winteredition 2015

financiallyspeaking

Brought to you by your Financial Planning team at Adviser fp Pty Ltd an Authorised Representative of Lonsdale Financial Group Limited

The investment Hunger Games

The 2015 investment landscape could resemble the plot of *The Hunger Games*, where investors face a changing and unexpected environment that requires multiple talents and smarts to emerge victorious. Expectations for 2015 are for global share market returns of 5 – 10 per cent, but there could be some volatility ahead.

At the beginning of 2015, global cash rates were close to zero and bond rates both internationally and in Australia were close to multi-decade lows. The Australian share market delivered flat returns over 2014 (a price return of just +1 per cent), and at the beginning of 2015, stood at levels which were no higher than 2006. With patchy global economic growth and with Australia in particular facing a painful adjustment phase as the resources boom winds down, there's no shortage of challenges to tackle.

Inside this edition

Adviser fp
Creating, managing and protecting wealth

Suite 3, Level 2, 100 George Street,
Parramatta NSW 2150
www.adviserfp.com.au
Phone: (02) 9633 3300
Email: reception@adviserfp.com.au

LONSDALE

Lonsdale Financial Group Limited
AFSL: 246934
www.lonsdale.com.au

What will it take to 'win' in 2015?

1	2	3	4
Be prepared to adapt quickly to changing market conditions.	If you choose freedom, you must accept the risk.	You may need to search further to gain returns.	Be alert for opportunities.
"May the odds be ever in your favour" is the popular catchcry from *The Hunger Games*, highlighting the element of chance. This saying may provide little comfort, but a lot can be done to tilt opportunities in your favour. However, the range of likely returns around those forecasts (the 'standard deviation of return') is large: plus or minus 20 per cent for shares, versus a well-behaved plus or minus 5 per cent for high-yield debt.	Your risk profile is important in determining whether you are able to access well-valued assets that may take time to pay off, or whether you need to be more prudent with your investment choices. As we move further into 2015, we observe stretched global share valuations, a US Federal Reserve system preparing for higher official interest rates, pressure in commodity markets in some emerging economies and a continued winding down of the resources boom that has underwritten the Australian economy for so many years. Be mindful of the investment risks you take and maintain a long-term perspective of your goals and risk tolerance.	In 2015, the local Australian economy will have to deal with weaker commodity prices and collapsing resource capital spending – problems potentially compounded by a downturn in the housing cycle. Investors looking to gain exposure to economies that are in a more dynamic phase of the economic cycle will therefore need to consider markets in the Asia-Pacific region, within the Northern Hemisphere developed world, and in the emerging world more generally.	In an environment where nothing is as it seems, the lead character in *The Hunger Games*, Katniss, remains on guard to access valuable supplies. Likewise, given the unpredictable investment landscape, one of the lessons of 2014 was to stay diversified across a full range of asset classes. We expect more of the same unpredictability in 2015. In this environment, active management becomes especially important – investors must have wide-ranging sources of opportunities, an eye for making timely decisions and a nimble process.

The bottom line: believe that adversity offers an opportunity to do your best.

Even if the financial markets resemble *The Hunger Games* in 2015, it's possible for investors to weather twists and turns by having a diversified investment mix and making wise choices based on their long-term goals.

Source: Russell

For more information on the outlook for investment markets, speak to your financial planner.

Getting ahead in your 50s

Life in your 50s is great. You don't have a huge mortgage, the kids have grown up and are not as dependent on you, your career has progressed… So what is next financially?

When you are in your 50s, you can see retirement on the horizon. Sure it might be 10-20 years off, but it is becoming more tangible. So if you haven't already, you need to start some serious planning.

Decide on your lifestyle

Up until now you may have been reactionary in your lifestyle, with mortgage payments and work pressures being the biggest worries. But you need to start thinking about how and where you want to live for the next 30 or more years. Do you want to stay where you are? Downsize? Always wanted to move to the beach or bush?

Figure out how much you need

Once you have decided how and where you want to live, you will need to set up plans to achieve it. There are a couple of things you can look at to ensure you are on the right track:

- **Superannuation** – Is your super invested appropriately? Do you need to contribute more now so that you have enough for the future?
- **Investments** – If you have managed funds, shares or property, are they invested strategically to help accommodate your changing lifestyle?
- **Insurance** – Do you have the right level of life and income insurance? Are you and your family covered if anything happens?
- **Daily finances** – Are you spending money on things you don't use? If the kids have moved out, are there ways you can scale back?

Start catching up now

You might find that you are further behind than you thought for your ideal retirement lifestyle. This happens to a lot of people but it is never too late to make a change. You could be at the peak of your earning potential, so that means you have a chance to save more and make up for lost time.

Get help

Everyone's financial needs and goals are different and it's worthwhile seeking professional advice before you make important financial decisions. Your financial planner can provide you with strategies to help make your ideal retirement lifestyle a reality.

Source: IOOF

Protect your earnings and reap the tax benefits

Your most important asset is your capacity to work and generate an income. If you are unable to work due to sickness or injury, how would you continue to meet your financial obligations and continue your present lifestyle?

Being unable to work due to sickness or injury is a very real and frightening circumstance. Six in ten Australians will be disabled for more than one month during their working life and one in four will be disabled for more than three months[1]. Despite not being able to earn an income, your financial commitments will continue despite the fact you are not working. Risk needs to be managed to ensure that you can continue to support yourself and your family during the time that you are incapacitated. Personal risk insurance is one way of managing this risk – income protection provides a monthly income stream to compensate for your lost income when you are unable to work due to sickness or injury.

Income protection premiums are generally tax deductible as the premiums represent the cost of protecting your income stream. The benefit of the tax deduction is tied directly to your taxable income and can represent a substantial reduction in premium in your after tax cost.

As you approach the end of the financial year, reviewing your current income protection needs may have an added tax incentive. After discussions with your planner, you may be able to pay for the annual cost of cover in this tax year and secure a full tax deduction for the cost of cover.

Income protection premiums may be funded using your accumulated superannuation balance – meaning you do not have to fund the cost of premiums from your earnings or savings.

Income protection insurance inside superannuation offers a cash flow advantage by using the accumulated balance in your superannuation account. This strategy does not require you to pay any additional premium from your earnings or savings. Your financial planner will arrange the payment of the income protection premiums from any superannuation account whether directly in your current fund, or via a rollover to the income protection policy.

It is important to note that income protection inside superannuation is not always appropriate and needs careful consideration from your planner. Using your superannuation account balance to fund an income protection insurance premium will erode your retirement savings – the impact of such needs to be discussed to ensure you can still meet your retirement goals.

Your financial planner will talk to you about the limitations that exist when funding an income protection premium through superannuation. There may be some benefits that are important to you that cannot be offered through superannuation. In this case, you may be able to split the cost of your income protection premium using superannuation and after tax earnings. In this scenario, your superannuation account can fund up to 95 per cent of the total premium, ensuring that there are still significant cash flow benefits in this model.

Few consumers have the ability to navigate through the opaque and complex taxation and regulatory rules relating to income protection. However, it is vitally important for all income earners to consider what happens if they are incapacitated, and how to manage this risk. A discussion with your financial planner will help you to formulate a strategy that is both appropriate and cost effective.

Source: TAL.

1 Fabrizio, E (2007) Australia & NZ Disability Income Experience www.actuaries.org/IAAHS/Colloquia/Cape_Town/Walker_-_Income_protection.pdf AIHW (2008) Cancer in Australia: an overview 2008, Cancer series no. 46, Cat. no. CAN 42, Canberra

Is an SMSF right for you?

Self-managed super funds (SMSFs) are the largest and fastest growing super sector in Australia and for many good reasons. But before you start an SMSF, it's important to weigh up both the advantages and disadvantages and consider seeking advice to determine whether an SMSF is right for you.

The advantages

SMSFs can offer a number of features and benefits generally not available with other super options.

More investment control

You can establish your own investment strategy and directly control where and how your super is invested.

More investment choice

You can select from a wider range of investments including all listed shares, some unlisted shares, residential and business property, and collectables such as artwork, stamps and coins.

One fund for the family

You can set up a fund for yourself and up to three other people and consolidate your super balances. This could enable you to invest in assets of higher value than if you set up a fund with fewer members, achieve greater estate planning flexibility, and reduce fund costs.

Borrow to make larger investments

Your SMSF could make a larger investment in assets such as shares and property by using cash in your fund and borrow the rest.

Tax savings

With SMSFs you can take greater control over the timing of tax events, such as, starting a pension without triggering capital gains tax when your superannuation assets move into pension phase. You may also have the option of transferring assets that you own into your SMSF.

Greater estate planning certainty and flexibility

You can nominate who you would like to receive your super when you pass away, without having to meet some of the constraints that apply to other super funds.

The disadvantages

While an SMSF can offer greater opportunities to take control of your retirement savings, there are some potential disadvantages you should also consider.

Higher costs for lower balances

SMSFs generally only become cost-effective if the fund has $200,000 or more invested. This is particularly true where you outsource and pay for most or all of the fund administration.

Greater responsibility

When you set up an SMSF, you and any other fund members will generally need to be trustees (or directors of the corporate trustee) and will be responsible for meeting a range of legal and other obligations.

Harsh penalties for breaches

The Australian Tax Office has the authority to impose various treatments to deal with SMSF trustees who have breached super laws. These include:

- requiring trustees to complete certain educational requirements within certain timeframes
- disqualifying an individual from acting as a trustee or director of a corporate trustee
- imposing significant administrative penalties on individual trustees and directors of corporate trustees of up to $10,200 per breach
- applying through the courts to impose civil and criminal penalties, and
- giving notice to a trustee to freeze the SMSFs assets where it appears that their conduct is likely to adversely affect the interests of beneficiaries.

Time consuming

You will need to have enough time, knowledge and skills to manage your own super and meet your legal and other obligations.

Seeking advice

You should seek professional advice or guidance from your financial planner when deciding on the best superannuation solution for you. It is recommended that you also seek advice from a registered tax agent to determine the tax implications before setting up an SMSF.

Source: MLC

Five steps to consider before entering an aged care home

If the need for residential aged care is nearing you or a loved one, following these five steps will help you make a smoother transition.

1. Get your eligibility assessed

Before you can enter an aged care facility and receive Government support, your health situation must be assessed by the Aged Care Assessment Team (ACAT)[2]. The assessors are generally health professionals who specialise in aged care.

This is a free service that can be done at home, in a health centre or hospital. The purpose is to determine whether you are eligible to move into residential care, or can access a range of care services that would enable you to stay in your home longer.

2. Find a suitable facility

Once ACAT has determined your eligibility for residential aged care and the care services you may need, it's a good idea to visit a few facilities.

Remember each facility is different and not all aged care facilities will be able to meet your care needs.

3. Work out the cost

While the Government provides some funding for residential aged care facilities, those who can afford it are expected to contribute to the cost of their care.

The four different fees you may be asked to pay include:

- **an accommodation payment** – for your accommodation in the aged care facility, which may be paid as either a lump sum, regular instalments or a combination of lump sum and instalments
- **a basic daily fee** – which will usually be payable by all residents and is a contribution towards daily living costs, such as nursing, personal care and meals
- **a means-tested care fee** – which is an additional contribution towards the cost of care that you may need to pay depending on the assessment of your income and assets, and
- **an extra services fee** – which may be payable if you choose a higher standard of accommodation or additional services and it varies from place to place.

4. Seek advice

Moving into residential aged care can be financially challenging. However, obtaining financial advice can help reduce a lot of the stress by helping you to:

- determine which fees may be payable
- implement strategies that could reduce your care costs and/or increase social security entitlements, and
- ascertain whether care at your preferred facility(s) is affordable for you.

In conjunction with a solicitor, your financial planner can also help to ensure your estate planning affairs are addressed as you will need to consider:

- selling, renting, retaining or transferring ownership of your family home
- reviewing your enduring power of attorney
- reviewing your Will (including the benefits of including provisions in your Will that establish a testamentary trust upon your death), and
- reviewing your superannuation death benefit nominations.

5. Apply for an aged care facility

Once you've decided the type of care you want and can afford, and your estate planning affairs are in order, it's time to apply. It may be a good idea to lodge an application with a few places and ask to go on the 'waitlist' in case your preferred aged care facility is not available.

If you are offered a place, you must be given a copy of the accommodation agreement before you move in. This agreement sets out the key terms and conditions and it should be reviewed by a legal professional. You must sign the agreement and decide how you will make the accommodation payment within 28 days of entering the facility.

Source: MLC

Speak to your financial planner to discuss your aged care options.

2 An Aged Care Assessment Team is referred to as an Aged Care Assessment Service (ACAS) in Victoria. In this article a reference to ACAT, includes a reference to the Victorian ACAS.

Maximise your opportunities for the end of financial year

June 30 is fast approaching but there's still time to consider strategies to help you build your wealth and reduce the amount of tax you pay.

1 Pay interest in advance

Borrowing to invest may be a tax-effective means of wealth accumulation. This type of strategy lets you purchase property, shares, or any other asset that generates assessable income, by bringing forward next year's interest cost, and allowing you to claim a tax deduction for those costs this financial year.

2 Make a concessional contribution to super

If you are self-employed, or earning less than 10 per cent of your income from an employer, you can generally claim a tax deduction for super contributions up to $30,000 (or $35,000 if you were aged 49 or over on 30 June 2014). The Federal Government also pays a 15 per cent low income superannuation contribution of up to $500 on concessional contributions made by individuals with a taxable income of less than $37,000.

3 Protect your income and save on tax

Income protection insurance not only pays you a monthly benefit of up to 75 per cent if you become unable to work due to illness or injury, but also allows you to pre-pay your premiums and claim a tax deduction. If you pay your premiums in advance, you can claim a tax deduction for next year's premiums in this financial year.

Speak to your financial planner to discuss your end of financial year strategies.

Source: Zurich

After July 1, consider the following:

1. Have your financial goals changed?

Your goals can change greatly from year to year. Major life events such as serious illness, the birth of a child, or the death of a parent or spouse can all result in significant changes to your wealth management goals.

2. Prioritise your goals

It's important to be realistic about how soon you can accomplish your financial objectives. For example, reducing any personal loans is likely to be a short-term goal, setting funds aside for your child's education could be a medium term goal. Paying off your mortgage and providing for retirement are long-term goals.

3. Be investment savvy

Make sure that your investments support your appetite for risk and your objectives. A tailored analysis will address your individual risk preferences. Regular portfolio reviews with your planner are essential to determine any sell-downs or top-ups that would benefit you.

4. Do you need to change your financial strategy?

Your financial planner has the tools and knowledge to create projections that take into account changes to your goals, risk level, and the timeframes for achieving them. These projections will help you to see where your plans for savings, assets or investment contributions may need updating.

Do you really have to play big, to win big?

Achieving any goal in life usually involves starting with a plan. Investing is no different. One of the most important things to understand before you embark on an investment plan is the relationship between risk and return.

Some investors focus only on maximising returns without considering the risk taken to achieve those returns. Others are so concerned about losing money that they seek to avoid risk altogether. Yet the single, most important lesson investors can learn is that risk and return cannot be separated.

Common risk profiles

There are many investments available with different levels of risk to cater for investors of different risk profiles. As the investment timeframe is naturally linked to life stage, risk profiles can be generalised across age groups (that is, the younger you are, the longer investment timeframe you have and the more aggressive you can be). There is no 'one size fits all' approach to risk profiling among age groups.

There are a number of risk profiles, but for the sake of this article, we have outlined the three main profiles:

Conservative

Conservative investors are generally prepared to accept lower returns with lower levels of risk in order to preserve capital. Conservative portfolios tend to be allocated predominantly to defensive assets, such as cash and fixed interest, with the remainder in growth assets.

For this reason, people in retirement (in the wealth protection phase of their investment journey) may adopt a more conservative attitude to risk. They have less time to ride out the ups and downs of the share market and tend to have less of their portfolios allocated to shares and other high risk asset classes.

Balanced

Balanced investors generally have more of an equal mix of growth and defensive assets, and are comfortable with taking calculated risks to achieve good returns.

Growth

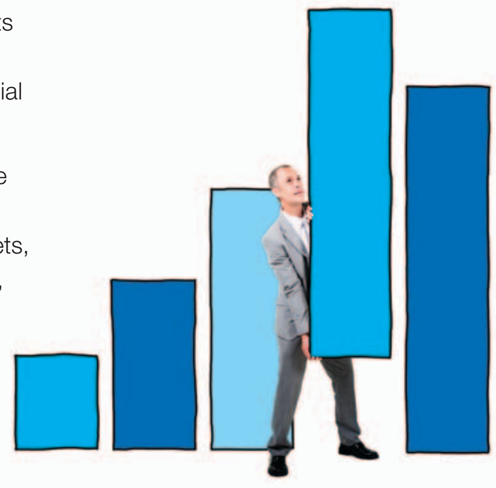
Growth investors are more comfortable with a higher level of risk in order to achieve potentially higher returns. Their prime objective is to accumulate assets over the medium to long-term and capital security is secondary to potential wealth accumulation.

Investors in this category can therefore expect to have around 85 per cent of their portfolio allocated to growth assets, although still diversified across shares, property and alternative assets.

Whichever risk profile you may fit into, the most important consideration when it comes to investing is that your investment plan needs to be tailored to your individual needs and goals.

To learn more about how your risk profile will impact future savings, talk to your financial planner.

Source: Macquarie



LONSDALE

Lonsdale Financial Group Limited
ABN: 76 006 637 225
AFSL: 246934
Level 6, 161 Collins Street
Melbourne VIC 3000

Adviser fp
Creating, managing and protecting wealth

Suite 3, Level 2, 100 George Street,
Parramatta NSW 2150
www.adviserfp.com.au
Phone: (02) 9633 3300
Email: reception@adviserfp.com.au