autumnedition 2013

financiallyspeaking

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The Australian market – has a new bull market begun?

The Australian equity market rally accelerated in February as the 'great rotation' out of bonds continued. The Australian market has put together nine consecutive months of gains with the S&P/ASX-100 Accumulation Index up 26.1% over the year to 28 February 2013.

The bullish mood has developed as a result of the continued strength of the US market, plus the expectation that rate cuts by the Reserve Bank of Australia (RBA) will eventually spark a rebound in the broader Australian economy (outside of mining). Most of the market gains relate to Price Earnings (PE) expansion in anticipation of a rebound in earnings growth. The forward PE has simply reverted back to its long term average of 14.4 times earnings.

	FY13	FY14
Market PE (x)	16.0	14.4
Dividend Yield (%)	4.3	4.6

(Based on broker consensus forecasts)

Inside this edition

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Can the rally continue?

While the market now looks fully valued on a PE basis, much depends on the 'E' – earnings – in the equation. Low interest rates spur growth in the economy and reduce the cost of debt. This boost comes after a period where companies have focused on improving productivity during a downturn.

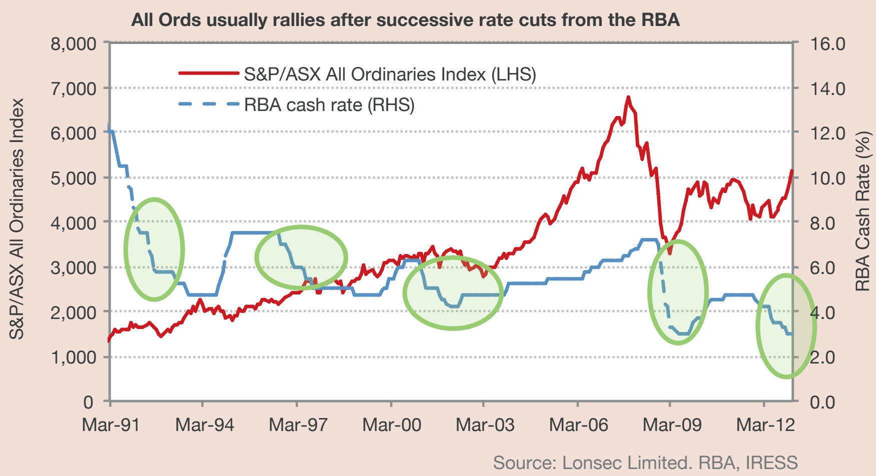
In combination, the result is usually a strong rebound in earnings growth over the medium term. This growth cycle usually starts towards the end of the RBA interest rate easing cycle and continues all the way to near the peak of the interest rate tightening cycle.

We can see this effect in the chart below. The easing cycle nearly always sparks a rally in the Australian market. It is also fair to say that, while the RBA seems near the end of the easing cycle, the tightening cycle has a long way to go.

So history would suggest that earnings growth will rebound over the next few years and that stocks are not as expensive as they seem; earnings per share forecasts are probably underestimated. Broker consensus currently forecasts average earnings growth of 4.2% in FY13 and 7.1% in FY14.

Of course, we are not suggesting the market will continue to go up every month – there will be ups and downs along the way, but there is a good chance that a bull market has indeed begun.

Source: Lonsec, March 2013



To find out more about your investment options, speak to your Financial Adviser today.

How healthy is your personal insurance strategy?

With a number of natural disasters over the past couple of years, many of us will be checking our home, contents and car insurances to make sure we'd be covered for similar disasters.

Dramatic weather can be a stark reminder of how our loved ones and the things we work hard for can be put at risk without warning.

So it makes sense to protect those things should the unforeseeable happen.

Putting a personal insurance strategy in place can at least help take financial stress out of the equation in a disaster situation.

Protecting what's important

Insuring your assets like your home, contents and car can provide some kind of financial relief if your property is lost or damaged.

But it's just as important to remember that you are your biggest asset; yet this is generally the area of most under-insurance.

Unfortunately most Australian families don't have enough life insurance. A 2009 study[1] found the average payout received by families in the event of the death of a partner was just $91,000 – a worrying finding given the average family with young children has debts totalling $167,000[2].

For Australian mums and dads this means if something happened, there wouldn't be enough insurance for their own or their children's financial needs.

And it seems women are the least prepared, with only 50% of mums holding life cover compared with 62% of fathers[3].

And while no one likes to dwell on the negative, the reality is insurance could protect your family's financial wellbeing if something happened to you.

Putting a plan in place

Setting up a robust personal insurance strategy doesn't have to be difficult or impact your current lifestyle.

Many people don't realise how easy and affordable it is to get covered, or what's available to protect themselves and their family.

Your financial planner can help you identify the types of insurance that best suit your personal situation and set up smart ways to pay so you make significant savings on premiums.

The table below outlines some of the more common types of insurance that could fit into your personal insurance strategy.

What if?	Which insurance may be suitable?	What does it do?
You're temporarily unable to work due to sickness or injury	Income protection insurance	Covers you for a monthly benefit up to 75% of your income to replace lost earnings if you become sick or disabled and are temporarily unable to work
You want to make sure your loved ones are protected if you pass away	Life insurance	Helps your family maintain their financial wellbeing by providing your beneficiaries with an agreed lump sum.
You become ill, and need to focus on getting better, rather than worrying about your finances	Critical illness or trauma insurance	Takes away your financial worries, by paying you a cash lump sum if you develop certain critical illnesses so you can get back on track.
You suffer a permanent disability	Total and Permanent Disability insurance	Offers financial security by providing you with a lump sum if you suffer total and permanent disability and are unable to work again.
You're unable to run your business	Business expense insurance	Reimburses you for fixed expenses incurred to keep your business going if you become disabled and cannot work.
Your business partner passes away, becomes disabled or suffers a critical illness	Life insurance, Total and Permanent Disability insurance, Critical illness or trauma insurance	Insures you or your business partners to facilitate the smooth succession of the business from one owner to another.
One of your employees dies, suffers a permanent disability, or becomes critically ill	Life insurance, Total and Permanent Disability insurance, Critical illness or trauma insurance	Helps your business offset lost revenue associated with the loss of a key person.

1 IFSA, $91,000 not enough to cover lost life – Australians encouraged to become Lifewise, April 2009
2 For Australian families with children under the age of five, the median amount of debt is $167,000. ABS, Australian Social Trends, Household Debt, cat. no. 4102.0, 2009.
3 IFSA, Australian mothers – undervalued and underinsured, October 2005.

Source: MLC, January 2013

Investing in an SMSF: When it seems too good to be true

Although superannuation remains one of Australia's most tightly regulated and secure savings environments, a number of pitfalls await unsuspecting SMSF trustees.

Self managed super funds (SMSFs) are designed to be ... well, self-managed. Because their structure enables investors to take more control of their retirement savings, SMSFs are increasing in popularity.

The trustees of an SMSF are responsible for, among other things, the fund's investment strategy and the regular review of that strategy. But occasionally, unwary SMSF trustees make improper or misinformed investment decisions.

Some of the potential traps SMSF trustees should avoid include:

- assuming a fund in pension phase is no longer required to prepare financial reports and tax returns
- using an SMSF in pension phase for personal spending
- spending a weekend at a property owned by the fund
- displaying artwork owned by the SMSF in a member's family home.

The Australian Taxation Office (ATO) in its publication, Introduction for SMSF trustees, makes a very clear statement about investing in collectables, for example: "Don't buy wine as an SMSF investment and then drink it. Don't buy jewellery as an SMSF investment and then wear it."

Similarly, trustees may be tempted to purchase a property on behalf of their SMSF and then rent it to a fund member or relative of a fund member. The ATO will not allow such an arrangement, except when the property is a commercial business property. For this reason, holiday homes shouldn't form part of an SMSF's property portfolio.

When making investment decisions, SMSF trustees must always comply with the Sole Purpose Test. This regulation states that an SMSF must be run for the sole purpose of providing retirement benefits for the fund's members. Holding assets within an SMSF that are considered inappropriate and contravene the Sole Purpose Test may result in trustees facing civil or criminal charges.

SMSF investment strategies that appear elaborate or unusual are likely to invite regulatory scrutiny. Over-complicated schemes can be difficult to administer, can increase the likelihood of mistakes and can often attract higher costs. Therefore, it's wise to steer clear of such schemes and instead consider investments that offer simple administration, full disclosure of all fees and unambiguous terms and conditions.

Trustees offering separate strategies for individual SMSF members can quickly find themselves burdened by paperwork and inflated costs. Regular reviews of your SMSF's investment strategy should consider each members' needs and future benefits, including transition to retirement and life insurance, without over-complicating matters.

Another trap for unsuspecting SMSF investors is specific to the modern era: share-trading software. Quite often – though not in all cases – these tools exaggerate past returns and understate risks. The golden rule is simple: superannuation should be viewed as a long-term strategy; avoid get-rich-quick schemes.

When in doubt, always seek professional advice, and remember that if it seems too good to be true... you know the rest!

Speak to your Financial Adviser today to discuss suitable investment strategies for your SMSF.

Sources:

www.asic.gov.au If it sounds too good to be true. Last updated 8 February 2010
www.switzer.com.au Rules of SMSF property investing, Chris Gray 21 September 2012
www.theaustralian.com.au Too smart strategies can destroy a retirement nest egg. Tony Negline 22 September 2010
www.ato.gov.au Introduction for SMSF trustees. Published October 2011

Source: MLC, January 2013

Life events trigger reminder to update beneficiary nominations

When major life events occur in your life, such as divorce or starting/ending a de facto relationship, updating your nomination of beneficiary for your superannuation fund may not be high on your priority list.

A binding nomination of beneficiary expires three years after the date you sign and date the form. Similar to a Will, a binding nomination becomes invalid when certain changes occur to your family circumstances which result in the nominated beneficiaries ceasing to be dependants.

When the nomination expires or becomes invalid, it is no longer binding on the trustee and the superannuation fund's rules often set out how death benefits are to be paid in these circumstances. This may mean that the trustee may pay your death benefit in a way that you did not intend.

Luke and Sarah's story

Luke and Sarah have been happily married for ten years. Four years ago, Luke decided to make a binding nomination of beneficiary in favour of Sarah. Luke made this decision knowing that his son from his first marriage, who does not keep in contact, would receive a small portion of the death benefit.

Luke leads an active life and, as often happens, he did not make a Will or renew his binding nomination after it expired. When Luke died, the lack of a binding nomination and a Will had significant financial impact on Sarah because the Trustee paid his death benefit to his estate. Under the law of intestacy, Luke's son received approximately half of the death benefit (rather than a few thousand dollars) from Luke's estate.

To prevent a similar situation occurring, please contact your Financial Adviser to update your nomination of beneficiary and Will.

Source: TAL, February 2013

Aged Care Tips and Traps

It is estimated that by 2051, more than 25% of the population will be aged over 65[1], whilst the number of people over 85 is expected to more than quadruple to approximately 1.8 million[2]. The likelihood that you will have to place a parent or relative into an aged care facility is remarkably high. You could even be considering it as part of your own retirement.

It can be difficult to plan, either financially or emotionally, for the move into an aged care facility. When trying to choose the best care, many practical issues arise and decisions need to be made.

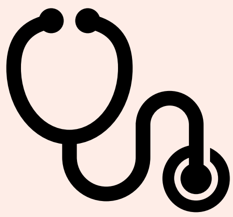
Seeking financial advice during this time can ensure that the decisions that you and your family make will be the right decisions. The following key tips and traps should assist you and give you confidence when facing the aged care challenge.

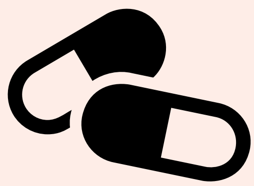
Key tips

- Determine whether you or your loved one are eligible to enter into an aged care facility and what level of care will be needed (such as high level care – also known as a nursing home). This is established via assessment by an aged care assessment team.
- Gain an understanding of the aged care fees applicable to your aged care facility and whether you can purchase additional extra services.
- Take into account the impact that entering an aged care facility may have on your or your loved one's financial situation and age pension entitlements.
- Read the booklet titled "5 steps to Entry into Residential Aged Care" which can be obtained from the Department of Health & Ageing. This booklet mainly focuses on the non-financial matters and issues that need to be considered (for example, what you should consider when choosing a nursing home).
- Ensure that you have sufficient cash-flow to fund the aged care fees and costs (for example ongoing maintenance of the former family home)
- Determine how long your money will last and create a plan with your financial adviser to improve this.
- Revise your estate plans and important legal documents (such as an enduring power of attorney) that have been granted to your immediate family, close relative or friend.

Key traps

- Avoid selling the family home before seeking advice. Paying certain aged care fees and renting out the former home could deliver a better outcome. The overall benefits of not selling may include reduced aged care fees and increased age pension entitlements.
- When retaining and renting the former family home, it is important to consider the income tax impact (as the rental income is assessable for tax purposes), the capital gains implications and whether renovations are required.
- Avoid taking actions that could result in a loss of age pension and increased aged care costs (for example gifting assets outside Centrelink gifting rules).
- Remember to consider the impact that entering an aged care facility might have on your or your loved one's financial estate, to be passed on to the next generation.





Start planning early as part of a retirement planning strategy. This will mean that you can effectively plan for this next phase of life. Most importantly, note that it is essential that you seek advice prior to entering into an aged care facility agreement.

Ensuring that you make the right decision will depend upon a multitude of factors and the decision can be complicated. Speak to your financial adviser, to ensure that you can make the right financial decisions to optimise your situation and avoid the key traps.

1 Access Economics, 2001. *Population Ageing and the Economy*, research paper commissioned by the Commonwealth Department of Health and Aged Care, ACT.
2 Treasury's Australia 2050: *Future Challenges* (2010 Intergenerational Report).

Source: IOOF, February 2012

Tips for making an effective Will

Here are four key issues to consider when establishing or reviewing a Will.

1. Who should you appoint as your beneficiaries?

While you can leave your estate to pretty much anyone you like, you do need to be careful. Challenges against a Will often occur when people feel they haven't been provided for fairly. If you think your Will is likely to be challenged, you may want to leave a letter of wishes. This is an additional document explaining why the Will has been drafted in the manner chosen and can be referred to when a claim is being defended.

2. What assets do you want your beneficiaries to receive?

While some people feel the need to specifically gift every asset they own, a lengthy list of gifts is usually not encouraged. Assets held at the time of making your Will (and their value) may differ significantly from the assets owned at the time of death. It can therefore be a good idea to only gift a small number of specific assets in your Will and assign a percentage of the remainder of the estate to each beneficiary.

3. Who should you appoint as your executor?

Your executor is responsible for a range of tasks, such as locating the Will, organising the funeral, arranging probate, collecting the assets, repaying debts and distributing the assets. When choosing your executor, make sure you select someone who is trustworthy, in tune with your objectives, and capable of performing this very important role.

While some people appoint a family member as their executor, a Trustee company can be a good alternative – particularly if your Estate is complicated and/or suitable friends or family are not available. A Trustee company provides expert administration and legal services and charges a fee, typically paid from your Estate, after your death.

4. Should you establish a testamentary trust?

A testamentary trust is a special type of trust that comes into effect upon your death, if you have included specific provisions in your Will. Because the Trustee owns and controls the assets, your estate can be protected from a number of potential risks and your beneficiaries can be provided for in a tax-effective manner.

Naturally everyone's situation is different and we recommend you speak to your Financial Adviser to find out more.

Source: MLC, January 2013

Make the most from your savings

We all want to save more, and a personal budget can help you achieve this important goal.

If you feel like you're not making headway building personal savings, you're certainly not alone.

Recent research by the Australian Securities and Investments Commission (ASIC) found the average Australian household will spend $69,166 in 2012 on general living costs. Yet only 54% of us know exactly what the money is being spent on[1].

ASIC's Senior Executive Leader, Financial Literacy Robert Drake, says, "We suspect many households end up misdirecting thousands of dollars each year because they are not keeping track of where their money goes." As a result, Drake says, "Many people fall into the habit of living pay to pay." And that makes it almost impossible to build savings.

Good reasons to build savings

Even if you aren't scratching for cash between pay days, it makes good financial sense to have a pool of savings. It provides a source of funds for unexpected bills or emergency expenses, having cash on hand lets you take advantage of investment opportunities, and interest earnings can provide a valuable boost to household income.

Nonetheless many of us find it difficult to save on a regular basis. And that's where a personal budget is an essential tool. A budget shows exactly what you are spending money on – and where you can cut back to free up cash for saving.

It pays to sweat the small stuff

The thing is, most of us have a reasonable idea of major expenses like annual insurance premiums or monthly home loan repayments but there are plenty of small purchases we make each day. No matter whether it is a few takeaways or a couple of cappuccinos, the cost quickly adds up.

Recognising the impact these purchases can have on our budget, ASIC have developed a new 'Track My Spend' phone app. It's another free tool that helps to improve the accuracy of your budget. For more information visit moneysmart.gov.au. If you don't have a smartphone, use the traditional method of recording your spending for a week or two in a notebook.

Either way, a pattern will soon emerge and you can use the numbers to finetune your budget.

Make a commitment

Once you have a clear idea on how much you can afford to save on a regular basis, the next step is to make a commitment to building savings. The easiest way to do this is by setting up a regular automatic transfer from your everyday transaction account into a high interest savings account.

Speak with your financial adviser to see if you are on the right track.

1 ASIC media release 12-194MR How do you keep track of your spending?, Monday 13 August 2012 at http://www.asic.gov.au/asic/asic.nsf/byHeadline/12-194MR%20How%20do%20you%20keep%20track%20of%20your%20spending?opendocument

Source: Colonial First State, October 2012

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