INVESTMENT SOLUTIONS

onePlan FINANCIAL PLANNING

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Welcome

Investment Solutions
Spring 2013

What makes a confident investor? We explore this question in our latest edition, giving you some hints and tips that can help you make the most of the market irrespective of conditions.

We also take a look at some key do's and don'ts of property investing, to help you make the most of a low interest environment.

Our regular feature sees Piers Bolger, Head of Research & Strategy at BT Financial Group, delve into investment sentiment in markets.

Finally, we take a look at how the concessional contributions cap has increased this financial year for people 60 and above, and what this may mean for you.

Until next time – happy reading.

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Market Update

Financial markets continue to provide a challenging environment for investors. While the economic recovery in the US continues to expand at a moderate pace with further signs of stabilisation (and improvement) across Europe, growth in Asia and other emerging markets is moderating. This is on account of the global slowdown now impacting on the export driven nature of these economies.

In addition, China's shift from fixed income investing to a more domestic orientated economy has resulted in slackening in demand for commodities, which has precipitated much of the decline in the Australian dollar over the last 12 months.

Global overview

In the US, the most anticipated news is whether the US Federal Reserve will announce a tapering of its bond purchase program on the back of an improving US economy. However, the fragility of financial markets was highlighted in June with the Fed's comments, which resulted in a sharp selloff in both equity and bond markets. While we have seen no change in the Fed's approach to providing ongoing support for the economy while the unemployment rate remains above 6.5%, we do expect that the Fed will begin to moderate its support for the economy through the later stages of 2013 into 2014. The timing, speed and communication of this change will be an important determinant of the performance of financial markets over this period.

Across the Atlantic, Europe continues to slowly come out of financial repression. While the recent economic data has provided some level of support to markets, the structural impediments of a high jobless rate and a struggling financial sector along with the potential need for further monetary support for a number of the (debt laden) Euro countries means that risks for Europe still remain high. However, given the degree of market dislocation, selective investment opportunities remain prevalent for the patient investor.

In Asia, all eyes are fixed on China. While we continue to expect that growth will moderate further, which will cause further consternation in Australia around commodity prices, we remain of the view that the government will provide the support needed to assist the economy through this current phase. Nevertheless, akin to Europe, China is also facing a number of structural challenges, particularly around the much needed reform of its banking and financial sector.

At home

With this global backdrop, the Australian economy continues to slow. The resulting need by the RBA to cut official cash rates to an all time low of 2.5% is reflective of the current malaise in the economy. While the most recent corporate reporting season was in line with investor expectations, most corporates remain cautious on their outlook.

In financial markets, the decline in commodity prices has seen the resource sector fall sharply over the last 12 month period, while other higher risk sectors (i.e. small cap equities) have also struggled as investors continue to focus on companies with more stable and predictable earnings, particularly those paying higher dividends. While we expect this trend to continue, across a number of these sectors valuations are beginning to look stretched. In fixed income markets the decline in the cash rate has resulted in term deposit rates falling below 4.0%. At the same time bond yields have steadily risen since their low point at the end of 2012, which has resulted in returns from fixed income investments moderating. While our view that cash rates will remain 'lower for longer' and should provide some 'downside protection' for investors in fixed income markets, we remain of the view that the best returns from this asset class has passed at this point in the cycle.

Overall, financial markets will continue to gyrate around the macro backdrop as the global economic recovery evolves. In this context, we remain of the view that taking a more selective approach to investing with a focus on managing downside risk (as much as possible) remains the right strategic approach heading into 2014.

What makes a confident investor?

When you read headlines about Australia's rising unemployment or the slowdown in the mining boom, it's easy to lose confidence in investment markets. But there's a lot to be gained from ignoring the background noise and sticking to your long-term goals.

Confidence can have a positive impact on most aspects of your life. Whether it's at work in job interviews or pay negotiations or at home as you tackle a challenging new project.

With confidence, everything seems more achievable. And your investment goals are no different.

The last five years in investment markets have made it difficult for some people to invest with confidence. But that doesn't mean it's no longer possible. Confidence is all about having a positive attitude, and most importantly, being well prepared.

So what are some of the principals to becoming a more confident investor?

Don't panic

When you see investment prices dropping due to the latest piece of bad news, it's a natural reaction to think you need to do something before it's too late. However, selling investments during or after a market downturn inevitably means missing out when prices pick back up again – which can happen quite quickly.

For example, the Australian shares ASX/200 index dropped by 40.4% in 2008. But the following year they gained 39.6%[1]. If you sell in a downturn and eventually buy your investments back, you may be paying more for those assets than you sold them for.

Having an investment strategy that you've put in place with your financial adviser means you're focussed on the end goal, not the fluctuations along the way. This can help you stay calm and confident when others are panicking.

Don't assume 'this time is different'

Investing in growth assets like shares and property will always come with some risks, and there will always be the potential for negative performance. But over the years, the overall trend has been consistently upwards.

Between 1993 and 2012, the Australian share market only experienced four negative years out of 20. The average return for Australian shares over that period was 9.9%pa[1].

It can be difficult to see the upside when there's a lot of 'doom and gloom' in the media. But investment markets have survived the Great Depression and two World Wars. This resilience should give you confidence to persevere with your long-term plans.

Invest gradually

For those with capital to invest, a simple and comparatively low-risk way to invest is to ignore the rises and falls of the market and keep investing at a steady pace. You might buy at a higher price one month and a lower price the next.

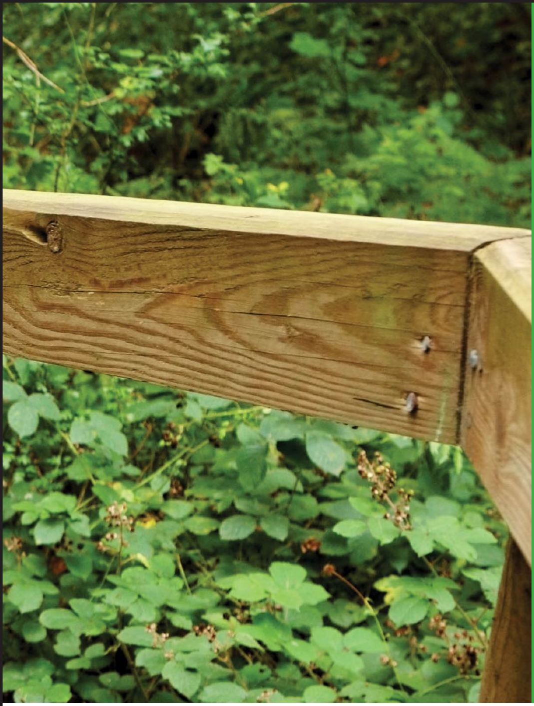
The strategy is called 'dollar cost averaging', and it can substantially reduce the risk of entering the market with all of your resources at the wrong time.

Your financial adviser can help you work out how much of your monthly budget you can afford to put towards your long-term investment goals – including how much you can invest in the tax-effective superannuation environment (bearing in mind your contributions caps).

Think long-term

People have different ideas of what 'long-term' means, but it's probably longer than you think.

Take James and Claire for example. James is 50 and Claire is 45. He can reasonably expect to live to 86, and at that time Claire's life expectancy will still be six years. This means that at age 50, James and Claire are likely to be investing for the next 42 years!



With confidence, everything seems more achievable. And your investment goals are no different.

Your financial plan needs to be flexible enough to cater for your short-term goals, your spending needs in retirement, and your long-term aged care needs. This is something your financial adviser can help with.

Cover all your bases

The ideal way to ride out the lows and highs of the investment markets is to develop a comprehensive financial plan that covers your investments, superannuation and insurance.

For example, you may find that investing inside super is an effective way to reduce the tax you pay on dividends and capital gains – which are taxed at a maximum of 15% inside super instead of your marginal tax rate when you invest outside super.

Life insurances can also play an important role in protecting your family against a serious illness or accident. With this additional financial support, you can be more confident that your long-term plans will survive an enforced period out of the workforce for you or your partner.

Spread your risk

Your financial adviser will show you how to diversify your investments so that when one class of assets goes down (e.g. shares), another may well go up (e.g. bonds).

The key is choosing a mix of investments that suits your goals, your attitude to risk and where you are in your life, and then sticking with these investments through the market highs and lows or until your objectives change.

A diversified approach across Australian and international shares, bonds, property and cash investments will reduce your exposure to any one asset class, and it can be easily done through a managed fund.

Stay up-to-date

Once you have a financial plan in place, the job isn't done. New rules and regulations come along regularly – particularly in superannuation. And new investment opportunities will always emerge.

The best way to ensure you're making the most of these opportunities is to review your financial plan regularly with your financial adviser. With their ongoing support and advice, you can be a confident investor in all market conditions.

[1] Vanguard Investments Australia – Asset Class Tool

Dos and don'ts of property investing

Low interest rates are giving many investors an added incentive to look at investing in property – either directly or through their SMSF. We look at some of the things you should look out for before you sign on that dotted line.

Australians have always had a love affair with property. But that affair could be about to get even steamier as historically-low interest rates reignite people's appetite for borrowing.

Here are some of the dos and don'ts of property investing you should discuss with your financial adviser.

Do – Define your goals

A 'successful' property investment depends on your goals. For example, are you looking for a high level of rental income? Or are you more interested in long-term capital gains? A clear strategy of what you are hoping to achieve can help you decide where to look, and what types of properties suit you best.

Don't – Over-borrow

When interest rates are low it's easy to fall into the trap of over-borrowing. But property is generally a long-term investment, and it's likely you will experience a range of interest rate scenarios over time – something your budget needs to cater for.

Do – Reassess your insurances

Increasing your level of debt is a good reason to reassess your life insurances. This particularly applies to death and total and permanent disability (TPD) cover, as one of the main goals of these insurances is to extinguish debt if you can no longer service it.

Do – Diversify

If you already own a home, putting of all your resources into property could leave you more exposed to a downturn in the property market. Make sure you discuss your diversification strategy with your financial adviser before you invest.

Don't – Invest for tax reasons alone

The lure of tax deductions can be a distraction when you're investing in property. But don't get too caught up in the tax savings to realise how much you're actually spending on things like stamp duty, legal costs, renovations etc. It may take many years of capital growth to recover those costs.

Do – Talk to your financial adviser

While property can be an important part of a diversified investment portfolio, you need to be careful about how you go about it. Ongoing advice from your financial adviser is essential to ensuring your property investment meets your long-term goals.

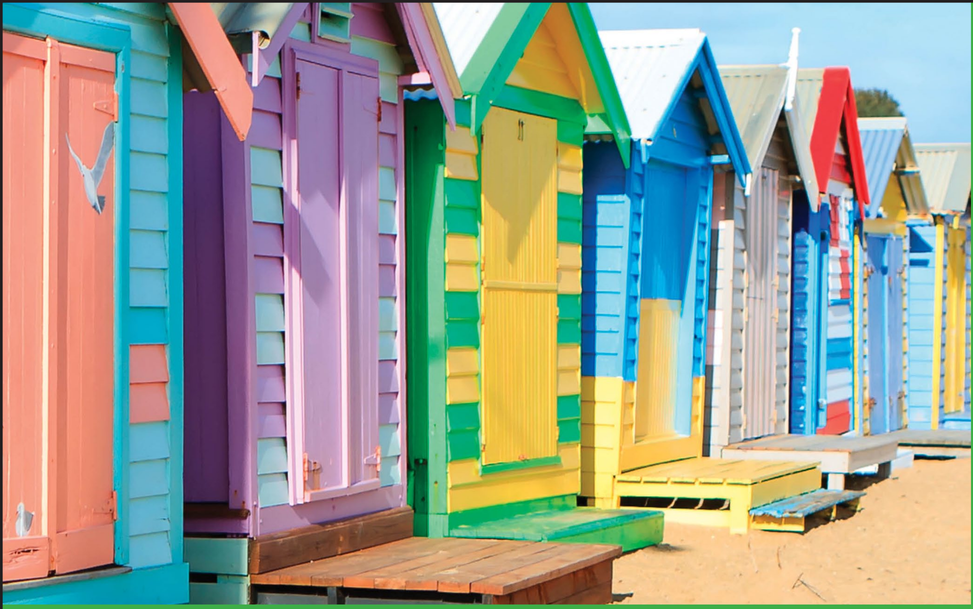
A property boom for SMSF owners

Since the rules allowing borrowing inside an SMSF were introduced in 2007, real property investment in SMSFs has grown to be worth $73.[1] billion which is 14.7% of total assets invested SMSF assets of $496 billion. And this trend looks set to continue with low borrowing costs and dwindling returns from cash and fixed income investments.

If you're considering investing in property in your SMSF, talk to your financial adviser. There are strict rules around the types of properties and lending arrangements that are acceptable.

You also need to consider the SMSF's ability to meet current and future expenses, and potential liquidity issues that may arise from owning a large asset that could be slow or difficult to sell if you need to cash out a member's benefit.

[1] SMSF statistical report, Australian Taxation Office, March 2013



Do you earn more than $300,000 per year?

The Federal Government passed legislation to introduce an additional tax of 15% on the concessional contributions of individuals with income greater than $300,000. This tax applies to contributions made from 1 July 2012.

If this is likely to affect you, talk to your financial adviser about what this means for your super contributions strategy.

Another reason to check your caps

Good news for pre-retirees – the concessional contributions cap has increased this financial year for people aged 60 and above. Here's what it might mean for you.

The Government's tinkering of the super system is often designed to help those closest to retirement. And there's been a recent change to legislation that does just that.

For this financial year, people over the age of 60 can contribute more to super from their before-tax income – with the concessional contributions cap rising from $25,000 to $35,000.

From next financial year, over 50s or those who will turn 50 during the financial year will get the same increased cap. And over the next few years, the $25,000 cap for all other ages will gradually be indexed up to $35,000, so that by around 2018/19 there should be a single $35,000 cap for everyone.

This increase in cap presents a good opportunity to review your superannuation strategy with your financial adviser, as there may be some immediate tax savings available to you.

What could you do with your higher cap?

If you're aged 60 or over, or you will turn 60 before 30 June next year, you may take advantage of the higher cap straight away by:

1) Increasing your before-tax super contributions

For employees, the larger contributions cap gives you greater scope to top-up your employer's Superannuation Guarantee (SG) contributions with salary sacrifice contributions. Remember that SG contributions (including any bonuses you may receive) are included in your cap.

If you're self-employed, you can now make up to $35,000 in personal deductible contributions this financial year.

How much could you save?

The following table shows the potential tax savings you could achieve this financial year if you make an additional $10,000 in before-tax super contributions – provided you stay under your contributions cap.

YOUR TAXABLE INCOME	POTENTIAL TAX SAVINGS
$0-$18,200	$0
$18,201-$37,000	$550
$37,001-$80,000	$1,900
$80,001-$180,000	$2,350
$180,000	$3,150

2) Commencing or reviewing a TTR strategy

A higher contributions cap could make some transition to retirement (TTR) strategies more effective.

A TTR strategy typically works by reducing the income you are receiving from employment (which is taxed at your marginal rate) and drawing an income from a super pension account (which is taxed at a lower rate, or not at all if you're over age 60).

With the higher contributions cap, you may be able to put more of your income into super and increase the income you are drawing from your pension account – potentially increasing the overall tax savings.

If you are over age 55 and still working, you should ask your financial adviser if a TTR strategy is right for you.

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