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INVESTOR UPDATE

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Outlook for Investment Markets

The aftermath of the global financial crisis, arguably extending from late 2007 to mid 2009 using US quarterly GDP movements as an indicator, has created an economic and investment landscape quite different from that which led up to and helped create the conditions for one of the largest global economic declines since World War II.

Here in Australia, we appear to have weathered the crisis reasonably well with only one quarter in the last nine of negative economic growth, covering the abovementioned period, and that being a modest quarter on quarter decline of 0.8% in the December 2008 quarter when global trade quite literally, but temporarily ground to a halt.

While Australia's economic growth has not been startling subsequent to this challenging brief period, quarterly GDP outcomes of 0.6%, 0.8%, 0.3%, 1.1% and 0.5% in the most recent March 2010 quarter have demonstrated a resilience to economic headwinds that many other western nations continue to grapple with, particularly in southern Europe (public sector debt, unemployment) and some segments of the United States and United Kingdom economies (unemployment, housing).

Globally, June represented a month of two halves, the first dominated by fears of sovereign debt defaults, and the second by some recovery in investor confidence. Asset classes evolved as expected in these circumstances, 'safe haven' assets such as government bonds and gold doing well in the first period, and riskier shares, property, and lower-quality credit doing better in the second half. The outlook from here is still uncertain, but provided the financial sector springs no more major adverse surprises – an important 'if' – the ongoing recovery in the global economy should prove supportive for growth assets.

Dr Shane Oliver, Head of Investment Strategy and Chief Economist at AMP, states, "Even with last year's strong gains, this year is certainly proving to be a lot tougher. Such a pattern though is not unusual in a historical context with both 1992 and 2004 seeing a tougher patch in markets after initial recoveries from bear market lows in 1991 and 2003 respectively, only to see the recovery continue again in 1993 and 2005. In the very short term further weakness in share markets cannot be ruled out, particularly into the normally weak September/October period. However, if we are right and global economic growth doesn't lurch back into recession then the rising trend in shares will resume, supported by solid earnings growth, attractive share market valuations and low global interest rates".

◆ **Second marriage? What are the estate planning implications?**

While second marriages might bring the excitement of two new families coming together, they also come with complex and sensitive estate planning challenges.

In many cases, children from past marriages and those from the new relationship, coupled with the assets brought into a relationship by both partners, can make second marriages particularly difficult estate planning scenarios.

While many partners in a second marriage want what they consider to be ‘their’ estate to ultimately pass on to their own and not their partner’s children, most do not take steps to ensure that happens.

Often in cases of second marriages, most disputes arise from the adult children from the first marriage, as they are the most likely to feel threatened by the second marriage. Feeling that their ‘rightful’ inheritance from their natural parent will be taken away from them and given to their step brothers and sisters often results in real tension between rival siblings both before and after death.

Initially you should be aware that, while marriage revokes any existing Will, divorce does not. So there is a real need to review your Will if you remarry.

Some of the issues you may need to address when making or updating your Will include:

- Ensuring your surviving partner, and any children from your second marriage, will continue to have adequate housing, but at the same time ensuring that the children from your first marriage are adequately provided for.
- Ensuring that, where you have left provision for your partner to continue to occupy your house after your death (often dealt with in the form of a right to occupy as distinct from transferring legal ownership in the house), adequate provision in the Will is also made to allow the house to be sold and provide aged care accommodation for your partner in the future. If your Will does not allow this, it may be necessary to apply to a Court for an appropriate order.
- Where you and your second partner’s assets are owned jointly and pass to the survivor on death, ensuring that your half share will eventually pass to your children and not end up in the hands of your step children.
- Reviewing the manner in which you own assets to ensure that they will be disposed of according to your wishes.
- Checking how your superannuation will be paid out on your death. There are very specific rules that govern the distribution of superannuation and superannuation nominations should be reviewed upon a second marriage. Setting up a family trust is one way to isolate your assets out of your estate and potentially avoid these pitfalls.

In addition, it’s important to remember that establishing a Testamentary Trust within your Will can also provide you with some flexibility as to how to deal with your assets to provide for both a partner and children from your first marriage.

If your family situation has changed recently, it’s important you speak to your financial planner who will help update your estate accordingly, so that it’s distributed the way you want, ensuring your beneficiaries receive their entitlements in the most tax-effective manner.

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◆ **Minimum pension relief for self-funded retirees**

The Government has announced that it will extend the 50 percent reduction in the minimum payment amounts for account-based, allocated and market linked pensions for the 2010- 2011 financial year.

What does this mean for you?

If you’re a self-funded retiree, this means you can keep more money invested in your superannuation account. Keeping more money invested provides you with the opportunity to recover losses from recent tough conditions.

This is an important initiative as there is still ongoing volatility in investment markets. The extension will allow fund members more time for their account balances to recover.

Of course using the new minimum amount is completely optional and making sure you have adequate cash flow will still be the prime consideration.

For more information on how this may affect you or to adjust your current income stream payments, please contact your financial adviser.

3 Steps to apply protection principles to your own life

Protection principles can be applied to your own life so you and your family are prepared in case of an untimely, yet significant health event. This can be started by completing the following 3 steps. Remember, your Financial Foundations Adviser is always available to guide you through this process.

Step 1: Identify what you value most so you can protect it.

Basic Needs

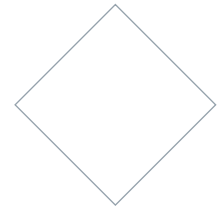
- How will I continue providing food, shelter, and clothing for my family and/or myself?
- Will my spouse have to work more to help address these needs?
- Do I have to apply for social security? Will I qualify? Will it be enough to help me and my family?

Future Security and Stability

- What changes will result in my/our financial situation as a result of a change in health?
- How will my/our ability to achieve future goals change?

Self-Esteem and Personal Worth

- How would a significant change in my health affect my role in my family?
- Will the act of not working affect my social ties and feelings of personal worth?
- Can I still achieve my maximum potential, despite significant changes to my health?



Step 2: Quantify what you would like to protect.

A simple way to calculate your Wealth Protection needs is to use the DIMER method in the following table. Please note this is intended as a guide only, and we encourage you to discuss the results with your Adviser at Financial Foundations, as there may be other factors to consider depending on your individual circumstances.

The DIMER Method	What will this component do?	Amount (\$)
Debts (non-mortgage)+	In case of untimely death, this will ensure that your dependents do not inherit your debt. In the case of prolonged illness or injury, do you want to be facing the financial pressures associated with debt?	\$ _____
Income (which you will earn between now and retirement)+	Maintaining 100% of your income in case of untimely death, or serious illness and injury, will ensure that you and your family's lifestyle is maintained as close as possible to your pre-event situation.	\$ _____
Mortgage (include principle and interest components)+	Paying off your mortgage will ensure that you and your family do not need to stress about losing the family home in case of untimely death, or serious illness and injury.	\$ _____
Education costs +	You may require a lump sum amount if you have dependents who you want to ensure receive a good education, or you may want an amount to provide you with new opportunities in light of your changed circumstances.	\$ _____
Rehabilitation and Medical costs	In case of serious illness or injury - a lump sum amount to address immediate treatment costs and provide you with the best chance to adapt to your new circumstances (e.g. equipment needs)	\$ _____
TOTAL	Add up all the components	\$ _____

Step 3: Do you have a shortfall? What should you do next?

Now that you have run through this simple process you can see what an important contribution your good health makes to your family's life and your own. Make sure you don't take it for granted!

Your Financial Foundations Adviser has a range of financial solutions that can help you protect what is important in your life. In most cases, protecting 100% of your financial position is possible at a premium of only 2-5% of your gross income – and with superannuation as a potential funding solution, there is flexibility to meet your needs.

Who are Australia's best and worst savers?

This is one of the questions that the National Centre for Social and Economic Modelling (NATSEM) at the University of Canberra set out to answer in its recently released report, 'Saving Tomorrow'.

Some of its answers are likely to surprise you. And the answers should provide many wakeup calls – including for those winding down their careers in the final years before retirement.

As a broad comment, NATSEM notes that Australians on average – as with the experience in the United States, for instance – no longer spend more than they earn. (The modelling is based on statistics to December 2009.)

The propensity of Australians to save has somewhat improved the sting of the GFC. But as NATSEM comments: “Whether it is a permanent change or just a fad remains to be seen.”

We have hardly become champion savers. The median amount saved by those 15 and over is less than \$300 a year.

And sadly, even the savings figure of under \$300 a year can give a misleading impression given the wide disparity in saving patterns.

“One-quarter of Australians saved more than \$12,360 a year over a four-year period and another quarter of Australians reduced their savings, or probably went further into debt, by \$9,810 a year,” the researchers found.

Consider these particular findings by NATSEM:

In geographic terms, Australia's best savers live in the Northern Territory – saving \$4,970 a year or 16 times the national median amount.



Young people and those in retirement typically spend \$100 per year more than they earn.

By age, Australia's best savers are 45-54, saving more than \$2,260 a year. “A somewhat surprising observation,” says NATSEM, “is that those approaching retirement (age 55-64) are saving less than those age 45-54.” Yet generally, their children would have left home and their finances should be in the best shape of their lives.

Predictably, men are much better savers than women, having twice the median savings. Women, of course, have lower average incomes, often interrupt their careers to raise children and do more part-time work because of family responsibilities.

Finally, one of the report's shock findings is that a quarter of Australians classified by researchers as high-income earners – with mean after-tax incomes of \$86,800 a year – were Australia's worst savers by far in dollar terms.

The lower quartile of the high-income group overspent their annual incomes by a breathtaking \$25,710 a year.

Another savings wakeup call has been loudly sounded.

If you need help with **budgeting, debt management** or putting a savings plan in place, speak to one of the financial planners at Financial Foundations Australia today on **(03) 9793 3722**.

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