REEDFinancial

Your Wealth Bulletin

Dear David,

Welcome to the October edition of Your Wealth Bulletin.

"The average long term experience in investing is never surprising, but the short term experience is always surprising." ~ Charles Ellis

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Generational Wealth

Many of us have the ideal goal of providing a financial legacy to our family.

Starting this process however can sometimes be a complex task, so let's address a few common questions we receive.

The solutions below typically have one key message, start early!

The magic of compound interest and disciplined investing provides you with the opportunity to contribute small amounts now, rather than attempting to find large chunks of money later on.

Below, we have briefly commented upon frequently asked issues that clients have with raising children. But if you'd like to know more detail, please feel welcome to give me a call.

Schooling

There are a variety of methods to fund education expenses. These can include:-

* *Redraw from the mortgage* - Some couples prefer to plow money into the mortgage, thereby saving interest on the home loan, then redraw the money later when it's needed for schooling. My only concern with this strategy is that we can

Video of the Month

David Booth & Eugene Fama on Fund Management

Known as the father of modern economics, Eugene Fama explains his views on market investing.

Money Links

Education Rebates

Environment Rebates

NSW Hot Water & Toilet Rebates

Fridge Buyback

Free NRMA roadside(For 16-20 year olds)

Child Care Estimator

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sometimes forget this money being attributable for this purpose.

Others prefer to allocate funds for their purpose in seperate account. This keeps money siloed away and savings can be disciplined to meet the goal.

* *Bank accounts & Managed Fund Savings* - With a rising interest rate environment, there are options to save for kids educations via bank accounts, or even managed funds as a long term outlook is likely to be rewarded given where we are in the stockmarket cycle.

The primary downside for this form of saving is that the ownership structure could cause tax implications, which reduces the net returns.

* *Education Funds* - These type of funds have been around for many years. The significant benefit is that they are typically established as a type of bond with 30% tax on earnings. However, they also offer additional tax savings where tax on any earnings have the potential to be used so as to pay out education related expenses.

The downside in the past has been that you would have poor investment choices available, as well as strict criteria for when you could access the money, ie. if a child didn't go to university, you may get your capital back, but with no earnings.

Fortunately, there have been new products enter the marketplace that still offer high tax efficiencies, but also offer greater investment choice, as well as flexibility for you to use the education expenses at your own discretion.

Lifestyle Funding

Some parents take the view that the kids should do it the hard way, and earn their own money to fund things such as a deposit for a house, buying their own car, etc.

That makes a lot of sense, and certainly some of the richest men in the world (eg. Bill Gates, Warren Buffett) subscribe to the same theory.

Nevertheless, we do receive queries from parents and grandparents that would like to consider options so as to help them out for when the kids are young adults.

Based upon the size of money needed nowadays for a deposit, it is beneficial to either start when the kids are very young, or update your Will to look after them.

But if you're willing to look at a long term investment, ie.10-20 years, then you do have a wide range of instruments worthy of consideration that may be of interest.

Rather than speculating and dropping $5,000 plus on the wing and a prayer of some 5 cent mining stock becoming the next BHP, you could consider the use of market returns with a combination of leverage to potentially build over time to a significant amount.

For example, let's say you invested $5,000 initially then added $1,000 per year. Over a 21 year period, with 10% returns, this would amount to over $107,000. The use of leverage on a self funding basis, eg. ETF Index Instalment Warrants, could assist either the amount of money you contribute each year, or to potentially boost the return.

Retirement

Parents, and grandparents, typically don't even think of superannuation for their young kids. But it's definitely an attractive component of creating generational wealth.

In fact, this is something of a hobby horse of mine for some time. In a nutshell, if the government decided that they were going to put the Baby Bonus ($5,294) into a newborns super fund, then the next generation could be very close to substantially reducing the need for an aged pension.

Here's an example, a $5,294 super fund invested at birth with funding from the Government. After 21 years, assuming 8% returns and no new contributions are made at all, the fund would be valued at $26,649 ($14,326 in today's dollars @ 3% inflation).

If the 22 year old then worked at a job earning say $45,000 to $50,000 per year, and their employer made $4,000 per year contributions rising with inflation, then by the time they are aged 65, they'd have $2.6 million in their super fund (or $724,000 in today's dollars).

In today's money, this could produce $40,000 to $50,000 in retirement, tax free. It'd ensure a comfortable retirement and don't forget these assumptions didn't include any contributions from them personally.

Unfortunately, this is hardly the policies of election winning governments as newborns can't vote, so it's unlikely we're going to see incentives such as these for the future.

Nevertheless it is worth considering superannuation strategies for families considering long term wealth vehicles for their children.

If a super fund can be commenced while they are young, and even minor amounts contributed every now and then, this is likely to set them up for financial peace of mind when they themselves are parents.

Smart thinking trumps crystal ball

It is not often that we see media publicity about the academic investment principles that we regularly implement with investors.

That's why a recent article in The Australian newspaper was of interest, and worthy of bringing to your attention.

As The Australian article highlights, the DFA methodology continues to provide investors with a long term successful investment experience with after-cost returns that are well ahead of the indice benchmarks.

For the full article, click on the link below:-

Smart thinking trumps crystal ball

If you would like to discuss any of these issues further with us, please feel welcome to ring me on 9525 0777 or emailenquiries@reedfinancial.com.au

Warm Regards!

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Disclaimer:

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