MONEY MATTERS

Spring 2012

Your health and wealth insights…

In this issue...

Welcome to our new and fresh quarterly newsletter.

We have changed the format and email provider meaning that it's taken a bit longer than we expected to set up. We've endeavoured to make our communications a little more blended with some topical financial matters, while also introducing members of our team if you haven't had a chance to meet them before.

For more constant happenings in the office and around the globe, you can also now follow us on Twitter, link via LinkedIn or like us on Facebook (*click the links on our last page*). This quarter we examine the use of Self Managed Super Funds to buy property, which continues to grow in popularity. We also look at the health aspects of preparing for retirement. Neuroscientists continue to undertake research in this area, which I'm sure will assist retirees in coming years.

Jim Parker provides comments upon the risks associated with debts in countries, and we touch upon some questions commonly asked of advisers.

Finally we've slipped in a recipe from the Hospitality Establishment, with what i'm told is an outstanding meal for dinner.

Meet the Team: 10 Questions with Tracey Parkin

1) What's your role?
I am the Client Services Manager. I'm the person that answers all of your questions when you phone up (except for the technical advice parts!).

2) What did you do before this job?
I grew up in England (Lake District). Prior to kids I managed an Orthodontist practice, so not much to do with finance, but the office administration role was a great help to my current position.

3) Do you have any financial planning qualifications?
Yes, I have a Diploma of Financial Services (Financial Planning).

4) Why are you in the financial planning business?
That's a good question!...........sometimes I wonder after days like today. It's a professional field that I enjoy as managing wealth is crucial to everybody's current and future lifestyle.

5) What's the typical day look like for Tracey?
Organised chaos ☺ - kids, husband, full time job what more can I say?

6) What's the favourite part of your workday?
All of our clients have other things in life rather than managing their money, so helping them to get their financial affairs organised is great.

7) Favourite destination and why?
England to go and see my family.

8) Favourite restaurant?
I don't get to go out much with kids and a mortgage, but I like Thai the best.

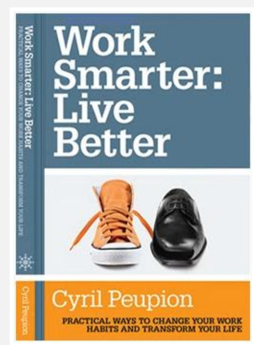
9) If you weren't doing this job, what would you be doing?
Something, I couldn't sit at home, I'd be too bored. I like being busy at work so I think you're stuck with me.

10) Best Money Tip?
Don't go shopping!

Recommended Viewing

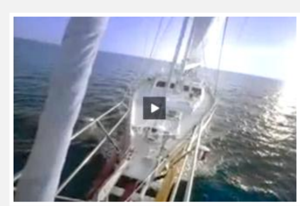
YouTube: Sony Commercial.
http://www.youtube.com/watch?v=5Io_--Ndfas

Tracey's Book of the Month



Work Smarter: Live Better. Peupion Pty Ltd, 2011

Recommended Viewing



YouTube: What are you doing after work?

http://www.funnyplace.org/stream-weekly.php?id=13625

Health Insights: Early Retirement & It's Effect On Your Health

With an ageing population, there continues to be research into the health of retirees, particularly in regards to their mental state.

From the New York Times (Gina Kolata, 11/10/10), a recent paper by two economists called their document "Mental Retirement," and their argument has intrigued behavioral researchers.

Data from the United States, England and 11 other European countries suggest that the earlier people retire, the more quickly their memories decline.

The implication, the economists and others say, is that there really seems to be something to the "use it or lose it" notion — if people want to preserve their memories and reasoning abilities, they may have to keep active.

"It's incredibly interesting and exciting," said Laura L. Carstensen, director of the Center on Longevity at Stanford University. "It suggests that work actually provides an important component of the environment that keeps people functioning optimally."

Researchers repeatedly find that retired people as a group tend to do less well on cognitive tests than people who are still working. But, they note, that could be because people whose memories and thinking skills are declining may be more likely to retire than people whose cognitive skills remain sharp.

"If you do crossword puzzles, you get better at crossword puzzles," said Lisa Berkman, director of the Center for Population and Development Studies at Harvard. "If you do Sudoku, you get better at Sudoku. You get better at one narrow task. But you don't get better at cognitive behavior in life."

The researchers find a straight-line relationship between the percentage of people in a country who are working at age 60 to 64 and their performance on memory tests. The longer people in a country keep working, the better, as a group, they do on the tests when they are in their early 60s.

"There is evidence that social skills and personality skills — getting up in the morning, dealing with people, knowing the value of being prompt and trustworthy — are also important," he said. "They go hand in hand with the work environment."

"Work actually provides an important component of the environment that keeps people functioning optimally"

If work does help maintain cognitive functioning, it will be important to find out what aspect of work is doing that, Dr. Suzman said. "Is it the social engagement and interaction or the cognitive component of work, or is it the aerobic component of work?" he asked. "Or is it the absence of what happens when you retire, which could be increased TV watching?"

I am aware that Australian researchers such as those at the Neuroscience Research Centre at Randwick have echoed similar sentiments as this research in the USA.

This type of research has significant implications for retirement planning, and ensuring that you plan for an active retirement, rather than a sedentary one.

When planning for retirement, we strongly recommend that you consider seeking advice, not only from a professional point of view but that of a health perspective as well.

If you'd like to chat more about your retirement future, not only the money side, but that of lifestyle, please feel welcome to give me a call on (02) 9525 0777 as we have plenty of resources available to point you in the right direction.

Wealth Insights: 7 Benefits of Buying Investment Property with SMSF Borrowing

In a win for those who are drawn to the concept of investing their retirement savings in investment property but didn't have enough saved in super to do so, recent changes to superannuation laws allow Self Managed Superannuation Funds (SMSFs) to borrow to invest, providing certain conditions are met.

Until recently, if trustees of an SMSF wanted to buy an investment property they were required to pay the entire purchase price in cash (i.e. no borrowing). The strict rules relating to SMSFs and borrowing were amended in 2010 and SMSF trustees are now permitted to borrow to invest in property under a Limited Recourse Borrowing Arrangement (LRBA).

This greatly increases the potential for property investment options using your super, as having (say) $200,000 in super no longer prevents you from purchasing a property valued at $500,000.

Potential Advantages include

- **Potentially pay less Capital Gains Tax (CGT)** CGT within a SMSF is generally capped at 10% and can drop to 0% if you start a pension
- **Ability to grow retirement savings faster.** All income and capital growth goes into SMSF which accelerates growth of your super
- **Possibly pay off a SMSF loan quickly.** Contributions and rental income from the property can be used to pay off the SMSF loan
- **Reduce tax on contributions.** Loan interest is tax deductible to your SMSF which can help reduce SMSF tax liability
- **Buy commercial premises for business.** SMSF trustees can purchase business property and rent it to a related party business
- **Provide retirement income.** Once your SMSF owns the property outright, rental income can be used to fund pension payments
- **Leverage.** Provides opportunity to maximise capital growth as rental income can be used provide cashflow to fund further property investment

Issues to consider

- Borrowing to invest has risks which must be clearly understood before considering this strategy
- Your SMSF trust deed must explicitly permit borrowing to invest
- Your SMSF must have sufficient cashflow to make loan repayments e.g. regular employer or personal contributions
- Establishing a SMSF with a loan incurs initial and ongoing costs. Such costs need to be considered against potential benefits before embracing this strategy

Example

Daniel and Simone have $200,000 in combined superannuation. They intend to establish a SMSF and buy an investment property worth $500,000.

Using a SMSF loan, Daniel and Simone's SMSF can borrow $300,000 from a bank or related party using the property itself as security.

The property can be rented to an unrelated party at market rates and the rent, together with further super contributions and/or other SMSF income, is used to repay the loan.

Once the loan is paid off, Daniel & Simone have (indirect) ownership of a property that can be used to fund their retirement.

If you would like to find out more about purchasing property using a SMSF please call me on 9525-0777. The excitement for your retirement future starts now!

Recommended Reading: When Risk is Sovereign

By Jim Parker (DFA, 2012)

Jim Parker's latest Outside the Flags book, the fourth in the series, is now out and you can either download a free e-book or call David for a copy. The theme of this edition is sovereign risk. Here's an excerpt.

The biggest financial crisis since the 1930s was never going to end tidily.

After a sharp rebound in risky assets in 2009, the past two years or so have been dominated by the legacy of the crisis for sovereign borrowers.

Concerns about stretched public sector balance sheets initially focused on Greece, but later spread to Ireland, Italy, Spain and Portugal. Even the United States was not immune as protracted political wrangling over debt ceilings led to an unprecedented credit rating downgrade for the world's largest economy.

Investors clung to perceived safe havens, ironically in some cases to the bonds of the most heavily indebted nations – including the US and Japan.

But while the events of the past five years have been momentous, the underlying messages of this book remain the same as the others:

Markets, while not perfect, are highly competitive and tend to price in news instantaneously. Risk and return are related, but not all risks are worth taking. Forecasting the economy, picking stocks and trying to time the market are not sustainable ways of building wealth.

A better way is to build highly diversified portfolios around risks related to return and focus on controllable factors – asset allocation, rebalancing, costs and taxes.

There is no one right asset allocation. Everyone has different needs and risk appetites. Not all risks are right for everyone.

These decisions are best determined in consultation with a fee-based advisor who understands each individual's particular circumstances.

None of this is particularly exciting, but putting the sizzle into investment is what got a lot of people into trouble in the first place.

The message that gets reinforced over and over is the need to understand what risks you are taking. This can include being too greedy by shifting out to the frontier of risk or being too conservative by just sticking to cash.

As a general rule, a good investment strategy is one that is diversified, transparent about the risks it takes, sticks to what it says it will do, is liquid, cost effective and maximises the chance of the individual investor reaching his or her goals.

Unfortunately, much of what is sold on the market does just the opposite – being overly concentrated, opaque, inconsistent, illiquid, expensive and ultimately ineffective.

Uncertainty will always be with us. That is the nature of investment. Even government debt is not risk free, as we have discovered.

But successful investment begins with accepting that markets, for the most part, work, that the tides of risk and return are related and that there are things we can do to maximise the odds of financial security for ourselves and our families.

Q&A:

Q. Where do investors search for an adviser to find a Self Managed Super Fund specialist (as per Eagle Wave Radio interview)

A. I recommend that you utilise specialists in this area, whom are accredited by the Self Managed Super Fund Professionals Association of Australia (SPAA).

While we often see investors receiving advice about SMSF's from a variety of backgrounds, eg. real estate agents, mortgage brokers, banks, accountants and financial advisers, the field of SMSF's are really ever-changing.

Keeping up with this fast moving landscape is very important, and associations such as SPAA allow investors to seek out specialist advice whom are required to pass an entrance exam that is very specific and has a reasonably high failure rate. They also require ongoing professional training purely with SMSF's.

Q. I have a credit card debt, and don't seem to be able to save money. I was considering using a budgeting or cash flow service advertised on television. Do you have any ideas in this area?

A. Services such as budget monitoring are becoming popular. They are not cheap, but if you feel that the external provider could assist with your discipline then it's potentially worthwhile.

It's a lot like having a personal trainer for exercising. You know what you have to do, after all, there is tonnes of information available to learn what's required. The real magic lies in the application of what's needed on a consistent basis.

A handy service that may be worth having a look at is the recently launched ANZ Money Manager website. It has budgeting facilities, and the real whiz bang feature is that the entire process can be set up in a manner that allows daily bank feeds. This is done automatically online, and the previous spending habits are also categorised for you automatically (the majority of items).

The best part of all is that it's free. Have a look online at the website ANZ Money Manager and it may be a good starting point.

DID YOU KNOW?

The average retiree in the USA spends 43 ½ hours per week watching television.

(MLC, 13/9/2012).

JOKES

Comedian Stewart Francis has won an award for the funniest joke of the Edinburgh Fringe. He won for the joke:

"You know who really gives kids a bad name?

…

Posh and Becks."

Recipe: Salmon Char Sui

By Aaron Crossin, The Hospitality Establishment

This is a great dish full of fantastic nutrients. The salmon is high in omega 3 and packed with protein, as are the mushrooms.

Brown rice is low GI, leaving you feeling full for longer. It's also another great source of omega 3, high in fibre and full of plenty of essential vitamins and minerals.

If you don't like the taste of brown rice try incorporating it into the stir fry (cooked) just before serving so it's like a fried rice. Even better!

Ingredients

1 tbs vegetable oil
1 x 250g salmon portion, cooked
2 x cloves Garlic, crushed
2cm piece ginger, sliced thinly
½ brown onion, sliced
2 x oyster mushroom, torn
1 bn x baby bok choy
1 small head broccoli
2 tbs water
3 tbs char sui
2 tsp sesame oil
1 cup brown rice, cooked

Method

- In a hot wok heat oil, get it nice and hot as we want to cook everything really quickly not allowing the food to broil.
- Add garlic, ginger and brown onion, stirring continually until onion is transparent.
- Add mushrooms and broccoli, stirring continually for about 1 minute before adding bok choy.
- Add the salmon by flaking the fillet into the stir fry. Add water and char sui, finish with sesame oil and serve with brown rice.

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