pa	3.7 – 6.2% pa	3.8 – 5.2% pa
10 years	6.4 – 7.9% pa	6.2 – 8.0% pa	5.5 – 6.7% pa	4.9 – 5.7% pa

What are my options?

Your investment options in super are flexible.

Choosing the right investment option will really depend on your personal goals and circumstances, including how close you are to retirement.

If you find your own fund has performed worse than the average over a five-year or ten-year period, you may wish to consider switching funds. However, this is an important step which we can help you to make a decision on. Please call us today to make an appointment.

¹ 'Super Decisions' brochure, ASIC, October 2007

² www.fido.gov.au (About financial products > Superannuation > Long-term performance figures for typical super fund investment options)

Investing with confidence in 2010

In the first quarter of 2009, the S&P/ASX 200 tumbled to a year low of 3073 points.

The index, which had previously reached a high of 6829 points on 1 November 2007 prior to the global financial crisis, dropped more than 54 per cent, as widespread concern over Australian banks' exposures to derivatives stripped away the confidence of investors.

As a result, many investors fled to cash or other defensive assets. While this was a prudent course of action to take if executed early enough, the strong recovery staged by shares in the second half of 2009 may signal that it's time to abandon defensive strategies and look to equities once again.

While it's good to have a certain level of capital protection in a portfolio in terms of cash or property, an overweight allocation may limit the chance to grow your capital base as share market values increase. Diversification is vital and risks can often be mitigated by spreading investments across local and global equities.

According to super research company SuperRatings, Australians who fled to cash at the bottom of the financial crisis in early March 2009 are

- now almost 15 per cent behind their counterparts who retained a balanced investment option, or
- a massive 40 per cent behind those who moved to, or retained, their investments in an Australian share investment option.

Since 1 March 2009, a \$50,000 investment in a typical cash option has grown to \$51,014 while balanced and Australian shares have grown to \$58,767 and \$71,346 respectively.

But the growth was not purely limited to Australia. International shares also yielded some solid results for super funds, thanks to a steadier Australian dollar and continued market growth. According to SuperRatings, Australian shares continued to be the standout, with a 12 month result of 31 per cent against international share returns of just 2 per cent over the same period.

While it is impossible to predict how the economy will perform throughout 2010, the Organisation for Economic Co-operation and Development (OECD) Economic Outlook suggests the Australian economy is already well on the way to recovery. Australia was one of only three OECD economies forecast to grow in 2009, largely as a result of fiscal and monetary stimulus supporting activity



through the worst of the global recession and Australia's limited direct exposure to the origins of the crisis.

The OECD now forecasts Australia is likely to experience a relatively more robust recovery in 2010 with growth projected to pick up to 2.5 per cent, in contrast to the 1.9 per cent growth forecast across OECD member countries as a whole.

Despite the recent ups and downs, it is important for investors not to lose sight of their overall objectives. Sticking to a strategy requires discipline, but for those who stayed the course in 2009, or are interested in getting back into the market now, there are likely to be greater rewards ahead – particularly for those with a long-term timeframe.

Indeed the changed investment landscape can make it easier for investors in many respects. In boom times when asset values were rising, every company could look like a winner, but in today's post-financial crisis markets there is nowhere for poorly-performing investments to hide.

Selecting the right shares remains a delicate process and to be successful it is best to adopt a prudent and well-researched approach, such as that offered by a good fund manager.

To take advantage of the current opportunities or to review your risk profile and investment plans, make an appointment with us today. Our approach will help you invest with confidence in 2010.

Trauma: the nuts and bolts

Cancer. Stroke. Heart attack. Issues that most of us would prefer not to have to face.

It's tempting to think that 'It couldn't happen to me' and therefore treat insurance against these traumas as an expensive luxury. After all, no one wants to find themselves in a situation where they have to claim on the policy. But the unfortunate reality is we are more likely to be confronted by one of these traumas. Consider the following.

One in three Australians will be affected by cancer. Half the Australian male population and a third of women will be diagnosed with cancer before the age of 85.¹

Over 60 per cent of cancer patients will survive for more than five years after diagnosis, during which time the need for financial protection will be paramount.²

Each year, around 53,000 Australians have a stroke.³ And cardiovascular diseases affect more than 3.5 million Australians.⁴

Overall protection

Trauma insurance shouldn't be treated in isolation. It's an integral component of your wider protection needs, which include life insurance, total and permanent disability (TPD) and income insurance.

A comprehensive trauma product covers a defined list of events, including cancer, coronary artery surgery, heart attack and stroke.

In the event of a claim, the cover will pay out a lump sum to cover expenses such as rehabilitation and recovery, refitting your home, relocating, outstanding debts, ongoing income and professional care.

Determining your optimal level of trauma cover might involve a little more planning than taking out a basic life insurance policy, but we can help you navigate your way through the fine detail.

We will also help you answer the hard questions like these before estimating your required level of cover:

- Do you want an income supplement to allow your spouse to give up work to look after you?
- How will your family earn a regular income?
- How will you pay bills and other expenses?
- Would you like to be able to pay off your mortgage and other loans?
- Will you need to travel to seek out medical advances and treatment?
- Will you need money to refit your home, upgrade your vehicle or modify your car?
- How will you fund retraining for alternative employment?
- How will you fund specialist equipment for post-trauma recovery?

Case study: Alastair and Alison's forward planning

Alastair is 42 years of age and earns \$100,000 as the manager of an electronics store. His wife Alison, aged 39 earns \$35,000 as a part-time kindergarten teacher.

Alastair holds limited insurance via his superannuation fund. He has \$100,000 in life insurance and limited salary continuance cover.

Alastair and Alison have a mortgage of \$500,000 and a car loan of \$25,000.

Alastair's financial adviser compiles a detailed insurance plan, dividing their requirements into necessary and optional. As well as recommending increasing his life and total and permanent disability (TPD) insurance to \$1 million, Alastair's adviser recommends he take out a policy worth \$720,000 in trauma recovery insurance.

Necessary

Additional recovery costs	\$20,000
Income supplement	\$35,000
Annual salary	\$100,000
Contingency funds (bills etc)	\$20,000
Total minimum cover	\$175,000

Optional

Mortgage/investment/personal loans	\$525,000
House modifications	\$20,000
Total extra cover	\$545,000
Total trauma cover estimate	\$720,000

Based on the discussion with their adviser, Alastair and Alison decide to purchase the necessary level of cover, a policy with a sum insured of \$175,000 each. This level of cover would typically cost \$655 per year for a male aged 42, and \$517 per year for a female aged 39*.

* Quote based on stepped premium structure, using PQT version 4.0, October 2008.

The devil is in the detail

There are a few basic ways to work out your trauma insurance requirements. You can estimate your level of cover – common methods include a multiple of your annual income or perhaps an amount that clears a specific proportion of your debt. Or you can devise a detailed plan, dividing your potential expenses in the event of a trauma into necessary and optional requirements.

What's necessary and what's optional will vary depending on your personal circumstances but may include:

- **necessary** – additional recovery costs, income supplement, annual salary, contingency fund for bills and special purchases.
- **optional** – mortgage, investment and personal loans, house modifications, rehabilitation.

If you think trauma insurance is something you should consider then please contact us. We can help you work out how much cover you need to provide for you and your family in the event of a trauma.

Notes:

- 1 www.cancer.org.au/aboutcancer/TAQ.htm
- 2 Cancer in Australia 1998. Australian Institute of Health and Welfare
- 3 www.strokefoundation.com.au/facts-figures-and-stats
- 4 Australia's Health 2006. Australian Institute of Health and Welfare – AIHW cat no AUS 73

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