

Successful Investing

Issue 4 2009

How long can the Bank of Mum & Dad stay open?

Economic update

Are you a Goose?

Super estate planning

Tips to save money

Economic Update

The third quarter could be seen as the time when the global recession ended. The UK came out of its downturn, as did the US. They followed France, Germany, Hong Kong, Japan, Singapore and Thailand which left the downturn behind in the second quarter. Australia fared much better than most, not technically entering recession.

The world economy is certainly heading in a better direction than it was over a year ago, when Lehman Brothers had just collapsed.

The challenge is to maintain growth without overbalancing, by keeping interest rates too low for too long and overheating economies; be it through inflation, a real estate bubble due to the low interest rates, or something else.

Most politicians and central bankers will want to see their economies back to full health, especially reduced unemployment, before easing support measures. Finance ministers from the 20 leading industrialised nations said just last month that interest rates would stay low for the foreseeable future. That introduces the risk that too much money will be left in the system for too long, stoking inflation.

There is already talk of central banks increasing interest rates soon in some countries, to ensure the pendulum doesn't swing to excess growth and subsequent inflation. Australia has already increased rates over the last couple of months.

With the prospect of inflation waiting in the wings, some investors have begun to prepare for it, buying stocks in 'real assets' as a means of hedging portfolios. This helped the S&P/ASX200 index rise 19.9% over the third quarter and the S&P 500 15%.

We believe that the Australian stock market is in a recovery phase and the sectors that tend to do best in this environment are sectors like retail, media, housing and diversified financials. These were also some of the sectors that were hit hardest in the downturn and we see their earnings recovering the strongest coming out.

If the improving economic trends continue and we experience low growth, coupled with low inflation and low interest rates, this is what some would consider the 'Goldilocks' scenario: not too hot, not too cold - just right to allow the economy, companies and, therefore, markets to grow steadily.

Source | Fidelity International

¹ Bloomberg as at 1 October 2009

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How long can the Bank of Mum & Dad stay



The Global Financial Crisis (GFC) has put family balance sheets under intense strain. The Baby Boomers have seen their asset values decline and many are being forced to delay retirement by up to five years.

Generation X is buckling under the pressure of doing the balancing act of managing families, friends, work and finances. For the first time Generation Y's are facing the fear of losing their jobs, dealing with high credit card debt and looking at the prospect of moving back in with their Baby Boomer parents.

Even though it appears we are over the worst of the economic crisis, investors are still feeling the strain on the family finances. This sentiment has been validated in a recent research report conducted by St George Bank¹. The Bank of Mum & Dad research reveals that Baby Boomers and their Generation Y children are under financial pressure and need help. According to the research results:

- Over 70% of Baby Boomers said the GFC has caused the value of their assets to erode
- Nearly 75% of Baby Boomers are paying more attention to their personal finances compared to a year ago
- For Baby Boomers with Generation Y adult children, nearly half are no longer willing or able to provide the same financial support and feel guilty when their adult children ask for help or support
- 80% of parents of adult children wish their children planned for their future better. They want their children to spend less on non-essential items, save more, be more financially independent and not to expect as much financial help
- Key issues for Generation Y are that they don't know how to budget or save. 24% have never had to budget and save and just 36% rated themselves as experienced at budgeting and saving

How to manage a budget – more money and less debt

For many families the answer lies in developing and maintaining a budget. Drawing up a budget will enable you to:

Continued on page 2

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- Establish a bottom line budget to determine your income, expenses and investments
- Reduce your spending and increase your savings
- Pay off debts quicker
- Work out the goals you want to achieve
- Knowing your bottom line helps you make better financial decisions

It boils down to good financial planning. Sitting down together and working out the goals and needs of everyone and devising a plan that will ensure everyone meets their goals.

The aim of any good financial plan is to make both generations financially secure. For parents it means ensuring their finances are in order – debt paid, wills and estate planning in place. For young adults it often means both generations working together to instil good financial habits – like debt management, saving and investing.

Speak to your financial adviser today about how you can more effectively manage your family finances.

Source | BT Financial Group

¹ St George research

Are you a goose?



If you found the goose that laid a golden egg, would you insure the golden egg or the goose?

What is your answer? Without hesitation, I hope your answer is 'the goose'. If you are working and earning an income then you are a goose.

Consider this – do you think you could continue your current lifestyle without your income?

If the answer is 'no' then you should definitely discuss the benefits of income protection with your financial adviser. There are very few of us who could live without an income, especially taking into consideration today's economic environment.

Most people wouldn't dream of driving without car insurance, but aren't the passengers in the car more important? You would always ensure a diamond ring, but isn't the person wearing it worth a whole lot more?

One thing that most people don't stop to realise is that the greatest asset you have... is you!

One of the real concerns for the Australian life insurance industry is the fact that policyholders often cancel their insurance policy because their premiums become unaffordable. They pay for their premiums year after year, and then at a certain age, they can't afford it so they cancel the policy – often when they need it most. This issue is of major concern for the advisers.

A new premium option, which may help address this growing problem, is optimum premium. Recently introduced to the Australian market, this new premium option sits in the previously uncharted space between stepped and level premiums. Optimum premium has been developed to assist clients in keeping their life insurance cover for the long-term.

Prior to Optimum, there were only two premium options available to policyholders:

1. **Stepped premium:** A more affordable premium initially which increases each year according to your age and therefore becoming unaffordable for many.
2. **Level premium:** A premium option which is approximately double the cost of stepped initially, but remains level based on your age when you purchased your policy.

How does optimum premium work?

Optimum premium enables you to commence paying for your premiums on a loaded stepped premium and then at a given point depending on your age and the product you have selected, the premium converts automatically to a level basis. Your policy remains consistent and affordable. Never before has there been a premium like this in the market place.

Insurance is only valuable if you have it in place when you need it most. The optimum premium option enables you to keep your policy for longer.

Everyone is different so there will always be varying levels of cover and different types of insurance required, but I ask you the question again...

If you found the goose that laid a golden egg, would you insure the golden egg or the goose?

Could you afford to live without your income?

Your income is vital; you need to insure it, for as long as you continue to work.

To find out more about the new optimum premium, please speak with your financial adviser.

Source | Elise Sanders | AIA Australia

Super estate planning

“There are only two things certain in life death and taxes”

This well versed quote from Benjamin Franklin is familiar to many of us yet surprisingly, many people fail to adequately prepare their affairs to ensure the orderly and tax effective transfer of their wealth to the next generation.

Many Australians have a will, and expect that this will address their wishes on their death. However, unbeknown to many, a person's second largest asset (after their family home) is not covered by their will.

Over recent years, superannuation has become the largest asset many people have, after their family home. Yet superannuation is, in the most part, not included for distribution as part of a deceased person's estate.

Superannuation is governed firstly by the “trust deed” of the superannuation fund to which a person is a member. Whether the fund is a retail or industry superannuation fund, employer sponsored fund, or a self-managed super fund, the trust deed is the primary source of reference when determining how a person's accumulated benefit will be dealt with on death. Superannuation legislation also governs the payment of superannuation benefits.

Superannuation law requires a member's death benefit to be paid to a dependant of the member (this includes a spouse of the deceased member, their children, and others who may be financially dependent on the member). A death benefit may also be paid to a deceased member's legal personal representative (their executor), in which case, it will be dealt with in accordance with the terms of the will.

Many superannuation funds allow members to nominate one or more dependants to receive their death benefit in the event of their death. Nominations can be either binding, or non-binding nominations. In the case of a non-binding nomination, or where no nominations of beneficiary is made by the member, the trustees of the superannuation fund will exercise their discretion in determining to whom a deceased member's death benefit will be paid. Where a non-binding nomination has been made, it may be overridden by the trustees of the fund.

On the other hand, a binding death benefit nomination, provided it is properly made, is binding on the trustees of the fund and does not allow for any trustee discretion in determining to whom the benefit is to be paid. A binding death benefit nomination can be useful in cases where absolute certainty is required in terms of the payment of a superannuation death benefit.

However, not all superannuation funds will allow their members to make a binding death benefit nomination. Information on the types of nominations that can be made will generally be available in the printed material produced by the superannuation fund, or on their website.

Planning what will happen to your superannuation on your death is a very important matter. An effective superannuation estate plan can result in the right beneficiary or beneficiaries receiving their due entitlement in a timely and tax effective manner.

As no two circumstances are the same, super estate planning is something that needs to be undertaken on a personal basis.

For advice on the most appropriate structuring of your superannuation death benefit nominations, speak with your financial adviser.

Source | Professional Investment Services



Tips to save money

Here are great ways that can help you better manage your finances and save you thousands each year!

1. Use debit cards or cash. Paying by cash might make you think twice about breaking a \$50 note.
2. Save for the future. Take 10% of your income and put it aside for savings.
3. Get an empty jar for loose coins. Every time you get home put any coins you may have in your pocket or purse into the jar. It won't make you a millionaire but it all adds up over time.
4. Do a credit card check - Go to www.infochoice.com.au or www.canstar.com.au to find out if there are better offers.
5. Avoid late fees and penalties when you forget to pay your bills on time by setting up a direct debit through your bank account.
6. If you make fortnightly mortgage repayments instead of monthly repayments you can make an extra monthly payment each year. With one extra annual payment, you could dramatically reduce the repayment time of your mortgage!
7. Given variable interest rates have fallen considerably in the past year, if you keep paying the higher repayment you'll wipe years off your loan.

Continued on page 4

Tips to save money continued...

Household related:

1. Prepaid mobile phones are generally cheaper than contracts or if you use your mobile a lot you should look at capped plans.
2. Skip takeaway, cook at home instead.
3. Thaw frozen foods fully before cooking.
4. Fridges account for a large portion of household energy because they run 24 hours a day. Ensure they are running efficiently by not opening the door too often and keeping them well filled.
5. Use off-peak energy offers and try to run electrical appliances during off peak times eg. run the pool pump overnight (if permitted by your local council) or use dishwashers and clothes-dryers off-peak.
6. Finish your dishwasher cycle before the drying cycle and leave the door open to dry dishes.



7. With shirts and blouses, dab the backs of buttons with some clear nail polish to stop the thread unravelling.

Transport and auto:

8. Check the tyre pressure on your car at least once a month to ensure your tyres are properly inflated. This can improve the fuel efficiency of your car and extend the life of your tyres.
9. If you have a small chip on your car windscreen, try to get it fixed as soon as possible. Fixing an entire windscreen will cost much more than fixing a minor chip.
10. Plan your car trip ahead of time to ensure you take the most direct route and avoid any possible traffic delays at peak hour traffic times.
11. Remove any unnecessary items from the boot or the back seat of your car. These all add unnecessary weight and can considerably reduce the fuel efficiency of your car.

12. If you don't use your car roof racks often, remove them. This will reduce the level of drag on your car when driving.
13. Use supermarket petrol discount coupons.
14. Fill up on Tuesday or early Wednesday.
15. If you regularly use public transport, buy a weekly, monthly or quarterly ticket.

Holidays and travel:

16. Airfares are cheaper in advance and if you book online.
17. Flying mid-week is also cheaper.
18. Book discounted flights with Jetstar on their Friday Frenzy between 4-8pm. Virgin Blue also have "red-hot" deals.
19. Online booking sites like www.wotif.com.au and www.lastminute.com.au are perfect for spur-of-the-moment deals.

Entertainment & lifestyle:

20. Gym memberships average \$20 a week so unless you are a regular, it is not value for money.
21. www.strawberrynet.com is excellent for cosmetics, skin care and hair care.
22. Instead of going to the cinemas, save your money by staying at home and hiring a DVD instead.
23. Go to the movies on "cheap Tuesdays".
24. Cut-back on your alcohol intake. A month of not drinking any alcohol will save money and can also improve your health.
25. You can buy discounted wines and other alcoholic drinks at www.langtons.com.au, www.graysonline.com.au, www.sterlingwine.com.au
26. Bring your lunch to work, don't buy it. This will pay for your holiday over a year!

General shopping tips:

27. Write a grocery list before shopping and stick to it.
28. Over-60s, where possible, ask for a seniors discount and call Senior Shopper offers on 1300 366 265 to find the best deals.
29. Buy birthday and Christmas presents early. Mid-season, end of financial year and mid-year clearance sales are now on.

Source | Colonial First State

Please note: some of the tips used in this article were sourced from Tilbury, A., 2009. 400 ways to save money. The Courier Mail, February 28-March 1, p46 and p67, and February 21-22, p46.



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