

# Money Matters

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## Summer Edition

*Welcome to the Summer 2012 edition of our Money Matters Newsletter. We have included articles covering investment market movements, as well as updates on Centrelink, superannuation and pensions. Most importantly is the section on Risk Profiles and the inclusion of our Risk Profile Questionnaire.*

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## MARKET REVIEW

The 2011 year was certainly a volatile one for investment markets. At the 1<sup>st</sup> of July we were looking at an Australian share market with a 7.7% return for the financial year. The Australian share market then dropped 12.6% in the September quarter, followed by a 7.1% recovery in October (traditionally a negative month for share market returns). Despite the October recovery, the Australian share market was down 15.2% for the year at the 31<sup>st</sup> of December 2011.

The US share market fared much better with a 5.5% positive return for the year. The negative performance of the Australian share market compared to the US was due to several issues:

- ❖ Our high \$A making our exports less attractive,
- ❖ Higher consumer confidence in the US,
- ❖ Concerns over a slowdown in China subduing our commodities market.

With the \$A still above parity with the \$US this means that currency hedging is still a vital consideration when investing in any international investments with a high exposure to the US share market.

The continued economic problems in Europe were the main reason behind the Reserve Bank's decision to again lower interest rates in December 2011. While this is good news for home buyers it does mean that cash deposit rates will take a drop. This should however translate to good returns for Fixed Interest managed funds.

## RISK PROFILING

The 2011 market volatility tells us that maintaining a diversified portfolio reflecting your relevant investor profile is more important than ever. In line with our 6 profiles, we are not recommending any changes to the current asset allocation in our existing portfolios.

That being said, it may be appropriate for some clients to review their current investor profile to see if it is still the right one for them. Changes in lifestyle and increase in age can see alterations to people's attitudes towards investing, which can consequently see a change in their relevant investor profile.

We have therefore attached our Risk Profile Questionnaire for you to complete if you feel that your current profile may need to be reviewed. If you do decide to complete the profile please put your name on it and return it to us.

We also acknowledge that many clients may be concerned about the possibility of continued negative and volatile market performance impacting their portfolios. For those clients who are extremely concerned we can put together for you a conservative, short to medium term portfolio that is capital preservation focused with no share market exposure. If you wish to discuss this issue further please make a time to come and see your adviser.

We would also like to remind you that it is important that you come in and see us at least once every 12 months to review your financial planning situation, including your portfolio. If it has been more than 12 months since you last came in then you should make an appointment to see your adviser.



## THE VALUE OF ADVICE



Research conducted in 2006 by the Australian Securities Exchange has shown that over 46% of Australians, or 7.3 million people, own shares either directly or indirectly through managed funds. This means that Australians have one of the highest percentages of share ownership in the world per household. In many ways this is responsible for market volatility experienced in Australia.

Alarming, however, were the statistics which showed how these individuals obtained the vital information required to manage their investments:

- ❖ 17% of investors depended on newspapers for advice
- ❖ 6% relied on friends and family
- ❖ Only 16% relied on the advice of a professional!

Investing without sound advice is like flying blind. Newspapers and magazines mainly report past events and their content is frequently written to sell additional copies. Friends and family will always rely on their own past experiences and their own personal circumstances when making financial and investment recommendations and you have to ask yourself whether such advice is truly objective or relevant to you. The old saying “past returns are no indication of future performance” is more true than ever in today’s complex financial and investment markets. A good financial planner can help you reach your financial or investment goals in the context of YOUR specific needs, circumstances and objectives.

The value of advice can only be measured in terms of what it can actually do for you. You can’t buy advice from a shelf; it’s intangible and individual to you. For this reason, it’s difficult to appreciate value or worth before you actually receive it. However, if someone had the recipe for a more financially secure future, you’d pay for it, particularly in times of market volatility.

The right financial adviser will provide excellent value for money through expert guidance, a second opinion, an experienced sounding board, non-emotional decision making, and effective strategies, that reap far better rewards compared to the costs involved. An adviser can help you to:

- ❖ Identify your financial goals and objectives
- ❖ Design a portfolio based on your risk profile
- ❖ Compare different investment strategies for appropriateness
- ❖ Diversify your investment and superannuation / pension portfolio
- ❖ Ensure you have the right protection strategy in place
- ❖ Develop a savings plan
- ❖ Construct a regular income stream to meet your budgeted living needs



Taking the wrong advice could see you invested in the wrong paddock!

We would like to point out to clients that as Financial Advisers our role is to put in place for you a long-term investment strategy that reflects your relevant investor profile. These investor profiles reflect industry standards and practices that have been in place for many years. Obviously given the market turmoil that has been experienced since the GFC many client portfolios have seen negative and low positive returns. While the current volatile market conditions have been dragging on for several years now, the investment allocations should stay the same as they are long term allocations. However it may be appropriate for clients to look at changing their relevant profile in line with changes in their attitude towards investing. This can be done by completing our Risk-Profile Questionnaire. If as a result of the completion of the Questionnaire your relevant profile has changed, then a change to the way your money is invested is warranted.

## ACCOUNT BASED PENSIONS

The Government has announced that the current 25% reduction of the minimum allowable payment for Account Based & Allocated Pensions will continue for the 2012/13 financial year. This means that clients on a reduced minimum pension payment rate will not see a huge jump in their payment on 1 July 2012 like they did on 1 July 2011 when the minimum allowable rate jumped from 50% to 75% of the standard minimum. We will advise you on how the individual pension providers will be managing this situation closer to 1 July 2012.



## GOVERNMENT CO-CONTRIBUTIONS

The Government has announced a further reduction in the co-contribution rate. As of 1 July 2012 the Government will match only 50% of contributions, up to \$1,000. This means that the maximum co-contribution that can be obtained will be \$500 on a \$1,000 personal contribution. As well as this the cut out level for a partial co-contribution payment will be reduced from \$61,920 to \$46,920. To obtain the full co-contribution payment employees will need to earn under \$31,920.



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## LIFE INSURANCE IS FOR THE LIVING

The hardest message to convey to clients is the importance of insuring themselves against loss of life or income. We insure our \$30,000 car against the smallest of accidents, but imagine the position your family would be in if you had an accident and could not work. Imagine still the tragic outcome if you died, leaving a mortgage and the cost of children to raise. Without adequate insurance, your financial plan may be just a savings plan that dies when you do.

Our Advisers can help you take the right cover that will continue to provide for the ones you love in the event of your death or inability to work.

Many people expect that the insurance cover on their superannuation is adequate. All too often this is not the case. Many super funds have minimum basic cover that would barely cover the cost of a funeral, let alone medical bills, mortgage and children's education.

If you are concerned about your family's insurance protection, recommend that they speak to LFS to discuss their needs. For more details, speak to your LFS Adviser to make sure your cover is right for you. After all, aren't your family more important than your car?



## CENTRELINK UPDATE

As of 20 September 2011 the full rate of age pension for singles is \$748.80 per fortnight (\$19,468.80 per annum), and for couples is \$1,129 per fortnight (\$29,354 per annum). To obtain the full rate of age pension singles can have assessable income of up to \$150 per fortnight (\$3,900 per annum) and couples up to \$264 per fortnight (\$6,864 per annum). Clients should remember that assessable income for age pension purposes is made up of the "deemed" value of their financial assets (bank accounts, shares, etc...) and any assessable amount from their income streams (which for account based and allocated pension may be nil). Assessable income for the age pension is NOT the same as actual income or taxable income. To obtain the full rate of age pension under the assets test single clients can have up to \$186,750 in assets and couples up to \$265,000 in assets. If you are a non-homeowner singles can have up to \$321,750 in assets and couples \$400,000 in assets to receive the full rate of age pension. For singles the age pension cuts out once you have \$686,000 in assets and for couples it cuts out once you have \$1,018,000. For non-homeowners the pension cuts out for singles when you have \$821,000 in assets and for couples it cuts out once you have \$1,153,000.



*"We will only do with your money what we would do with our own."*

Quote from Warren Buffett reiterated by the LFS Team when looking after your financial future.



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Our Website is currently under reconstruction, please bear with us.

## HOW YOUR PENSIONS WORK

When we establish your superannuation based pensions, we set these up with 6 to 12 months pension payments in the cash account. We then allocate equivalent to at least 3 to 5 years worth of pensions into cash & fixed interest holdings, subject to your investor profile. This means that the medium to long term investments are put in place are actually left for the medium to long term, rather than needing to sell down growth oriented funds to pay pensions.

In the meanwhile dividends and interest from all of the investments are collected in your cash account to fund future pensions beyond the initial 6 months.

The reason we use this methodology is to provide for minimizing the impact of short term market movements on the ability to fund your pension payments. We, at LFS, developed this strategy in the early 1990s and it has worked very successfully. This is not a norm, nor is it a common strategy. It is one of the additional benefits of using a Financial Planning firm that is able to tailor strategies for clients based on our experience and your needs.

## CLIENT DATABASE UPGRADE

Due to legislative changes, the providers of our client database software have decided to terminate the program we presently use. In selecting and implementing a new program, we will have the opportunity to improve upon the various systems and processes provided to you. One of these will be the improved electronic access for reports and communications. To ensure that we have your current details correct for the data migration, if your home, work or mobile phone numbers have changed in the past year please make sure we have been updated. Similarly if your email address is new, please send it to [info@leishmans.com.au](mailto:info@leishmans.com.au) so as we can ensure we have accurate client data.

We hope to bring you details of these exciting developments and news of our new website in the next Money Matter edition.

## WILLS & TAX RETURN PREPARATION

A reminder to clients, that as an added service, we have Bradley Lawyers available to see clients in our office year round for the preparation to Wills and other such services. Bill Bradley has had an association with LFS for over 18 years and we highly recommend both him, and his team. Like life insurance, a well written Will is security and peace of mind for your family.



The 2 certainties in life!!!

From early July each year Mal Leishman will be available to prepare tax returns for clients through Nugents Pty Ltd. These returns are limited to individuals, not trust, companies or partnerships. Why not keep all your services under one roof and let Mal complete your tax return next July.

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