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It’s February and while the hot weather continues it’ s back to business for most of us, with summer holidays, tennis and cricket over for another year. This is a perfect time to revisit your New Year’ s resolutions and put all your good intentions to work for the remainder of 2018.

For the first time in a decade all the world’s top economies are growing. The International Monetary Fund (IMF) forecasts the global economy will expand 3.9 per cent in 2018, the fastest rate in eight years, up from 3.7 per cent last year. US growth is expected to reach 2.9 per cent this year on the back of tax cuts. The Eurozone, Japan and some emerging economies such as Brazil are also tipped to gather steam this year.

The forecast for Australia is unchanged at 2.9 per cent. On the upside, local jobs grew for the 15th straight month in December although the unemployment rate rose from 5.4 per cent to 5.5 per cent as more people entered the market. Retail sales were up 1.2 per cent in November, or 2.9 per cent over 12 months, and consumer confidence remains high. After hitting a 4-year high mid-January, the weekly ANZ/Roy Morgan consumer confidence index dipped 3.3 per cent as a potential NSW rail strike and power blackouts in some states dampened spirits, before lifting 1.3 per cent in the final week to 120.9, well above the long-term average. The Australian dollar rose from US76.5c mid-December to above US81c in January, which no doubt pleased Aussie travellers.

FM Financial
Burnie - Centrepoint Arcade, 59 Wilson St, TAS 7320
East Devonport - 29 Murray St, TAS 7310
Hobart - Level 4, 29 Elizabeth Street HOBART TAS 7000
Melbourne - Suite 2.14, Level 2, 202 Jells Rd, Wheelers Hill, VIC 3150
Launceston - L1/25 York St,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
Twitter fmfinancial1

The golden rules of investing

At first glance, investing can seem daunting. So much complex information and so little time to absorb and act on it when you're busy getting on with life. It's little wonder that so many of us put it in the too hard basket for longer than is good for our wealth.

The good news is that investing doesn't need to be hard. The basic rules of investing are surprisingly simple and timeless.

Set your objectives

If you want to reach your personal and financial objectives, first you must define what they are.

Ask yourself where you want to be in 5, 10, 20 years' time. Be specific, put some dollar figures beside each goal and then start planning how you will get there.

We can assist you in your goal setting and in mapping out a strategy to achieve your goals.

The genius of compounding

Albert Einstein said compound interest was man's most powerful discovery, but it doesn't take a genius to put it into practice. Compound interest means you not only receive interest on the money you invest but interest on your interest. Over time, this simple concept becomes a powerful wealth creation tool.

Say you invest $10,000 today at 5 per cent; with all interest reinvested, it will grow to $27,126 in 20 years. Now look what happens if you spend your interest payments, earning what is called simple interest. Your $10,000 will earn $500 a year and will be worth just $20,000 in 20 years.

That's the genius of Australia's superannuation system which locks away your savings and all investment earnings until you retire.

Take your time

We all know we should take an active interest in our super and other investments, but is there such a thing as too much interest? Yes, according to a study by US fund manager, Fidelity Investments. A review of clients over a decade found the best performing accounts were for investors who were dead! Next best were investors who had forgotten they had accounts. The thing both groups had in common was that they were not actively trying to time the market.[i]

A landmark study of 66,000 investors by the University of California reached a similar conclusion. The most active investors underperformed the overall sharemarket return by 6.5 per cent a year, leading the researchers to conclude trading is hazardous to your wealth.[ii]

The lesson is, be patient and stick to your plan.

Reduce risk with diversification

Shares, property, bonds and cash all have good years and bad. Even though shares and property provide the best growth in the long-term, prices can fall or move sideways for years at a time and you don't want to be forced to sell in a downturn because you need the cash.

The way to reduce the risk of crystallising losses or losing everything on one dud investment is to diversify across and within asset classes. The right mix will depend on the timing of your goals and your risk tolerance. Think about investments that provide capital growth in the long run and income when you need it – from bank deposits, bonds, share dividends or rental income from investment property.

Follow the cycle, not the herd

When you take a long-term perspective, and have clear investment goals, it's easier to sit back and watch market cycles unfold. Then when you see an opportunity to buy quality assets at a low price, or sell an investment that no longer meets your objectives at a high one, you can pounce.

Investors who panicked during the GFC and switched out of shares into cash and bonds would have done better to sit tight and ride out the volatility. And investors who took the opportunity to top up their holdings when the market was gripped by pessimism would have done even better.

Successful investing doesn't need to be over-complicated. Give us a call to help map out a plan and let time, diversification, compound interest and our knowledge of the investment landscape do the rest.

i http://theconservativeincomeinvestor.com/2015/05/26/fidelitys-best-investors-are-dead/

ii http://faculty.haas.berkeley.edu/odean/papers%20current%20versions/individual_investor_performance_final.pdf

Investing to achieve your GOALS

How are your New Year's resolutions progressing? Many of us start out with the best of intentions – to get fit, improve our diet, drink less, travel more, get out of debt or get ahead financially. But without clear goals and a plan to achieve them, our good intentions are likely to remain just that.

The good news is that it's not too late to turn your New Year's wish list into achievable goals. You give yourself the best chance of kicking goals if you focus on the process and break your long-term objectives into a series of steps.

Most meaningful goals require a change in behaviour that can't be achieved overnight. If you're a couch potato who dreams of running a half marathon, you need to learn to walk before you run. To develop the exercise habit, you may need to rise an hour earlier each day and team up with a buddy to encourage you to keep going. You may also need expert advice to create a detailed, personalised exercise plan and help measure your progress.

Goal-based investing

Financial goals require a similar approach. Take the long-term goal of saving for retirement. The traditional approach is to simply save as much as possible between now and then, with a focus on maximising investment returns after assessing your risk tolerance. Depending on your risk profile your money would be invested in an aggressive or defensive portfolio.

By comparison, a goal-based approach to investing aims to align your investments with your personal objectives. By asking where you want to be in 5, 10 or 20 years you can work out how much you need to save to achieve your goals and create savings habits to help you get there.

Rather than simply saving for retirement, you might aim to retire at 55 with enough money to live comfortably with regular overseas travel. To fund this lifestyle, you decide you need to generate income of $5000 a month for up to 40 years, bearing in mind that more of us will be living into our 90s.

Then you can begin to join the dots. Given your current age and income, you can work out how much you need to save each month and how much risk you need to take to reach your goal. If the risk required is out of your comfort zone, or your goal is financially out of reach, it's time to adjust your plans. You could delay retirement, look for savings in your budget or modify your aspirations.

Measuring success

The typical approach to investing uses investment returns aligned to your risk profile to measure success. If you beat the relevant market benchmark you're doing well. But it's not much consolation to know you beat the ASX 200 index by 2 per cent if the market was down 20 per cent. It's also not conducive to sleeping at night.

Success in goal-based investing is about being on track to fund your goals. You still need to monitor returns, but if you decide you want $60,000 a year in retirement, success is saving enough to get you there.

In practice, most of us have multiple goals that require extensive planning. You may want to buy a home, save for the kids' education or an overseas holiday adventure as well as saving for retirement. Each goal has a different time horizon, which may call for a different investment strategy.

Generally speaking, you can afford to be less conservative with long-term goals because time is on your side. But if you're saving to buy a home in two years' time, your money needs to be accessible and not at risk of short-term market volatility.

The start of a new year is a great time to think about what you would like to achieve in the year ahead and beyond. If you would like some help with strategies to turn your resolutions into reality, give us a call.

TRANSITION TO RETIREMENT

still a smart move

They say 60 is the new 40. And while it's true that today's over-50s are healthy and active for longer than previous generations, many in this position begin to dream about scaling back their work commitments so they can start ticking off their bucket list.

You may want the flexibility to travel more, volunteer or take up a hobby. Perhaps you want to look after the grandkids for a day or two a week. It might be you see your 60s as an opportunity to switch careers or try your hand at freelance work or consulting where you control the amount of time you work. Services such as Airbnb and Uber are also providing opportunities to earn an income on your own terms.

Alternatively, you may have planned to retire early but now find you are not in a financial position to stop work completely. Your savings may have been adversely impacted by the GFC, divorce or remarriage or you may still have mortgage or other debts to repay.

Either way, there is a trend towards more people working well into their 60s and beyond but not necessarily full time. According to the Australian Bureau of Statistics, 56.9 per cent of 60 to 64-year-olds are in the job market, while the percentage of those working over the age of 65 has jumped to a record high of 12.7 per cent.[i]

Winding back the hours

One way to achieve a better work/life balance in the lead-up to retirement is to adopt a transition to retirement income stream (TRIS). Once you have reached your preservation age, which is currently at least 57 (depending on your date of birth), then you can access between 4 per cent and 10 per cent of your superannuation as an income stream. This will let you work fewer hours but maintain your standard of living.

Despite losing some of their tax advantages on July 1 last year, a TRIS strategy still holds its appeal for people who want to use it as it was originally intended – to aid in the transition to retirement.[ii]

In the past no tax was payable on earnings from your TRIS investments; now you will be taxed at 15 per cent. But the favourable tax treatment of withdrawals remains the same. Once you reach 60, any monies withdrawn from your TRIS pension are tax free. For those aged 56 to 60, you will pay tax at your marginal rate but then enjoy a 15 per cent offset.

Boost your super

Another change to the super legislation is that you can only contribute a maximum of $25,000 a year as salary sacrifice regardless of your age. As a result, there may not be so much money beyond your employer's Superannuation Guarantee contributions that you can add to your super to fully take advantage of the scheme.[iii] Even so, if you salary sacrifice as close to this limit as possible, you will help boost your super for when you do completely retire.

Despite these changes, a transition to retirement strategy can still work for you, largely because super continues to be one of the most tax-effective investment environments for your retirement savings.

Supplementing part-time income with a TRIS might also give you an opportunity to reduce your mortgage or other debts before you leave the workforce completely.

A win-win solution

Easing your way out of work can be as good for you financially as it is for you psychologically. To go cold turkey from working one day to retirement the next can be difficult without careful planning.

Working out what to do in the run up to retirement needs careful consideration. We can help you decide what will work best for you.

i 'Older Australians working longer', Commsec Insights, 23 November 2017.

ii https://www.ato.gov.au/Individuals/Super/Super-changes/Change-to-transition-to-retirement-income-streams/

iii https://www.ato.gov.au/super/self-managed-super-funds/contributions-and-rollovers/contribution-caps/