Successful Investing

Issue 4 - 4th Quarter 2008

RodneyGibson
FINANCIAL SERVICES PTY LTD

Economic Update

On top of the financial crisis the major risk for the US economy now is the recent increase in job losses as businesses cut costs.

This would further risk pushing the economy into a self reinforcing downturn as seen in many previous recessions. At the current pace of job losses, more than half a million job losses this year alone could be recorded. This is likely to add more pressure to the current economic woes.

In Europe, the worst economic slowdown in decades has intensified and is expected to continue in the near term. More adjustments are expected in the housing sector and the tightness of financial conditions is also having a real impact on the economy.

Across the Channel, the United Kingdom is facing severe recession. Many economists have already predicted that the current housing crash will be worse than in the early 1990s. When coupled with the tightness of financial conditions, many see the economy contracting for the next few quarters into next year.

The latest data released in Japan has provided some relief that the economic downturn might not intensify this quarter. It is pleasing to see the improvement in expenditure data including consumer spending, manufacturing production and housing starts. Still, it is too early to turn optimistic, as overall, latest data supports a more shallow recession for Japan.

The Reserve Bank of Australia (RBA) signalled its intention to ease interest rates in early September and October, which was delivered. This was on the back of clear signs of a loss in momentum in domestic demand, a slowing in demand for credit and tentative signs of a loosening labour market. Additionally, the environment for business continues to be challenging in the face of the ongoing credit crunch and consumer sentiment remained subdued despite some recent relief.

Source: Professional Investment Services

How much is enough?

One of the most compelling questions that Australians need to consider is "how much do they need to have saved for retirement"? However, this is the question that most people don't even consider until they approach retirement.

With improvements in medical science, health and lifestyle, we are seeing people living much longer and more active lives than were enjoyed by earlier generations. This has created a dilemma – not only do we need to provide for a longer retirement, but also a more active one. The average life expectancy of a 65 year old male in Australia is just on 18 years and that is the average, 50% of 65 year old males will live more than 18 years!

Sure, we could rely on the age pension to see us through. However, with the current pension for a home owning couple being $24,500, it is apparent that if we are looking for a retirement lifestyle with some of life's luxuries, then we will need to have additional savings we can put to work to supplement the pension. The age pension, on its own, will not provide for a very comfortable retirement lifestyle.

A lot of the current advertising on superannuation focuses on how much more you will have if you place your superannuation with Fund A as opposed to Fund B. One fundamental issue has been missed. It is fair to say that having more will generally lead to more income in retirement, but if we don't think about the level of income we would like, then just because one fund produces more than another will be of little avail if neither provides the income we require.

Let's look at things from a different perspective

If we decide we would like to have a retirement lifestyle that will cost $50,000 per annum (in today's $) in retirement and we plan to retire at between 60 and 65, then we will need to have around $800,000 to $1,000,000 set aside if we are to enjoy an indexed income during our retirement years. With this level of savings it is unlikely we will have access to the age pension.

Continued Pg 2

How much is enough? Continued

Once we know what level of income we would like to receive in retirement, we can work backwards and determine how much capital needs to be set aside.

If we then work out when we would like to retire and take into account how much we already have put aside, the saving "gap" can be determined. Once this gap is known, working with our financial planner, strategies can be put in place to generate additional savings in an attempt to meet any shortfall. Of course, a number of strategies may be used in order to get to our goal.

So, if investing in Fund A will result in having a lump sum of $600,000 at retirement as opposed to $550,000 in Fund B, that will be of little comfort if our preferred lifestyle requires us to have $800,000 in retirement savings and we didn't know this in time to implement strategies that would enable us to achieve our goals.

Working with a financial planner can help you along the path of meeting your retirement lifestyle objectives.

Source: Professional Investment Services

Secrets of successful investing

With all the turmoil in investment markets over recent months, many investors will be asking if they have done the right thing by investing in shares, property or managed funds. Let's revisit two fundamentals of investing.

Understand investment cycles

Investment markets move in cycles. They go up, they go down and they may run flat for a period of time. However, if we look at the long term performance of investment markets, they have historically trended up.

The secret to successful investing is to adopt a "counter-cyclical" approach.

Traditionally, human nature tells us to invest when markets are going up and to sell when markets are in decline. However, we need to change our mindset and invest when everyone else is selling (we pick up bargains that way) and sell when everyone else is buying. Alternatively and for longer term investments, we should be buying when markets are down and hold on to our investments for the long term.

Time in, not timing

Long term investing doesn't involve chasing the latest investment fad. It involves making good sound investment decisions with the aid of professional advice and then sticking to the plan, not jumping in and out of the market every time there is a change.

Everybody has heard of the October 1987 stock market "crash". If you invested $10,000 in the Australian All Ordinaries Index in June 1987, the value of the investment would have fallen to just under $7,500 in October 1987. Many people were devastated by such a dramatic fall in the value of their investment and they sold out at the bottom of the market, thereby crystallising their loss. If they remained invested, they would have recovered their loss in around two years. Had they continued to remain invested for the next 20 years (to June 2007), their original $10,000 investment would have grown to in excess of $80,000.

Source: Professional Investment Services

Avoiding the risks

It's been a long time coming, but you're finally about to head away on holiday to spend a few precious weeks with your family.

Having made the flight and accommodation bookings, you didn't hesitate to organise travel insurance in case something goes wrong while you're away. It is wise to have adequate protection in place when we are travelling. Unfortunately, the summer holiday season is the time of year when more accidents do happen.

That's because, being in unfamiliar surroundings and doing sometimes adventurous activities that we would normally not consider at home, the chances of being injured are heightened.

Take a long term approach

Having temporary cover in place while on holidays is one thing, but it's also important to have protection in place all the time to guard against unforeseen events.

There are various types of cover, but in a nutshell it really is vital that you and your family are financially protected against debilitating accidents, long term sickness and, in the worst case, the death of you or your spouse.

In the past, life insurance was often the only financial product a family might have. Now, as part of a sound wealth protection strategy, it's important to consider a range of insurance products to cover for events that don't lead to death but result in time off work and partial or total loss of income.

Imagine being in an accident, or suffering from a serious illness such as cancer or a stroke – which unfortunately are all too common. Do you have enough money in the bank to cover your debt repayments if you're out of work for an extended period? Will your company keep paying your salary if you have to be off work for an extended period of time? How good is your safety net? The only way to get real peace of mind is to take steps so you are protected if the worst happens.

Insurance options

It really is worth the effort to meet with your financial adviser and go through your insurance options. Your adviser will be able to source products that meet your specific personal needs.

Once you have selected the types of insurance you require, you will then need to fill in application forms. Most likely you will need to undertake a medical check, which will be used to verify your health status and identify any pre-existing conditions.

Once these have been finalised, your policy will be activated and your cover will commence immediately. Your adviser is there to assist you every step of the way, so why wait?

Life insurance

Many of us have standard life insurance embedded within our superannuation, but check how much cover you have as you may need to top it up. Not having enough means that if you were to die suddenly, the payout to your family may not be sufficient to cover outstanding debts and pay a regular income once the funds are invested. Keep in mind that at a conservative investment rate of 5% per annum, you would need to receive a payout of approximately $1 million to generate $50,000 p.a. pre-tax.

Total and permanent disablement insurance (TPD)

TPD insurance covers you for disabilities that permanently prevent you from ever working again. TPD is normally paid as a lump sum. Note that many TPD insurance policies require up to six months of total and permanent disability before paying a benefit.

Trauma insurance

Trauma insurance can help you cope financially with the affect that a medical trauma, such as a stroke or a heat attack can have on your life. Trauma insurance is normally paid as a lump sum and can be used to pay for changes to your lifestyle or for care that you may require because of the trauma.

If you believe you may be under-insured or would like to review your insurance cover, please contact your financial adviser.

Source: Aviva's Consumer Insight Team

Trivia

Centuries ago, purchasing real estate often required having one or more limbs amputated in order to prevent the purchaser from running away to avoid repayment of the loan. Hence an expensive purchase was said to cost "an arm and a leg."

When glass breaks, the cracks move faster than 4,828 kilometres per hour. To photograph the event, a camera must shoot at a millionth of a second.

The blue whale is the largest animal on earth. The heart of a blue whale is as big as a car and its tongue is as long as an elephant.

Giving dogs chocolate could be fatal for them, because theobromine, an ingredient of chocolate, stimulates the central nervous system and cardiac muscle. About 1.1kg of milk chocolate or just 146g of cooking chocolate (which has more theobromine per gram) could kill a 22kg dog.

It cost 7 million dollars to build the Titanic and 200 million to make a film about it. The Titanic was also the first ship to use the SOS signal. In the film, when Jack walks through the french doors for dinner with Rose and her family, a camera man's reflection can be seen in the glass.

The world's first e-mail message was sent in 1971 by Ray Tomlinson.

In Bhutan government policy is based on Gross National Happiness; thus most street advertising is banned, as are tobacco and plastic bags.

On average a baby's heart will beat about 60 million times before it is born.

Michael Jordan makes more money from Nike annually than the entire Nike factory workers in Malaysia combined.

Every day is about 55 billionths of a second longer than the day before it.

Apples are more efficient at waking you up in the morning than caffeine.

Did you know, 40 percent of McDonald's profits come from the sales of Happy Meals.

Sources: www.interestingfacts.org, www.trivia-library.com, www.funfunnyfacts.com, www.comedy-zone.net and www.berro.com

SMSFs – Aiming for Better Compliance

In their role as the regulator of self-managed super funds (SMSF), the Australian Taxation Office (ATO) is keen to see SMSF trustees take their role in the management and compliance of SMSFs very seriously.

With this in mind, the ATO has increased its resources to monitor compliance and regularly publishes material aimed at assisting trustees.

Despite the increased resources available to help trustees comply with their obligations, we continue to see a number of common mistakes being made.

Lodgement of returns

Trustees of a SMSF have an obligation to lodge statutory returns on an annual basis. The annual reporting was simplified with effect from 1st July 2007 with the introduction of a new simplified annual return. This return resulted in three previous returns (the tax return, statutory return, and member contribution statement) being consolidated into one new return.

Hopefully this new simplified reporting will result in more funds complying with their annual reporting obligations.

Record keeping

Good record keeping is vital to the operation of a compliant SMSF. Trustees need to ensure that all decisions they make are properly documented so an effective audit trail is maintained. As a SMSF may have a life of many decades (in reality they could last indefinitely) good record keeping will enable both current and future trustees to have clear understanding of the decisions that have been made and the basis on which those decisions were made.

Effective record keeping makes the annual fund audit a simpler process.

Ownership of fund assets

All investments made by the trustees of a SMSF should be clearly identified as belonging to the SMSF. It is a requirement that all assets of a superannuation fund must be kept separate from other assets owned by the members or other related parties.

We have heard of a number of cases where assets owned by a SMSF have not been clearly identified as such and have been attacked by creditors of the member. Significant legal expenses and inconvenience may result when attempting to demonstrate to creditors that the assets in question are actually assets of a SMSF.

Where a fund asset can not adequately be recorded as being owned by the SMSF, it has been suggested that a caveat or Declaration of Trust should be taken over the asset. As this can involve costs, including stamp duty, appropriate legal advice should be sought.

Early release of superannuation benefits

Today, most superannuation benefits are preserved. That is, they can not be accessed until a "condition of release" has been met. A condition of release includes retirement on or after reaching age 55, turning 65, or on death or permanent incapacity.

From time to time, reports appear in the financial media of people being prosecuted or banned for promoting early release schemes. These schemes are designed to allow people to gain access to their superannuation benefits prior to meeting a condition of release. These schemes generally involve the use of a SMSF.

Trustees of SMSFs need to ensure that whenever a benefit is paid from a SMSF, the benefit is paid in accordance with the current regulations.

Ensuring that your SMSF fully complies with all the relevant regulations can be a time consuming activity. Even though trustees may outsource certain activities to others (such as their accountant, financial planner, or a SMSF administrator), they still retain full responsibility for the operations of the SMSF. Good advice is imperative.

Source: Professional Investment Services

Contact our office for further information:

Rodney Gibson Financial Services Pty Ltd
Level 2, 54 Amelia Street
Fortitude Valley, QLD, 4006
Ph: (07) 3252 9990
Fax: (07) 3257 7366
Email: admin@rodneygibson.com.au
Web: www.rodneygibson.com.au

Please note that Rodney Gibson Financial Services Pty Ltd is a corporate authorised representative of Plan 2 Pty Ltd. Australian Financial Services Licensee no. 237874