Video of the month

Work 7 years straight, then have 1 year off. How does that sound for a work-life balance?

Courtesy of ted.com, Stefan Sagmeister discusses his thought provoking strategy. Click on the button below to watch:

Say Hello!

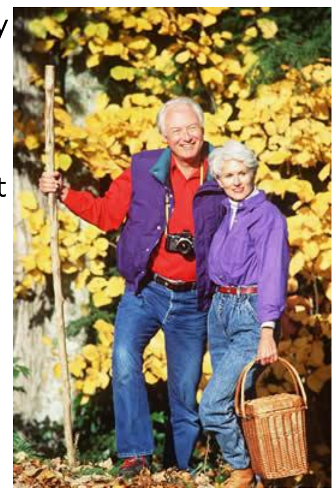
Your Wealth Bulletin

Dear David,

Welcome to the November issue of Your Wealth Bulletin.

"Success often comes to those who dare to act;
it seldom goes to the timid
who are ever afraid of the consequences."
(Jawaharlal Nehru)

Retirement pensions that last forever?



There has been quite a lot of publicity recently about retirement pensions that have their value protected for life.

AXA released their North produce last year where the balance of the fund can be protected, while ING recently launched their fund which locks in a 5% of the fund balance as income, for life.

Sound too good to be true?

Research house Adviser Edge has expressed concerns.

According to Adviser Edge, the merits of the investment vary depending on the choice of term and asset allocation used in the strategy.

Researcher Geoff Watkins says "Overall quantitative results modelling indicated that only very long and/or strong bull markets give rise to performance that is better than that of a simple fixed interest fund".

"The combination of shorter-term cycles in the equity market and ongoing annual fees in the AXA North product depressed returns over long periods, particularly for the 15 and 20-year alternatives. Furthermore, Adviser Edge found that the five to seven-year guarantee alternatives rarely provide value to an investor, yet require the annual fees to be paid for the full term."

The ING company have focussed upon the income side of pensions, rather than AXA's capital protection on the balance of the account.

I attended the recent ING Money For Life product launch and while it looks appealing at first glance, ie. 5% income for your entire life. For example, if you had $200,000 in a pension fund, then you could receive $10,000 per year income....for life!

However there are issues that need to considered such as costs of the product, the choice of investment portfolio, and the impact that inflation would have upon the value of the money, ie. the 5% is not inflation linked, so what will that $10,000 be worth in 5, 10 or 20 years time?

In simple terms, there is no free lunch.

Volatility of markets have the potential to reward investors. We know risk and return are related. To minimise that risk, then there are costs. It is very important to weigh up those costs against the benefits prior to investing.

This isn't to say these types of products are not suitable to you, it will depend upon your personal circumstances.

These two products are the first to market, and given the popularity of these flexible, protected annuity style pensions in the USA, then it's highly likely that more choice will emerge here shortly. For pre and current retirees, this is an area we will continue to keep an eye on.

Article: Doubts cast on AXA North article

90% keen to buy property; but in the wrong place?

According to a new survey, nearly 90% of investors plan to buy property in the next two years.

According to Terry Ryder of Hotspotting, they may be buying in the wrong place and many will overlook the growing popularity of small apartments.

According to Hotspotting.com, the PRD Nationwide research indicates investors are poorly informed about where to achieve that growth, with few interested in outer city suburbs.

Ryder continues, "Results suggests investors are still being misinformed by property industry rhetoric telling them that the "good" suburbs closer to the CBD are the best investments (contrary to the research data, which shows the cheaper suburbs in the outer ring are consistently the best performers on long-term capital growth). Investors are also overlooking the possibilities of key regional centres which provide good prospects for long-term capital growth."

According to the research, two-thirds of investors are seeking long-term capital growth while 22.5% are seeking a good rental yield. Most investors seek properties close to public transport (39%), followed closely by retail and entertainment (21%) and employment (20%). More than half of investors would buy off-the-plan.

Two-bedroom apartments are still most popular, followed closely by two-bedroom-plus-study and three-bedroom apartments.

Investors are seeking apartments between 81m2 and 101m2 in size and only 4% of investors would buy an apartment under 50m2.

Ryder warns, "This suggests investors are unaware of the growing popularity of smaller apartments, including one-bedroom units, in line with demographic trends."

[Article: 90% keen to invest in property]

Using tax for school fees

The ever-increasing cost of education in Australia means that more parents are looking at ways to save for their children's education.

Education funds provide a wide range of portfolio options for investors to choose from, are easy to manage, and are very flexible when it comes to making contributions and withdrawals to pay for education expenses. Generally, there are no penalties for withdrawals, no restrictions on the amount that can be withdrawn and no forfeiture of earnings.

How Do They Work?

The investment income of an education fund is taxed at a maximum rate of 30 per cent. This tax is paid by the education fund - not the investor or the student - and while the earnings accrue within the fund there is no assessable income to declare in the annual tax returns of the investor or the student.

In addition, the fund's tax rate may be lower due to tax credits such as franking credits and foreign tax credits from the underlying investments.

Withdrawals of investor contributions for reasons other than education are also treated as tax-free refunds of capital to the investor.

Using Tax For Education Related Expenses:

Contemporary funds can be used for a broad range of expenditure incurred in relation to primary, secondary and tertiary education and many other approved courses including:

· Courses provided by universities, postgraduate higher-education providers, public and private colleges, TAFE, and special-purpose programs;
· Education programs for children with physical, intellectual or learning disabilities; and
· Courses for mature age students.

Access to fund benefits, including the education tax benefit, does not depend on the student attaining a particular educational standard.

The types of education expenses that can be claimed are not limited to tuition fees. These may also include cost of uniforms, course-related out-of-school private tuition, books, materials, student fees, residential boarding costs, rent and other accommodation expenses can be paid for out of the education savings plan.

Summary

Quite often, the difference between parents being able to afford the type of education they would like for their children is not so much about household income but how soon the saving starts and the priority that is placed on education.

Even a relatively modest savings program can help relieve the burden in future years.

If you'd like to know more, feel welcome to give us a call.

With almost a month remaining for Christmas, our next bulletin will include tips for Christmas budgeting and our "infamous" crystal-ball predictions from the experts for 2010.

Stay tuned!

Warm Regards,

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