INVESTMENT SOLUTIONS

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WHAT'S INSIDE

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HOW TO RETIRE IN STYLE

SIMPLE TIPS TO MAKE THE MOST OF YOUR MONEY

Retirement isn't what it used to be. Sure, you'll still have more time to devote to golf, gardening and grandchildren. But today more people are taking the opportunity to make a fresh start.

Whether you're thinking of a tree change, a sea change, travelling or renovating, you'll need a plan to ensure you have the money to fund the lifestyle of your dreams.

That's why the closer you get to retirement the more important it is to review your superannuation investment strategy so you're making the most of your savings and using super as a tax effective investment environment.

It goes without saying that keeping up to date with any rule changes and making sure you're on top of the paperwork are other ways of making the most of your super.

Here are a few simple ideas to get you started.

CONSOLIDATE YOUR FUNDS

If you've changed jobs a few times you may have ended up with super in several different funds. That means you're paying fees for each fund, there's more paperwork and there's a greater risk you'll lose track of one or more of your accounts.

A better option is to bring them all under one roof. That means you not only save on fees but it also allows you to focus on a consistent investment strategy.

It is important to understand the difference between your super account, insurance cover and administration fees before deciding which one to consolidate into. This is where a financial adviser can assist you.

BALANCE RISK AND REWARD

If your retirement years are a long way ahead, your investment strategy is likely to be quite different compared with someone who is planning to ease into the good life in a few years.

Many people take a "fairly conservative" approach to super.

For example, someone who has 25 years left of working life, this is a long-term investment. A conservative approach to their super may actually be to their disadvantage down the track. When a young person invests in cash or fixed interest for a long period of time, the end result is likely to be lower than if they had invested in growth assets such as shares.

TAKE AN ACTIVE ROLE

The number of people invested in self-managed superannuation funds (SMSFs) continues to grow at a rapid rate with a 61 per cent increase in the seven years to June 2011.[1] More than 840,000 Australian's now hold an average $467,000 in assets in SMSFs.

Part of the attraction to the do-it-yourself approach may be a feeling of control and the flexibility to invest in different types of investments. But many don't take full advantage of the opportunities that SMSFs offer. In fact, $39 billion of self-managed super isn't performing to its fullest.[2]

Many people make the mistake of simply opening a bank account and rolling over their other super funds into it for the SMSF, and they keep all their funds in cash. The key is to have an active role, get some advice from a financial adviser and manage your SMSF according to how much risk you're prepared to accept, how close you are to retirement and according to the fund's investment strategy.

Don't forget to consider your insurance needs as part of your SMSF strategy. While it doesn't suit everyone, some people benefit from buying life and disability insurance through their SMSF. It can be cheaper and there may be tax advantages.

Making decisions about the way your super is invested isn't just for those with an SMSF. Even if your super is in a corporate or industry fund, it's important to choose the way your funds are invested.

An estimated 80 per cent of investors don't actively make a choice[3] — they accept the fund's default investment option. However, the default option isn't going to suit everyone's circumstances.

For example if you're 35, your investment needs and outlook will be quite different to someone much closer to retirement.

Just because you've taken the do-it-yourself approach to your super, doesn't mean you have to go it alone. Your financial adviser can help to make sure you're making the most of your SMSF and avoiding any pitfalls.

1_Australian Taxation Office, Self-managed superannuation fund statistical report — 2011.

2_Investment Trends 2011 SMSF Investor Report: $39bn of SMSF money was in 'excess cash' that would be invested in other assets.

3_Independent research company, SuperRatings, media release, March 2010.

QUARTERLY MARKET UPDATE

GLOBAL OVERVIEW

The recent elections in France and Greece have again shifted the direction of conversation in Europe regarding how best to tackle the ongoing debt crisis. The shift away from policy measures focused on austerity to ones that now include a 'growth' element has caused increased market disruption. As the Eurozone economy stagnates and unemployment climbs, the opposing (anti austerity) view is gaining momentum. While 'growth' is absolutely critical in order to achieve a sustainable turnaround in the economic fortunes of the region, this needs to be balanced with a focus on ensuring that countries can continue to service existing and future debt requirements. The political change in both France and Greece has led heightened market nervousness, compounded by a more pronounced slowdown in the global economy. As investors have become increasingly risk adverse, bond markets continue to rally further providing one of the few 'safety nets' for investors.

Nevertheless, the weakness across parts of Europe has not yet transferred to Germany, with consumer confidence continuing to widen relative to the rest of the Eurozone, supported by record low mortgage rates, low unemployment and improving credit growth. Given the disparate growth between Europe's largest economy and the rest of the Eurozone political stakes across Europe are beginning to rise. Euro-region unemployment has risen to 10.9%, the highest in almost 15 years. Spain is struggling to convince investors it can avoid a bailout and the government of the AAA rated Netherlands fell last month amid the effort to deepen deficit cuts and meet European targets. And with Greece struggling to form a unified government, the problems of Europe seem to be expanding once again.

After a period of quite solid economic data and reasonable growth in the US over the 1Q12, economic activity is now starting to slow, as the list of weak economic data is getting longer, with jobless claims, durables good orders and 1Q12 GDP figures coming short of expectations, it is no surprise that investment markets have struggled to maintain the strength of early 2012. However, the one positive for the US continues to be its manufacturing sector, combined with increasing evidence that the housing market is nearing (or at) the bottom of this cycle.

In the UK the recent economic data has confirmed that the economy has moved back into recession. The latest GDP data for 1Q12 was again negative (-0.2%), after a decline of -0.3% in 4Q11. Worse still for the UK is that inflationary expectations remain stubbornly high.

Equally, in Asia and other emerging market economies, the growth outlook continues to be relatively mixed. Most notably, economic indicators from China continue to point to a slowing economy. While we are of the view that Chinese authorities have additional policy measures (both monetary and fiscal) at their disposal to provide further impetus to growth, the events of Europe and the broader global slowdown will curtail the export market, which still remains the key driver of economic growth in China at the present time.

AT HOME

While the events occurring globally have continued to weigh on market sentiment, coupled with the impact of lower commodity prices, a more risk adverse consumer and lower property prices, Australia continues to have a solid and relative economic growth. Nevertheless, the events occurring in global markets will continue to impact on the domestic economy.

Given this backdrop, we expect that the RBA will cut rates by a further 0.50% to 0.75% in this cycle. This will provide additional support to local financial markets, should global liquidity reduce further from current levels. Accordingly, while the strength of the Australian dollar has been a 'drag' on segments of the economy, with further cuts in interest rates and weaker global growth we feel that it will continue to weaken in the short to medium term, and remain below parity with the USD. This should provide some encouragement to locally based manufacturing companies, however in a weaker market environment we are not expecting significant increase in company earnings.

Overall, we continue to remain very cautious on the outlook for financial markets in the near term. The recent global events have highlighted the overall fragility in the global economic recovery. The changing political landscape and resulting diverging views in regard to dealing with the European debt crisis, coupled with weaker global growth continue to conspire against an improvement in investor confidence. As a result, we expect further stimulus measures across Europe, US and Asia. While they are likely to be different across countries, and will be designed to support growth while being fiscally responsible, they are likely to further test the resolve of financial markets in the short to medium term.

Piers Bolger
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FIGHTING THE FEAR FACTOR

HOW FINANCIAL ADVICE IS HELPING WOMEN TO BRIDGE THE GENDER GAP IN SALARIES AND SAVINGS.
BY CAROLYN RANCE

Successful entrepreneur Jo Burston is a good example of how women's attitudes to money, investment and saving are changing as more learn how to build long-term security.

Burston says her mother — now an independent retiree — made sure her daughter understood the value of money from an early age. She remembers putting 50 cents in her primary school bank book each week. At the age of 20, she boldly applied for her first mortgage, showing the lender that she lived independently, owned her car outright and had money in the bank for emergencies.

It also meant that when Burston left well-paid employment to launch her own business, keeping a careful watch on cash flow was second nature.

Financial intelligence is critical if women are to safeguard against the predicament of many older women today who are retiring with inadequate savings, leaving them to rely on the age pension and vulnerable to poverty.[1]

Average super payouts in 2009–10 were around $198,000 for men and $112,600 for women.[2] Some of the reasons for this are well-known. Superannuation wasn't required to be provided by employers until the early 1990s. Married women also traditionally relied on sharing their husband's retirement benefits, an expectation sometimes unfulfilled among a generation noted for its rising divorce rate.[3]

Younger women may also lose out when they leave the workforce to care for children and ageing parents, or are employed in casual and part-time jobs where females are over-represented. But structural discrimination in the labour market isn't the only impediment to their financial wellbeing.

A report prepared for the women's information, support and referral service WIRE identifies financial literacy as a gender issue. It found that women often feel overwhelmed and embarrassed by their lack of knowledge about money.[4]

Networking organisations, such as the Davidson Institute are helping women address the problem. Women seeking advice to take control of their financial future should also consider talking to a financial adviser, who can provide useful tips on saving and making the most of investment strategies.

GOING FOR GROWTH

It's important to take the fear factor out of a goal like having a million dollars to retire on. If you start early, it's relatively easy. But if you start later and get good advice, it's still possible.

Women need to also consider life, trauma and income protection insurance to safeguard mortgage payments and salary if they are suddenly unable to work. For less than the cost of a cup of coffee a day, you can get Life Insurance cover of around $750,000 — and there are tax-effective ways to structure your insurance inside and outside of super. A financial adviser can help further determine the right level of cover for your needs.

Women taking career breaks to raise children should also think about the benefits of super-splitting to ensure their working partners' super balance isn't the only one continuing to grow. After-tax contributions and government co-contributions can also help.

If you're interested in learning more about super splitting to increase your retirement savings, talk to your financial adviser.

Carolyn Rance is a freelance writer.

TAKING CONTROL

Margaret Butler, Managing Director, Anasazi Trading Pty Ltd

"Back yourself and don't let other people call your shots." That's Margaret Butler's message to other women.

Her distribution and sales business Anasazi is largely wholesale and online, but when she added a retail outlet — homewares shop Blueprint in Sydney's Potts Point — she learned a lot about women's lack of confidence when it comes to money.

"Some women don't have any assets because everythingis in their husband's name," she says. "My partner and I have a clear understanding that we don't share the ownership of our properties or work in each other's businesses."

Building the business hasn't always been easy, but Butler has stuck with her belief in setting priorities and developing a good relationship with money. She was careful to seek advice along the way, in particular from a financial adviser who assisted with the set up of her self managed super fund.

"People tell you it's complicated and expensive to run your own SMSF, but it isn't necessarily. I sold some of my shares before the global financial crisis and have bought more since.

"If women want to lessen the financial gender gap, they must take control of their finances," says Butler. "We can all make a savings and investment plan and take more control of our super."

1_Accumulating Poverty? Women's experiences of inequality over the lifecycle, Australian Human Rights Commission, 2009.
2_Data compiled by the Australian Bureau of Statistics for the Association of Superannuation Funds of Australia, 2011.
3_Marriage and Divorces Australia 2009, Australian Bureau of Statistics, 2009.
4_Women's Financial Literacy Research Report, WIRE, August 2007.

WHICH COMES FIRST — SAVING OR INVESTING?

Financial advisers say clients can save and invest simultaneously irrespective of their financial situation.

Although this advice might sound like financial boot camp, the principles of this advice lay the foundations for effective cash flow management that will ultimately enable a brighter financial future.

> THE KEY IS ESTABLISHING AND PRACTICING THE ART OF SAVING — SETTING FUNDS ASIDE BEYOND WHAT IS NEEDED TO PAY BILLS, GROCERIES, UTILITIES, SCHOOL FEES AND REPAYMENTS.

To do this, clients need to get real about their true costs.

It's difficult to stick to a budget but you need to be really transparent about spending.

Currently, Australians are saving more money than they ever have in the past 30 years. Since the Global Financial Crisis, there has been a dual trend of increased savings and the willingness by Australians to deleverage or to reduce debt.

This is the opposite of what was happening in the mid-1990s to the mid-2000s when Australians went into negative savings. That is, we spent more than we earned.

Financial advisers say most Australians should aim to save 10–15 per cent of their after-tax savings.

Although this may be difficult in some stages of life, it is more important to stick to the practice of savings rather than the specifics of the amount.

Meanwhile, one of the most beneficial saving strategies continues to be salary sacrificing into superannuation. This allows investors to make more tax-effective contributions to superannuation and is subject to thresholds.

Another great saving strategy is reducing mortgage payments via an offset account. It allows you to use your savings account balance to reduce the amount you owe on your loan.

Stripping out money as soon as you get paid also reduces the likelihood of unaccountable spending.

Although the above strategies may seem quite simplistic, when utilized in a comprehensive financial plan put together by a qualified financial adviser and tailored to your specific financial circumstances and goals, the results can be significant.

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