Successful Investing

Professional Investment Services

Issue 3 2007

INSIDE:

An investment dilemma

With an ageing Australian population, the Government has been justifiably concerned over its ability to provide income support for the baby boomers once they reach retirement. The first baby boomers will turn 65 on 1st January 2011.

Recent research conducted by Access Economics for AMP (The AMP Superannuation Adequacy Index) has produced some interesting results as to how well Australians are working towards being able to provide for at least part of their income in retirement.

The research describes an adequate retirement as being 65% of a person's pre-retirement living standard. Many may argue that this is not adequate but for the purposes of the research this was the benchmark used.

The good news arising from the research is that around two thirds of the workforce are on track for an adequate retirement based largely on significant capital gains made in recent years and the recent surge in voluntary superannuation contributions.

However, 3.5 million Australians (around one third of the workforce) will need to increase their savings over time if they are to maintain their targeted standard of living in retirement. In fact, many of those falling behind are under the age of 40. Even if they contribute more to super later in life, it is estimated that 35% will not meet the target to enable them to have a comfortable retirement.

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Economic Update

The global economy is expected to show strong growth for the second quarter. Data flow is pointing towards continued strong momentum from the Europe and Asian (ex Japan) economies. The risk for the US economy remains on housing sector activity. The Eurozone economic recovery should remain on track despite the latest dip in the business leading indicators. In Japan, the recent weakness in industrial production raised downside risks to growth in the near term.

In Australia, strong March quarter Gross Domestic Product (GDP) data coupled with the tightness of the labour market and double digits credit growth suggest that the economy is growing much faster than expected. While the economy is expected to grow above trend this year (around +4.0%), inflation should maintain an upward pressure on the economy. This has fuelled expectations that the Reserve Bank of Australia (RBA) needs to be more pre-emptive on interest rates despite the softer tone of recent inflation and wage data. With a Federal election looming, the RBA needs to manage its political independence carefully as well as make sure that the economy does not exert unwanted inflation pressure next year.

Source: Navigator

Tip of the Month

Avoiding retail credit traps

Are the buy now, pay later deals worth it? These deals can work if you pay off your item before the interest free period runs out. If not, you may end up paying interest of 20% to 30%. There can also be establishment fees and monthly account keeping fees.

What are the pitfalls of renting instead of buying? If you rent you don't own the item and the repayments are often expensive. There may be cancellation fees if you want to get out before the fixed term ends. You have to make sure the product is insured and you may not be given enough time to read the contract as rental is usually arranged over the phone.

Source: Sunrise

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The report stated:

"If the Australian super system is to meet the challenge of an ageing population, today's younger workers will need to at least match the significant voluntary contributions being made to super by the (baby) boomers."

In fact, the research clearly illustrates that the 9% compulsory contributions will not be enough to secure adequate retirement income for Australians.

With superannuation offering very favourable tax concessions, the opportunity for Australians to make additional contributions under a salary sacrifice arrangement may prove to be one of the best investment decisions they can make.

The following table illustrates the amount that needs to be saved to provide a modest income in retirement. The table assumes no Government income support:

Years to retirement	Income required 2007 $s	Indexed income from retirement Future $s	Capital required	Annual contribution required
5	$40,000	$46,370	$800,000	$130,000
10	$40,000	$53,756	$900,000	$60,000
20	$40,000	$72,244	$1,200,000	$27,500
30	$40,000	$97,070	$1,600,000	$16,000
40	$40,000	$130,481	$2,000,000	$9,500

Assumptions:

No existing superannuation savings;

Inflation of 3% pa;

Investment earnings of 7% pa after fees, charges and taxes;

An indexed income paid for a period of 25 years; and

Funds exhausted over that period.

Source: The AMP Superannuation Adequacy Index Report and Professional Investment Services – July 2007

How to minimise investment risk

From time to time we hear reports of people who have lost their life savings as a result of an investment going bad. This is a tragic situation for the people affected, and an event that many older people will never financially recover from. There are some important lessons that come from these experiences of others.

In many cases these people have put all their "eggs in one basket". That is, they have broken one of the most basic rules of investment and have not diversified their investments.

The story is a familiar one. An investor is attracted to a particular investment offering a higher rate of return than appears to be available from other and often similar investments. So, with the aim of maximising income, a significant portion of investable funds are placed with the company offering the investment. At some later time, the investor finds that their investment has been frozen because the organisation in which they invested is unable to meet its liabilities and liquidators have been appointed. At best, some months or even years later, the investor may receive part of their money back, but often it is a very much reduced amount to the original investment.

Whilst it is human nature to be attracted to investments offering high returns, the temptation to invest all our money in one such fund must be resisted.

The concept of diversification is not a new one.

Diversification is the practice of spreading investments amongst a number of different asset classes and amongst a number of different companies or managers within those asset classes.

Rather than investing all of our available funds in one type of investment or even one asset class (such as shares, fixed interest, or property), we spread our investment between different managers and amongst different asset classes.

Simple steps you can take to help minimise the risk of investment loss include:

- Spread your investments over a number of different investment sectors or asset classes. Investment markets tend to move in cycles. These cycles are generally not synchronised so when one is rising, another may be falling. Spreading your investments amongst asset classes may help to minimise losses when one asset class declines;
- If spreading funds between different asset classes means taking on more risk than you are comfortable with, consider holding a heavier weighting in the more conservative asset classes such as cash and fixed interest; and
- In any case, once the asset mix has been determined, ensure that you spread your money between a number of good quality managers rather than placing all the funds with one company. Investing all or most of your money in just one asset class, even a conservative class such as fixed interest, or in just one company or manager, is a high risk strategy.

A financial adviser can help you structure an investment portfolio that is appropriate for your risk profile and ensures a spread amongst quality managers.

Source: Peter Kelly - Professional Investment Services – July 2007

Tax free super benefits

Over recent months there has been a lot of publicity regarding the "simpler superannuation" system that came into effect on 1st July 2007.

One aspect of the reforms that has been receiving a lot of attention is the fact that superannuation benefits paid to a person aged 60 or over will be tax free. That is wonderful news for anyone who has reached the age of 60.

However, despite all the publicity about benefits being tax free, there are some instances where this may not be the case.

When we speak of taking superannuation benefits, they are generally taken as either a lump sum or as an income stream or pension.

The payment of a tax free superannuation benefit depends on whether the superannuation fund paying the members benefit is a "taxed" or an "untaxed" fund. A "taxed" superannuation fund is one that has paid tax on contributions and on the underlying investment earnings during the time the member has been accumulating their benefits. It is estimated that around 90% of superannuation fund members belong to "taxed" superannuation funds. Benefits paid from a "taxed" superannuation fund to a member aged 60 and over, will be tax free. By contrast, where a person belongs to an "untaxed" superannuation fund, benefits generally will not be tax free.

An "untaxed" superannuation fund is one that has not paid tax whilst a member's benefits have been accumulating. "Untaxed" superannuation funds are generally the older style Commonwealth and State Government public sector superannuation funds. When a benefit is paid from an untaxed fund, either as a lump sum or as an income stream, the benefit will continue to be taxable, even if the member is aged 60 or older. In general terms, lump sums will be taxed at a rate ranging from 15% to 45% (plus Medicare levy), depending on the amount withdrawn, and the age at the time of withdrawal. Income streams paid from untaxed schemes will be included as assessable income in the hands of the fund member but will qualify for a 10% tax rebate (offset) where the recipient is aged 60 or over. Turning now to the second issue to be addressed, there has been much publicity over the fact that superannuation benefits taken from a taxed superannuation fund by people over the age of 60 , will be tax free.

Whilst a person currently aged between 55 and 64 can take their superannuation benefit as an income stream, even if they continue to work (under the rules relating to "transition to retirement") a benefit may only be taken as a lump sum prior to age 65 if it is an "unpreserved" benefit. Since 1999, most benefits in a superannuation fund have been fully preserved. To draw on a preserved benefit as a lump sum, the fund member must have met a "condition of release".

Conditions of release include attaining age 65, retirement on or after reaching age 55, ceasing employment after 60 with an employer who has contributed to your superannuation fund, death, and permanent disablement. So, if you are now aged between 60 and 65 and wish to withdraw part or all of your superannuation benefit tax free, check to see if your benefit is preserved or not before committing to spending the money. You simply may not be able to access your superannuation funds even if you are 60 or over.

Source: Peter Kelly – Professional Investment Services

Sudoku

1. Fill the grid so that the numbers 1 through 9 appear in each row.
2. Fill the grid so that the numbers 1 through 9 appear in each column.
3. Fill the grid so that the numbers 1 through 9 appear in each 3x3 box.
4. A complete Sudoku puzzle contains the numbers 1 through 9 in every row, column, and 3x3 box.

source:www.web4sudoku.com

Puzzle1

	[illegible]			[illegible]		[illegible]		
	[illegible]	[illegible]			[illegible]			
	[illegible]		[illegible]		[illegible]			
						[illegible]	[illegible]	[illegible]
			[illegible]	[illegible]			[illegible]	
[illegible]	[illegible]						[illegible]	
	[illegible]			[illegible]	[illegible]			
			[illegible]	[illegible]				[illegible]
	[illegible]	[illegible]			[illegible]			

Puzzle2

5			4			3		
		1	3				2	
			7		8		5	
	1		8	7				
		9	5			8		
				9	1			5
					7	2	8	
3						1		9
1		2				5		

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. Yet 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. 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 workforce. 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.

Source: AXA

Trivia

Your birthday is not a special day after all, you share it with no fewer than nine million others.

A space vehicle must move at a rate of at least 17 miles per second to escape Earth's gravitational pull. This is equivalent to going from New York to Philadelphia in about 20 seconds.

About 27 tons of dust rains down on the earth each day from space, making a total of almost 10,000 tons each year.

In Florida, women may be fined for falling asleep under a hair dryer, as can the salon owner.

Dr. Jonas Salk developed the vaccine for polio in 1952.

Early mattresses were filled with straw and held up with a rope stretched across the bed frame. If the rope was tight, sleep was comfortable. Hence the phrase, "sleep tight."

The average male adult can bench-press 88 percent of his body weight.

The average life span of an ancient Greek or Roman man was 36 years.

There are 100 billion neurons in the human brain. Each neuron is linked to hundreds of other neurons.

The first bottles of Coca-Cola sold for a mere 5 cents per bottle in 1899. There are now more than 1,000 Coca-Cola bottling plants worldwide.

Bad weather on the way to the wedding is thought to be an omen of an unhappy marriage; some cultures, however, consider rain a good omen. Cloudy skies and wind are believed to cause stormy marriages. Snow, on the other hand, is associated with fertility and wealth.

Olive oil is made only from green olives. Nearly the entire production of green olives grown in Italy is converted into olive oil.

The average human eyelash lives about 150 days.

Source: Coolquiz.com

Sokudo solution

Puzzle1

5	4	9	3	8	7	6	1	2
8	1	2	5	6	9	3	4	7
7	6	3	4	2	1	8	9	5
6	9	7	2	1	3	4	5	8
4	3	5	6	7	8	9	2	1
2	8	1	9	4	5	7	3	6
9	2	4	7	5	6	1	8	3
1	5	6	8	3	4	2	7	9
3	7	8	1	9	2	5	6	4

Puzzle2

	9	7	4	6	2	3	1	8
6	8	1	3	5	9	4	2	7
2	3	4	7	1	8	9	5	6
4	1	5	8	7	3	6	9	2
7	6	9	5	2	4	8	3	1
8	2	3	6	9	1	7	4	5
9	5	6	1	3	7	2	8	4
3	7	8	2	4	5	1	6	9
1	4	2	9	8	6	5	7	3

Other Services

blueprint

For many, having insurance cover in place for their home and contents, their motor vehicle and their health are the three most important considerations when it comes to having adequate risk protection. Have you also made sure that there is insurance cover to pay for everyday living costs should you become totally and permanently disabled or suffer a major critical illness?

blueprint Protection offers a full range of risk insurance options including Life, Trauma Total and Permanent Disablement and Income Protection.

The need to protect your future, that of your family and if necessary, the future financial security of your business is extremely important. The flexible nature of blueprint allows you to tailor insurance for all members of your family and / or business under the one policy. Incorporating blueprint Protection into your overall financial portfolio will help guide your financial security in times of need.

blueprint Protection is one of the most comprehensive insurance products offered in Australia for personal and business risk management.

Making life insurance more accessible for everybody is possible with blueprint Protection giving Homemakers the opportunity to apply for life insurance benefits up to $1 million.

The loss of the primary care giver means either the main breadwinner has to give up work or child care options need to be explored. However this can prove expensive.

Life insurance is not necessarily an expensive option – especially when you consider the peace of mind it can give a family.

Source: blueprint

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