# Your Wealth Bulletin

**August 2007**

**In This Issue**



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**Hi,**

The dust is just starting to settle on the new changes to superannuation so this month we'll focus upon the following:

- Property Within Superannuation
- Income Protection Within Superannuation
- Media Noise Strategies

## Buying Property Within Superannuation

**Property on lay-buy.**

Superannuation is now the most tax effective structure for the majority of Australian investors. The only problem with superannuation in the past has been the lack of 'gearing opportunities'.

For a number of years, investors have utilised Instalment Warrants within superannuation so as to leverage blue chip stocks on the ASX. Technically, this has been a very grey area that the ATO & SIS have chosen to turn a blind eye to.

However, due to their immense popularity, the Federal Government recently proposed legislation allowing these instalment warrants for the use by superannuation funds.

This has caused a flow-on to other investment asset classes such as residential and commercial property. Two recent products include Calliva and SPI to be launched.

Calliva is financed through the Royal Bank of Scotland and allows investors to purchase commercial property within their self managed superannuation fund. They will lend up to 70% of the value of the property. They now have an ATO Product Ruling and a SIS opinion from the ATO Deputy Commissioner.

The benefits for using Calliva are that investors can choose their own commercial property, choose their own tenant and also have no recourse to themselves or their super fund if they default on the loan or walk away from the investment.

As the loan is practically unsecured, there is a 1 to 1.5% higher interest rate.

A similar property finance structure is now offered for residential real estate. However, at present, the underlying property must be from the range of the financier.

If you would like to know more about either property structure, feel welcome to email or call us on 9525 0777.

## Income Protection within Super

### Cashflow benefits

Recent changes to superannuation have included the potential for income protection policies to be held within superannuation.

The benefits of this structure is primarily a cashflow one. The tax deductibility of income protection remains attractive for people to hold their policy outside of super and in their own name. This is due to the fact that most policy holders will be on a higher marginal tax rate than superannuation's (ie. 15%).

Therefore, the tax deductibility makes the policy more affordable after tax.

However, where cashflow is tight, there is the potential to structure an income protection policy within superannuation. This means that the super fund can pay for the policy via your ongoing contributions.

The insurance companies are in preparation to launch this offer within their PDS's and many expect to be fully operational by October.

The downside will be that many policies will be of a standard nature without any lump sum benefits payable, as they will not be able to be paid to the insured. Therefore the contracts will be of a plain, income related nature only.

## Avoiding Media Noise

**Selling papers, getting TV ratings**

For the past couple of years we have urged investors to learn to avoid media hype and titillation. TV, radio and newspapers are there to sell the 'bad news' as it simply (& unfortunately) sells more than the good news.

A recent example of this was in February with the sharp China fall. It was headline news that the market was crashing on tv and front page of the papers. Yet, a couple of weeks later the market recovered and marched on its way.

So it's now August and we have some significant drops in the market due to the credit lending in the US. Undoubtedly, this is going to impact markets. But how much?...........well, who knows.

Is it the end of the world markets as we know it?.........there's been plenty written and spoken along those lines in the media. We are certain that markets will recover and push onto their next high. The only unknown is 'when'.

Let's actually put this into perspective for a moment. Say you were looking to build your retirement savings, so on the 14th August 2006, you invested $100,000 purely into the Australian stockmarket index.

On the 20th July 2007, some 11 months later, your investment would have been worth approximately $135,000.

A week later, the US sub-prime lending issue arose and markets fell.

As of the 13th August 2007, (12 months later), the $100,000 investor in the ASX has seen their portfolio drop from $135,000 down to $126,370. A fall of roughly $9,000 in less than a month.

Making it more unpalatable, the media are banging their drum saying it's the worst market crash for nearly a decade; predictions that things are going to get worse; interest rates are going to shoot sky-high; and so on.

Let's put this into perspective. Say you were the investor that invested $100,000 into the ASX index 12 months ago.

Would you be happy to invest into an asset class that was expected to achieve a 26% return for the next 12 months.

I'm guessing most people would be more than happy to invest in this marketplace. Yet, it is easy to see how people can get distracted by the media noise and hype that their investments have dropped sharply, as the media literally do 'sell' you doom and gloom.

Our advice is to focus upon the long term. Never in the history of the ASX index has there been a period of 7 years where the index has lost value. For the 125 year history of the ASX index, the market's high has always exceeds it's previous high.

The equities asset class will enable you to achieve financial prosperity in a logical, low cost, tax effective manner.

We'll talk more about this volatility next month. But in the meantime, the secret is to remember the following:-

- Invest for the long term
- Invest, don't speculate.
- Diversification is a free lunch for reducing risk and volatility
- Highly Rated, Fixed interest is your volatility dampener.

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If you have any queries about this month's newsletter or would like to discuss your financial situation in more detail, please feel free to email or call our office on (02) 9525-0777. If you would like to forward this email to a friend, click on the forward email link below.

Email: **enquiries@reedfinancial.com.au**
Phone: (02) 9525-0777
Fax: (02) 8521-7215

Web: **http://www.reedfinancial.com.au**

**Forward Email to a Friend**



Reed Financial | Suite 15/50-52 Urunga Parade | Miranda | NSW | 2228 | Australia