

Your money Your future

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Concerned about market volatility?

You've probably heard a lot of media commentary about recent volatility in investment markets, which may have left you wondering exactly what volatility means.

Volatility in investment markets refers to the level of variability in returns over time from an investment asset such as shares or managed funds. Generally, the higher the potential returns, the higher the level of volatility you can expect.

One strategy to minimise this is to mix growth-style and value-style managed funds in your portfolio. Value-style funds have a high percentage of value stocks – those trading a low price relative to their earnings potential. And growth-style funds have a high percentage of growth stocks

– ones with good prospects for generating higher than anticipated earnings growth.

Growth and value are complementary styles which can contribute to investment returns at different times in market cycles, so blending them can help deliver a smoother investment journey.

Another way of insulating your investments against volatile markets is to use dollar cost averaging. It's a strategy which involves buying smaller amounts of investments over time, instead of investing all your funds at once.

Speak to us to find out more about investment volatility and how to minimise it.



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Insurance the answer to a secure financial future

When looking ahead and planning for the future, it is not surprising that many people focus on investing and their superannuation.

This is all well and good but it's important to also consider protecting the assets you currently have and the income required to fund the lifestyle you already enjoy. Without a financial protection strategy you may be unable to keep your financial goals on track.

This is where insurance can help.

Developing a 'big picture' insurance plan is one of the simplest steps you can take to create peace of mind when it comes to your family's financial security.

Right cover, right amount

In 2007, the AXA Protection Report found that only 36 per cent of Australians were adequately covered for life risks. This means almost two thirds of our population could be financially caught short if they were to fall victim to any accident or sickness.

In fact, the average amount of underinsurance in Australia is \$112,000.¹

Obviously, everyone is different and everyone's financial situation is different. So it stands to reason that each person will need to develop a flexible and appropriate insurance plan.

Your financial adviser can explain in more detail, but developing a holistic insurance plan will generally involve putting together a tailored package of up to four types of insurance:

- 1 **Life insurance**, pays a lump sum to your beneficiaries if you die.
- 2 **Income protection insurance**, in the event of you being unable to work due to sickness or accident, will provide a regular income stream of up to 75 per cent of your regular income to assist you and your family to continue paying general living expenses.

3 **Total and permanent disability insurance** provides a lump sum in the event of permanent disability.

4 **Trauma recovery insurance** provides a lump sum in the event you suffer a traumatic accident or illness, such as cancer, heart attack or major head injury.

When tragedy strikes, money is usually the last thing on anyone's mind. But when the dust settles, the financial burden of accident, illness and death can magnify the distress and greatly inhibit your financial future. Insurance can be a simple way to achieve peace of mind, knowing that even in the event of a tragedy, you and your family will not be unduly financially burdened.

For more information on how to ensure you are adequately insured against life's risks, speak with your financial adviser.

¹ AXA Protection Report (September 2007).

Eyes on the prize – how to set and achieve financial goals

Do you ever find that life seems to get in the way of your financial goals? You make the plans, have all the best intentions in the world and then something unexpected happens to bring you back to square one.

We asked psychologist and executive coach Jacky Dakin for some tips on how to better set and achieve realistic financial goals.

Share the load

Jacky says that one effective way to increase your chances of success is to share your goals with family and friends.

"Family and friends can gently remind you of your long-term ambitions when short-term temptations get in the way. Friends can also support you by acting as an informal coach, joining you on the journey or sharing their own tips for success."

Jacky also suggests looking forward and anticipating obstacles that will get in the way of progress. For example, consider what consequences will result if you break your budget and purchase unnecessary items on impulse. If you've tried unsuccessfully

to meet a goal before, reflect on what went wrong last time and how you can avoid the same mistakes.

See the future every day

Another tip that Jacky recommends is placing visual reminders where you can see them. This will ensure you've got a constant and readily visible source of inspiration. "Try a collage of your proposed holiday trip in your office, a photo of your desired new car. A vision of what you want, or don't want, can help keep you on track," she says.

Importantly, your goals must be realistic, measurable and achievable. A good example is when people say they just want to 'get rich'. But what does this really mean? Creating a successful wealth plan means understanding exactly what you want to achieve and then building small bridges, step by step for each stage of the journey.

Jacky says, "It's fine to start with big, grand goals, but try breaking your plan down into small steps. A home renovation, for example, can easily be broken down into

manageable steps, making it more realistic and achievable. And, importantly, reward yourself when you complete each stage."

Celebrate the journey

"Don't forget to celebrate your successes along the way. This, above all else, will keep you motivated. After reaching a milestone, treat yourself to a small reward" says Jacky.

For more information on how you can build a plan to get you on the path to a successful financial future, speak with your financial adviser.



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.



Reviewing your death benefit

Planning your finances in the event of your death isn't a pleasant topic. However, it's a vital part of ensuring any financial benefit you leave behind is put to best use.

New superannuation rules* – known collectively as 'Simpler Super' – mean that how your death benefit would be distributed is a hot topic. This is because we now need to consider the proportional taxable and tax-free components that make up a person's retirement savings.

It means some careful planning is needed if your nominated beneficiaries are to receive the maximum benefit in the event of your death.

The case study below highlights how Sarah used a re-contribution strategy to obtain more control over the ultimate amount of her death benefit received by her beneficiaries.

* The changes came into effect from 1 July 2007.

Sarah maximises the benefit for her beneficiaries

Sarah is 62 years of age and retired. She has been able to access her retirement savings tax free since 1 July 2007. Before the changes coming into effect she consulted with her adviser on how the new 'Simpler Super' regime would affect her. He explained that, on the whole, the changes would be beneficial.

However, Sarah's adviser also explained an issue with her current estate plan – he knew she'd nominated her death benefits to be paid in equal amounts to her two adult children. But because of the new taxable and tax-free components, the benefit she'd allocated to her adult children would be subject to tax of up to 31.5 per cent on her death.

Fortunately, Sarah's adviser could offer a solution.

More control, less tax – a bigger benefit for beneficiaries

Because she was already over 60, any amount Sarah wished to access was

automatically tax free. The proportional tax-free and taxable components were only relevant for her potential death benefits.

To help overcome a substantial tax bill for her beneficiaries, Sarah's adviser recommended a re-contribution strategy. Effectively, Sarah began withdrawing portions of her retirement savings tax-free and re-contributing the same money back to her superannuation fund. This had the effect of gradually reducing the taxable component of her superannuation savings.

Sarah was grateful. Thanks to the new superannuation rules she was financially better off in retirement and, thanks to her adviser, the amount of her death benefit was maximised for her nominated beneficiaries in the event of her death.

For information on how a re-contribution strategy might help you gain more control over the ultimate amount of your death benefits received by your beneficiaries, make an appointment to see us today.

Understanding annual reports

Now the annual company reporting season is over for another year, if you own shares you've probably received annual reports from the companies you have invested in, either as printed copies or online.

Like many people, you may not be sure of the purpose of these reports or how to interpret them.

As an annual report also includes financial statements, it's a crucial document that is effectively the company's report card for the year.

The financial statements can help you work out:

- how good the company is at making money
- how it is paying for its operations and future growth
- what it owns and owes
- whether there are potential problems or risks looming on the horizon, and
- whether you should keep your shares, buy more, or sell up and invest elsewhere.

Financial performance statement

The statement of financial performance (also known as the profit and loss or income statement) shows you what the company earned during the year, how its earnings were distributed and whether it made a profit or a loss – the real bottom line. It also shows the dividend payable to shareholders.

Compare the previous year's figures with those for the current year, to obtain a snapshot of how the company is performing.

Cash flows statement

This statement tells you about cash the company has already received and spent. It has three important parts:

- cash flows from operating activities (the actual business of the company)
- cash flows from investing activities (money spent and received on property, plant, equipment, or on buying or selling businesses), and

- cash flows from financing activities (borrowing and fundraising).

Again, look at the previous year's figures compared to the current year's, to determine the health or otherwise of the company's cash flows position.

Balance sheet

The balance sheet lists the company's assets (what it owns) and liabilities (what it owes). If the assets aren't well ahead of the liabilities, perhaps the company could have trouble ahead as it struggles to meet its debts.

Speak to your financial adviser

If you have any questions about annual reports, or to determine whether or not it's time to make some changes to your investment portfolio, the best person to speak to is your financial adviser.

Slow, steady and diverse wins the investment race

There's been a lot in the media lately about sharemarket volatility and the impact this is having on people's investments. The truth is that volatility is a normal part of market movements.

That said, when placed in a historical context, the current volatility is quite extraordinary in terms of its movement, both up and down.

Volatility is normal

Historically, since the end of 1979, daily price moves for the All Ordinaries Index and the S&P ASX 200¹ have witnessed 37 rises above 2.5 per cent. On the flipside there have been 52 days where the market fell by more than 2.5 per cent.

More recently, since 1 August 2007 there have been 10 days when the market rose by more than 2.5 per cent and in the period from 1 January to 31 March 2008 there were 12 trading days when it fell by more than 2.5 per cent.

This means more than 24 per cent of the market's most active days in almost

20 years have occurred in the eight months between 1 August 2007 and 31 March 2008.

But despite its ebbs and flows, volatility is a normal and natural function of markets. No doubt, over the short term it can appear dramatic. And this is exactly why most experts advocate a long-term investment strategy, where you invest gradually over time and spread your investments across multiple asset classes, such as shares, property and fixed interest.

One thing we do know

Since people first started investing, one thing we know is that, on average, over long periods of time shares have outperformed cash and fixed interest investment by around five to seven per cent annually.²

The trade-off for this out-performance is the acceptance of market volatility.

Three ways to combat volatility

Fortunately there are several ways you can invest in shares to avoid the dramatic impact of a market correction:

- **Look to the long-term** – ensuring your investment timeframe is long term will help smooth daily market 'noise'.
- **Use a regular savings plan** – known as 'dollar-cost averaging', this investment method effectively drip-feeds your savings into the market over time. This removes the temptation to try and 'time' the market and ensures your funds achieve an average buy price.
- **Diversify, diversify and diversify** – not putting all your investment 'eggs' in one basket is a time-honoured investment rule. Even when it comes to your share portfolio you can invest across different industries and different countries.

For more information on how to ensure your market investments are well-placed, speak with your financial adviser.

¹ Prior to April 2000, the All Ordinaries was considered the main marker of ASX movements. This was replaced by the S&P ASX 200, which now serves as the signature index for the Australian market.

² Arun Abey and Andrew Ford, 'How much is enough?' (A&B Publishers, Victoria) 2007, p. 71.