



Helping you make the right financial decisions for both now & the future
fmfinancial.com.au



August 2015

Are we there yet? That's the question on everyone's mind in August as we enter the final sprint towards spring and warmer weather.

July began with the ongoing Greek debt crisis, but that was soon overshadowed by the wild ride on the Chinese sharemarket. Up 150 per cent in the year to June, the Shanghai Composite fell 30 per cent by early July, rebounded then fell again late in the month. While Chinese share prices are still higher than they were at the start of the year, the volatility has un-nerved investors. Australian shares tossed and turned with the big miners – already weakened by falling commodity prices – especially hard hit. The Australian dollar dipped to a new six-year low of US72.57c before settling just above US73c.

Parts of the local residential property market continued to sizzle, despite the cold. The median Sydney house price jumped the psychological hurdle of \$1 million in July. Australian consumers also showed renewed confidence. After sliding by eight per cent in the first two weeks of July, the ANZ/Roy Morgan consumer confidence rating lifted by more than 5 per cent in the final fortnight.

In FM news- congratulations to our quarterly referral winners - Noel & Kath Von Bibra - An iPad is now yours!

FM Financial

Burnie (Head Office) - Centrepoint
Arcade 59 Wilson St, Burnie TAS
7320

Devonport - 33-35 Steele St, TAS
7310

Hobart - Level 13 39 Murray St,
TAS 7000

Melbourne - Suite 2.14, Level 2,
202 Jells Road, Wheelers Hill, VIC
3150

Launceston - L1/25 York Street, TAS
7250 (In partnership with Parker
Accounting & Financial Services)

P 1300 763 544

E info@fmfinancial.com.au

W www.fmfinancial.com.au

Facebook [fmfinancial](https://www.facebook.com/fmfinancial)

Twitter [fmfinancial1](https://twitter.com/fmfinancial1)



Take a day

it can pay

Ever thought about taking a break from your routine, a “Financial Health Day” to spend some time tightening up your personal finances?

While it might not be the most exciting day you will ever spend — unless the thought of saving a significant amount of money excites you, it will be worth your while.

It should be a weekday so you have scope to call banks, credit card issuers, health insurers, and other financial service providers who are easier to contact during office hours. And you will also need all your tools — financial records, current tax return, mortgage, credit card and bank statements — close at hand. Internet access is also important as there are many things you can do online.

Hitting the target

So, what are your objectives? Well, there are two sides to this coin. The first objective is to put more \$\$ in your pocket by saving a little more and spending a little less of your income, without making your life a penny-pinching misery in the process. The second is to discover some cheaper ways, if they exist, to pay for some of life’s essentials.

Start at the beginning by reviewing your monthly budget — or constructing one, if necessary — so you can pinpoint the big expenses before trying to pare them back. Take your power bills, for example. Some power companies will not only reward you with a discount for combining your gas and electricity, they will also allow you to pay them with a

pre-set monthly direct debit, avoiding the shock of that big quarterly hit and smoothing your cash flow.

Monthly payments or saving targets can be an excellent budgeting tactic. In fact, you can even create your own monthly debit system for major expenses such as school fees, annual holidays and Christmas by estimating the cost and transferring monthly instalments to a separate savings account. Your bank can probably make the transfers for you automatically.

If you can manage it painlessly by cutting one or two unnecessary expenses, one good outcome of a budget review would be to save an extra 1 per cent of your salary — just \$1 out of every \$100 you earn — for a major objective like an overseas trip, new carpets or as a reserve fund. The best budgets can be wrecked by unexpected emergencies, whether it is a burst water heater or an unexpected mortgage rise.

Smart moves

Once you have your budget review completed and have set up new direct debits and/or opened one or two new dedicated savings accounts, you should still have a few hours of your Financial Health Day left to look for some significant savings on financial services.

Credit cards are a black hole in many budgets. Could you save by switching to a cheaper card? Are you paying off your card within the interest-free period? What about rewards programs — if you are paying for them, are you using them? Some supermarket reward programs now offer a “double reward” so it may pay to investigate your options. You can compare cards online at several sites such as www.creditcards.com.ⁱ And if you do decide to change card companies, you might find one that will give you an interest rate holiday for the first 3–6 months as a reward for switching.

Your private health insurance plan is also worth reviewing because your family circumstances might have changed since you took out the plan, or the market may have newer, more flexible options. A Choice Magazine report on 40 private health funds may be a good starting point if you are looking for better value, since they reported cost differences of up to \$800 a year or more. (See www.choice.com.auⁱⁱ or www.privatehealth.gov.au)

Planning ahead

And finally, if you haven’t had an annual check-up, make time before the end of the day to contact your adviser and arrange to review your superannuation and investments, to ensure your financial planning strategy is still on track.

All done? Congratulations on a good day’s work!

ⁱ <http://www.creditcards.com.au/compare/>
ⁱⁱ <http://search.choice.com.au/consumer/Health%20Funds>

INVESTING: an emotional business

Common sense may say that the time to invest is when markets are down, but the reality is that most investors wait until markets are running hot before they get on board. Then, terrified of losing money, when the market starts to fall, they sell.

The psychology of an investor plays a significant role in what drives financial markets and explains in part why the prices of many assets, including property and shares, go through booms and busts.

Two common characteristics of human behaviour that tend to play havoc with many investors' decision making and investment markets are fear and greed.

Fear may prevent you from buying something when it appears to be out of favour because of the possibility of losing money. Greed may encourage you to aggressively chase returns into investment opportunities beyond your normal comfort level.

There is another type of investor who may be less worried about the risk of losing money in the short term. They are more focussed on the possibility of long term gains based on their view of the company and broader economic conditions. This person may invest regardless of what the market is doing.

The same investor might prudently rebalance their portfolio back to a desired asset allocation using an objective rationale. For example, they might want to maintain a balance of 60 per cent shares and 40 per cent fixed interest so will buy and sell investments to ensure that mix is maintained over time.

Rather than make decisions rationally based on available information, most investors left to their own accord are

much more likely to let their emotions drive at least part of the process.

It is because of emotion that most investors sell when markets are close to their bottom and buy when markets are nearing their peak.

Loyalty doesn't always pay

Feeling loyal towards an underperforming company just because you have held the shares for a long time is no reason to keep holding them. Nor is buying shares in a company just because you are envious of others having them.

There are numerous investor behaviours that may be hard to identify and control.

It may be dwelling on what has happened in the past as an indication of what may happen in the future or getting carried away and making over-zealous decisions when markets are running hot.

Reactions such as these can be common, particularly when markets are going through periods of boom and bust, such as we saw in the lead up to and during the Global Financial Crisis.

It is important to understand that investment markets are driven by more than just fundamentals and that investor psychology plays a significant role.

Just by understanding that emotion rather than logic can play a significant role in the decision making process can go a long way in helping you make rational decisions and, hopefully, avoid bad ones.

Common biases

There are several common biases that have been identified by psychologists as influencing investor behaviour; once recognised these biases may be resolved:

Herding :

Safety may well come in numbers, except when the numbers are only growing because others are there. The reality is that large numbers of people can be wrong and when they are, the damage can be a lot worse. By following the crowd, or herding, individuals are more likely to buy when markets are near their top and sell at the bottom.

Familiarity :

Investing in a company or an area you are familiar with is understandable, but there may be consequences if part of your aim is to have a diversified portfolio. For example, buying shares in companies in only your own country, while ignoring opportunities in other countries, fails to recognise the benefits of diversifying against geographical risk.

Anchoring :

Nobody likes to think they have made a bad investment decision, but it doesn't always pay to get set on something like a share price or old information. A company whose shares suddenly drop from \$20 to \$10 isn't necessarily going to get back to \$20 just because it was there once.

Loss Aversion :

If there is a good way to destroy investment returns, it is to hang onto loss making investments in the belief they will come good and to sell winners quickly just for the instant gain. We do this because we feel more pain from a loss than we feel happiness from a gain.

The highly successful US investor Warren Buffet turned the phrase "be fearful when others are greedy and greedy when others are fearful" knowing that investors don't always act rationally and when money is involved, emotions can run high.



WILL IT *your way*

We all know how important it is to have a current will, even if we haven't got around to it yet. But documenting what happens to your assets after you die is just the start of a comprehensive estate plan.

Just as important as who gets the house or paintings when you're gone, is where and how you wish to be cared for in the final stages of life if you can't make those decisions yourself.

Life is unpredictable, but having a few crucial documents in place means that whatever happens your wishes will be clear.

An up-to-date will

A will is probably the last thing on your mind when you are young or busy raising a family, but what would happen to your children if you were to die? Who would care for them and how would they be supported financially?

A will can cover everything from how your savings and investments should be distributed to choosing a guardian for your children until they are independent.

Careful planning is even more important in an era of blended families, previous and de facto relationships and high divorce rates. In order to avoid unnecessary conflict when you die, it's important to update your will to reflect changes in your circumstances such as the birth of a child, deaths, marriages or divorce.

Dying without a will is known as dying intestate and the court will decide how your estate and assets are to be distributed, often to a strict legal formula that may not reflect your wishes.ⁱ

Powers of attorney

A good estate plan also takes account the way you want to spend the end of your life. Who will care for you and look after your affairs if you are incapacitated in some way?

By giving a trusted person power of attorney, you effectively give them the legal authority to act on your behalf if you are unable to do so.

The two main types of power of attorney are:ⁱⁱ

- A general Power of Attorney is a person appointed to make financial and legal decisions for you, usually for a specified period of time. For example, if you are overseas and you need someone to bid on a property on your behalf. This becomes invalid if you lose the capacity to make decisions for yourself.
- An Enduring Power of Attorney is a person appointed to make financial and legal decisions on your behalf if you lose the capacity due to an accident, stroke or dementia, for example.
- An Enduring Guardianship sets out who should make decisions on your behalf such as where you live and the type of care you receive if you lose mental capacity.

In some states an Enduring Power of Attorney extends to decisions about medical issues. In other states an

Advanced Health Care Directive (also referred to as a Living Will) is required to direct how medical treatment is to be administered.ⁱⁱⁱ

Whoever you give a power of attorney or appoint as guardian and the executor of your will must be people you trust with your life, so choose carefully.

Super and other assets

There are some things that can't be included in a will such as the distribution of assets held in super, by a company, a unit trust or a discretionary trust such as a family trust.ⁱⁱⁱ

You can nominate the beneficiaries of your super through the fund itself. If no beneficiary is nominated, or the person you nominate is ineligible, then it will be left to the trustee of your super fund to decide who gets the proceeds.

With assets held inside a family trust, the beneficiaries are named in the trust deed and distributed according to the trust deed.

Assets owned by unit trusts or companies controlled by you will not be part of your estate, but the shares or units will be.ⁱⁱⁱ

If you would like to discuss your estate planning needs so your wishes are respected in life and in death, give us a call.

ⁱ <http://legal123.com.au/how-to-guide/how-to-write-a-will/>

ⁱⁱ <https://www.moneysmart.gov.au/life-events-and-you/over-55s/wills-and-power-of-attorney>

ⁱⁱⁱ <https://www.slatergordon.com.au/wills/>