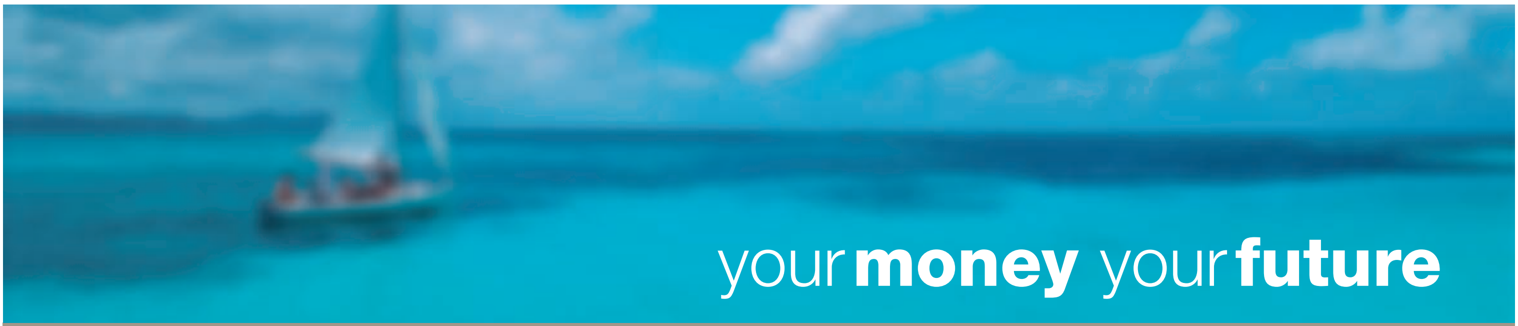

your money your future

FINANCIAL PLANNING NEWSLETTER

Making the most of the asset building years

During their 20s and 30s, most people focus on the basics of financial security. It's a time when many individuals commit to a long-term partner, start a family, put a deposit on their first home, start saving for retirement (even if it is via compulsory super contributions), and perhaps start thinking about personal investments.

By the time you reach your mid forties, things have usually changed quite a lot. You've progressed in your career and you'll typically see your salary and net worth steadily rising, along with your living expenses. More importantly, you are just about to enter your peak earning years, the time when your skills, dedication and experience often earn their maximum reward. In terms of building assets, these can be your golden years so it is important you plan to use them effectively.

Sorting out the options

This is a period of many options, and a few risks. Sylvia and Gerry's story raises a host of different possibilities and may help you think about your own journey.

Should you concentrate on paying off your mortgage? Reducing your tax? Building your personal investment portfolio? Making a career change? Investing for a more comfortable retirement? Or a combination of these strategies?

Coming up with the right answers means some serious thought about what your life and investment priorities are, and sitting down to talk with your adviser may help. The answers are different for each of us, and getting them right is the key to maximising the financial possibilities that these peak earning years present.[1]

Sylvia and Gerry's story

Sylvia runs her own catering company which she has built from scratch while Gerry, also in his mid forties, is a structural engineer. The older of their two sons will be completing school next year.

Gerry was recently promoted and the boost to his salary package means they expect to have at least $13,000 to save, invest or spend in the coming year. Gerry intends to continue salary sacrificing to build up his super fund which now stands at $267,000 while Sylvia has accumulated $22,000 in her fund. She plans to boost her super when she sells her catering business sometime after she reaches 55, or the boys have left home.

They believe their insurance cover is adequate; however, they ran down their modest cash reserves to support Sylvia's new business and have not got around to building that up again. They want to add at least $15,000 if they can.

Continued next page

1 http://www.steadyfinance.com.au/financial-fitness-for-the-over-40s.html

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charter financial planning

The new frontier

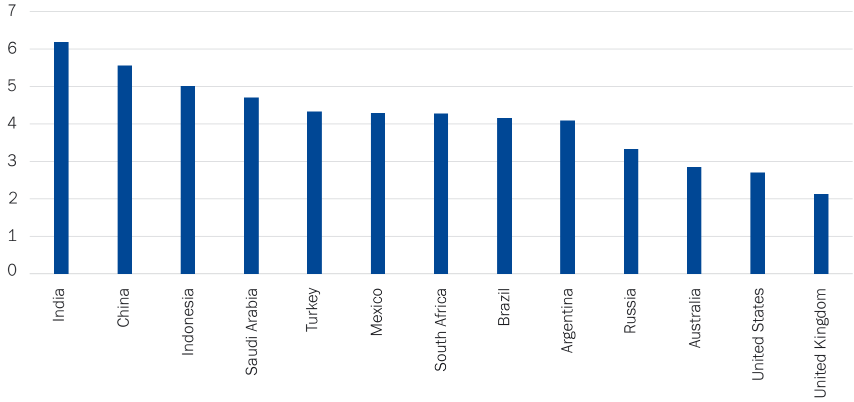
The so-called BRIC economies of Brazil, Russia, India and China were tagged in 2001[1] as the powerhouse of economic growth in the developing world, regularly reporting strong growth figures amidst some tough conditions.

But other emerging economies – Mexico, Indonesia, Turkey and Saudi Arabia among them – are fast being recognised as part of the next global growth wave.

The World Bank predicts that by 2025, six major emerging economies (Brazil, China, India, Indonesia, Korea, and Russia), will collectively account for more than half of all global growth.[2]

In its 2006 report The World Beyond 2050, PriceWaterhouseCoopers predicted the BRIC economies plus Mexico, India and Turkey, will be 50 per cent bigger than the existing G7 made up of the United States, Germany, Japan, the United Kingdom, France, Italy and Canada.[3]

Projected Average Annual GDP Growth Rates, 2009-2050
(per cent change, year on year)



Accessing the opportunities

Understandably, investors may want to tap into the growth potential of these rapidly expanding economies. Indeed, many Australians will be already benefiting from the myriad growth stories through the domestic and international equity portion of their existing superannuation and investment portfolios.

Major Australian companies listed on the Australian Securities Exchange such as BHP, Rio Tinto and the major banks are actively involved in bilateral trade and investment in emerging economies across the globe.

With the top ten listed companies making up more than 40 per cent of benchmark S&P/ASX 300 Index, these companies form part of most people's equity portfolios.[4] A well-diversified portfolio will also have some international exposure through either direct investments or professionally managed funds with expertise in these exciting but unpredictable developing economies.[5]

Comparative growth rates

The following graph highlights the comparative growth rates projected for the next 40 years for the G20 group. On this view, India and China remain dominant, but the 'new wave' countries are expected to outperform the BRICs as well as developed economies like the United States and Australia.[6]

Double the growth

To put the projected growth rates into perspective, between 2011 and 2025 emerging economies are expected to collectively expand by an average of 4.7 per cent a year or more than twice the developed world's 2.3 per cent rate.[7]

While much recent focus has been on the meteoric rise of China and India and the important role they play in the growth of other countries, including Australia, clearly there are plenty of other countries capturing the attention of companies and investors.

Two significant sectors to focus on in most emerging economies will be commodities and consumers. Demand for commodities is high as countries develop their infrastructure: cities, railways, roads and housing. Consumers are critical because with development comes increased demand for goods and services as more people have higher incomes.

Rising consumption on our doorstep

With a growing middle class in developing countries, consumption trends are likely to strengthen. Improved standards of living and increased purchasing power will continue to drive demand for goods and services such as cars, electrical and household goods, personal computers and mobile phones.

Australia's closest neighbour, Indonesia, has one of the fastest growing middle classes among its emerging peers, expanding at a rate of up to seven million people a year.[8]

The potential strength of this country with its 237 million people has not been lost on Australia, as its demand for our commodities and other goods and services is strong and Australian investment already exceeds $5 billion.[9]

For example, one of Australia's largest investors in Indonesia is BlueScope Steel's investment in metallic coating. Leighton Contractors Indonesia has made several strategic investments, and ANZ has plans to expand on its $2 billion in existing assets.

The direct investment story by major Australian companies is repeated in several emerging economies.

In Mexico the focus for Australian companies has been in mining, consolidated services linked to finance and leasing arrangements and manufacturing. Macquarie Bank, Orica, Rio Tinto and Amcor are already making their presence felt.[10]

In Korea, Australia's third largest trading partner, Macquarie Bank is active in funds management and infrastructure investment while ANZ also has a presence, as it does in much of south-east Asia.[11]

If you want to speak with us about your existing exposure to growth in emerging economies in your superannuation fund or investment portfolio, please contact us.

1 Goldman Sachs, Building Better Global Economic BRICs, Jim O'Neill, 2001
2 *Global Development Horizons 2011–Multipolarity: The New Global Economy* The World Bank
3 The World in 2050; Beyond the Brics, PWC
4 Press Release by Standard and Poors http://www.standardandpoors.com/indices/sp-asx-300/en/us/?indexId=spausta300audff--p-au
5 ibid
6 The G20 in 2050, International Economic Bulletin, Uri Dadush, Nov 2009. (Data: IMF, author's calculations).
7 *Global Development Horizons 2011–Multipolarity: The New Global Economy* The World Bank
8 ibid
9 Fact Sheet by Department of Foreign Affairs and Trade http://www.dfat.gov.au/geo/fs/indo.pdf
10 ibid
11 ibid

The new workplace: being prepared

It seems that most weeks bring news of redundancies. Across industries as varied as manufacturing, financial services and retail, companies are shedding staff to manage rising costs and stay competitive.

The days of having a job for life are certainly gone, which means that almost everyone in employment today should know how to respond if they or someone close to them has to deal with redundancy.

But redundancies or not, it is healthy for everyone in the workforce to plan what you might do in the future, to think about your skills, how transferable they are, and whether it is time for a career change.

Work trends

The modern work place is certainly changing.

One noticeable trend is workshifting, where employees have the flexibility to be connected and productive around the clock, regardless of location. Technology like smart phones, laptops and tablets means that people can work from almost anywhere, in the hours that suit them best.

Other work trends include contract work and consulting, which give flexibility for individuals and for employers – but that doesn't suit everyone. Many prefer to stay employed in an industry or their skills require specialised work environments, making it impossible to set up their own business and go it alone.

Knowing current employment trends may help to ensure you have the right skills for the modern workplace, such as communication, leadership and team work.

According to the Department of Education, Employment and Workplace Relations,[1] over the last 20 years employment growth for jobs that generally require a qualification has outstripped the growth in lower skilled jobs by almost two and a half times, and future projections reinforce that trend.

Helen's story

Helen (47) had some inkling that there may be some job cuts in her workplace but was devastated when she was called in and told hers was one of 14 jobs being made redundant. The manager who gave her the news carefully explained it was about the job and not her work performance.

She took home all the papers she received from Human Resources but could not concentrate on them. Fortunately, she rang her friend Jim who had been made redundant two years earlier. His immediate advice was to do what he himself had delayed doing – go to see a financial adviser, to make sure she received advice before she started signing papers.

When she sat down with her adviser, they went through quite a few steps. The first thing they checked were her entitlements such as annual leave and long service leave, to make sure they were calculated correctly and that the tax rates and exemptions had been correctly applied.

Then they did the same with her lump sum payment, designed to recognise her service and compensate her for the loss of entitlements. They also worked out the payment arrangements that suited her so she could respond within 30 days when she received notice from her employer about her termination payment.

After taking advice from her accountant, her adviser also helped her negotiate a final payment so she could take advantage of special rollover provisions to boost her super.

This tied in neatly with their other discussions about her superannuation, once they had checked that all her contributions were within the limits. Even though Helen had not thought a lot about new employment, it helped her clarify her options when she realised she could transfer her super to a new employer fund, a superannuation fund of her choice, or even set up her own fund.

At the same time, they reviewed her current insurances covered by her previous superannuation fund and worked out which to continue or transfer.

Helen now felt much more confident about her future, and had a clearer idea of what she wanted to plan for in the next phase of her working life.

It is true that redundancy can be stressful, but a financial adviser can assist you with the complexities around entitlements and cash flow management in what can be an exciting new phase in your life.

1 Australian Jobs 2011, p 24. www.deewr.gov.au/australianjobs

A helping hand for self managed super

Help is at hand if you want the benefits and independence of running your own self-managed superannuation fund (SMSF), but not the burden of administration.

Even the most independent SMSF trustee can't do it all by themselves. A recent survey[1] showed that 71 per cent of SMSFs sought professional advice about their fund, demonstrating that most SMSF trustees recognise the value of external support.[2]

You can outsource virtually everything from fund administration to choice of investments, without losing control and flexibility, which are probably key motivations for setting up an SMSF. The only thing you can't outsource is your responsibility as a trustee to ensure the fund is properly managed and complies with all the rules.

Outsourcing administration

You may elect to outsource all the administration or just the end-of-financial-year requirements. Administration can, after all, involve a lot of time and effort; and working out such things as investment cost bases is not for everybody. Your financial adviser can provide you with access to systems and platforms that simplify the management of your SMSF.

A key to a successful SMSF is to make sure the fund is compliant at all times. Issues include ensuring both concessional and non-concessional contributions are within their respective caps, continuing to meet the sole purpose test, and ensuring the minimum pension payments are made. This is when it can prove invaluable to seek assistance, as a professional administration service keeps track of all these issues.

Outsourcing investment choices

Aside from the administrative part of an SMSF, many trustees may not have confidence to choose or adjust the investment mix to give the fund's portfolio the necessary diversification to ride the asset class cycles. Given your financial adviser's familiarity with other aspects of your finances, tax strategies and ownership arrangements, they can take a holistic approach to your SMSF.

But even if you can work out your asset allocation, do you really have the time to research every stock in which you want to invest? Your adviser has diverse research resources at their fingertips.

The fund may also need to rebalance the portfolio over time, if the original asset allocation is skewed by positive or negative performance within asset classes.

Being a trustee of an SMSF means you have ultimate responsibility, but by working with your financial adviser, you may enjoy the role even more – and potentially benefit from better returns.

1 Australian Financial Review, Smart Money, reported March & May, 2012.

2 Financial Review Smart Investor reader survey' in the May 2011 edition (PDF)

Investment lessons of a lifetime

Widely regarded as one of the most successful investors in the world, Warren Buffett is as famous for his wit as he is for the investment skills that have put him among the world's most wealthy people. But what can you learn from the insights that have made him so successful?

On investing when the market is falling:

Buffett says, "Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can't buy what is popular and do well."[1] One of his most famous quotes of all: "Be fearful when others are greedy, and be greedy when others are fearful.[2]

On value investing:

"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price" or, more succinctly, "Price is what you pay. Value is what you get."[3]

> "Be fearful when others are greedy, and be greedy when others are fearful."

Buffett's advice is to invest in the future of the business: "If a business does well, the stock eventually follows." He studies annual reports in detail, but warns that "Managers and investors alike must understand that accounting numbers are the beginning, not the end, of business valuation"[4] and, with typical Buffett cynicism: "I try to buy stock in businesses that are so wonderful that an idiot can run them. Because sooner or later, one will."[5]

> "The investor of today does not profit from yesterday's growth."

On timing the market:

Buffett is a long-term investor. As he says of shares, "Our favourite holding period is forever."[6] He freely admits that he has "… no idea of market timing. It's easier to tell what will happen than when it will happen,"[7] and adds that "The fact that people will be full of greed, fear or folly is predictable. (But) the sequence is not predictable."[8] He also agrees it is deceptive to judge future performance by events of the past, pointing out that "The investor of today does not profit from yesterday's growth."

These are not just pithy quotations. Buffett has revisited and expanded these themes many times. He attributes his wealth to sticking with the investment basics – value investing in the shares of quality companies while making a long-term commitment, and staying with the market through good and bad times rather than trying to pick the market's rising periods.

When it is boiled down, Buffett's most valuable secret is no secret at all. Sticking with it is the secret.

1 http://warrenbuffettnews.com/top-20-quotes-from-warren-buffett/

2 http://www.theinvestorsjournal.com/be-greedy-when-others-are-fearful

3 http://www.stockwatch.com.au/articles/fundamental-analysis/warren-buffett.aspx

4 The Essays of Warren Buffett : *Lessons for Corporate America* (2001), p. 183

5 http://www.marketfolly.com/2009/09/top-25-warren-buffett-quotes.html#ixzz1p4BDCmKt

6 http://stockmarketinvesting.com.au/Buying-for-Dividends.html

7 ibid

8 http://www.marketfolly.com/2009/09/top-25-warren-buffett-quotes.html#ixzz1p4BDCmKt