securitor

Investment Solutions

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Shifting gear

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Offshore and offside

If you're investing overseas you need to be sure you're protected by Australian law.

This is the essence of a recent warning to consumers from the Australian Securities and Investments Commission (ASIC), following reports about a New Zealand company that failed to comply with Australian disclosure requirements.

The company, Asset Finance, offered Australian investors debenture stocks with returns ranging from 9.75% pa to 12% pa, but didn't lodge a prospectus with ASIC.

ASIC has issued a timely reminder to investors that businesses providing financial product advice to Australian consumers must be licensed by them and that companies offering securities to Australian consumers must issue a prospectus.

A prospectus is an essential document that provides you with information to help you assess the risks of a particular investment, including details about the company making the offer. It's not a guarantee of performance but you can use the prospectus to make an informed decision about investing your money.

If you're looking to invest offshore, don't be caught 'offside' without the security offered by Australian law.

Detrimental decisions on death benefits

Making provisions for your beneficiaries after you die, known as 'estate planning', should be an important part of your financial plan.

A common approach to estate planning has been to use a 'recontribution strategy' to avoid the 16.5% tax on death benefits. This strategy involves taking all your money out of your super fund after you turn 60 and putting it back in again as a non-concessional contribution, effectively changing it from a taxable to a non-taxable benefit.

But recent reports in the financial media have highlighted that while this strategy means you wouldn't be taxed, it also means you would miss the opportunity to claim an 'anti-detriment' payment which often amounts to more money.

The anti-detriment provision enables super funds – upon the death of a member – to increase the amount of the death benefit termination payment otherwise payable to compensate for contributions tax paid.

Ask your financial adviser to explain this to you to ensure you maximise the benefits payable to your beneficiaries.

Financial advisers go back to school

One of the most important elements of a financial plan, especially if you're a parent or contemplating a family, is factoring in the cost of education for your children.

While you are probably aware that this is going to have an impact on your finances, particularly if you're considering private education, estimates of the actual costs are often incomplete.

Now, thanks to a new calculator that's been developed after extensive research by the Australian Scholarships Group (ASG), your financial adviser can provide you with realistic figures.

The free online calculator has been built to include all state, national, private and independent secondary school costs. It also covers items like uniforms, tuition fees and even computers. Total costs are broken down into a yearly figure to help with planning.

The calculator will be updated in February each year by the ASG. To check it out for yourself, go to www.asg.com.au and click on the 'ASG Online Secondary Schooling Costs Calculator'. And don't forget to mention it to your financial adviser.

Shift your investment into a higher gear

Gearing is a powerful tool for wealth creation, used by astute investors to meet a range of investment objectives. Are you ready to shift your investment into a higher gear?

Also known as 'margin lending', gearing lets you borrow money to invest in shares, managed funds and master trusts/wrap accounts.

Just like investing in property, where the loan is secured against the property, your margin loan is secured against your investment.

Invest more to earn more

The basic reason for gearing is that it gives you more money to invest and the potential to earn more over time.

Gearing can help you meet a wide range of investment objectives. For example, you can unlock the equity in your existing investments – using cash or existing investments in shares or managed funds as security, gearing gives you even more funds to grow your investments.

You can also generate cash from your investments. Because you're borrowing cash against your existing investments, gearing can be a smart way to raise cash without having to sell your investments and potentially be liable for capital gains tax.

Alternatively, you might use gearing to supplement your super – many investors use gearing in addition to their super savings as another way to build wealth prior to retirement.

It's important to note that while you can generally expect greater returns using gearing, there's also the chance you could make greater losses if your investments don't perform well.

Getting started

Talking to your financial adviser is the first step you should take if gearing sounds like something you are prepared to do. Like any investment choice, gearing should be included within a personalised investment plan that takes your individual risk profile and financial situation into account.

How does it work?

Let's assume you borrow $100,000 to invest and your marginal tax rate is 46.5% (including Medicare Levy).

If the interest rate on the amount you borrow is 7% pa and the investment income is 4% pa, your net after-tax cost of borrowing is $1,605 in the first year.

Cost of $100,000 loan @ 7%	= $7,000
Investment income @ 4%	= $4,000
Pre-tax cash flow shortfall	= $3,000
Tax deduction @ 46.5%	= $1,395
After-tax cost of borrowing	= $1,605

Now let's assume your account value increases by 10% ($10,000) in the first year. You would now be $8,395 better off, taking into account the $1,605 cost to borrow the $100,000.

On the other hand, if your account value dropped by 10%, you would have a loss (on paper) of $10,000. Add this to your borrowing cost of $1,605 and you would be $11,605 worse off.

Note: the figures in this example exclude fees and charges.

The example above isn't the only way you can build wealth through gearing. 'Instalment gearing' allows you to gradually increase your portfolio through regular contributions. Instead of borrowing a lump sum, you can arrange to 'drip feed' your investment with regular, monthly borrowings. You can also supplement these with your own contributions.

Minimise your risks

- Don't over-commit. Only borrow what you can afford.
- Diversify your investments. Don't put all your eggs in one basket.
- Invest in quality growth assets with proven track records.
- Insure yourself against unexpected illness or injury.

The supreme sacrifice

Salary sacrificing some of your pay to super can be a tax-effective way to increase your retirement savings. The amount you sacrifice is deducted from your assessable income and may reduce your income tax liability.

Instead of paying tax at your marginal rate on the money, when you salary-sacrifice your pay to super the contribution (plus any future income earned from the investment) is generally taxed at a maximum rate of 15%.

Limits on salary sacrifices to super

Because of the generous tax concessions, the government restricts concessional contributions (which include superannuation guarantee, salary sacrifice and personal deducted contributions).

An employer can contribute to super on your behalf and claim a tax deduction for an unlimited amount, but if your concessional contributions exceed $50,000 in a year, you'll pay tax at 31.5% (in addition to the 15% tax paid by the super fund) on the excess. You'll receive a tax bill for this, but you'll be allowed to withdraw money from your super fund to pay it.

If you're 50 or older at any time to 30 June 2012, your concessional contribution limit is $100,000 (instead of $50,000) before excess tax is charged. The $100,000 limit applies for each year you're over 50 until 30 June 2012, when it reverts back to $50,000.

Things you should consider

Don't salary-sacrifice funds you think you may need before you retire. If you're younger, it may be more beneficial to pay off non-deductible debt (such as your home loan) instead.

If you're older, the reverse could be true. Generally, salary-sacrificed funds will have been taxed at 15% and once you retire you can access the funds tax-free and pay off any outstanding debts. Make sure you have a written agreement with your employer before making the contributions.

Example

Jodie earns $50,000 and is considering sacrificing 6% of her salary to her super account. This table compares the effects of not sacrificing vs. sacrificing the 6%.

	No salary sacrifice	6% salary sacrifice
Salary (pre tax)	$50,000	$47,000
Tax on salary	$10,350	$9,335
Salary (after tax)	$39,650	$37,665
Super contributions	$4,500	$7,500
Tax on super contributions	$675	$1,125
(Salary + super benefits)	$43,475	$44,040
Total tax paid (Salary & super)	$11,025	$10,460
Total tax saved	Nil	$565

Although Jodie's weekly income is $38.17 less, her annual super contributions have increased by $3,000 and her overall annual package increases by $565 (the amount of tax she saves).

Over the long term, this strategy has clear benefits for Jodie, and gives a huge boost to her super for when she retires.

Before you consider making the 'supreme sacrifice', talk to your financial adviser.

With you while you work

Salary continuance insurance protects your most important asset – your income. Now you can be covered to age 65 with insurance held inside your super, including the benefits of a tax deduction.

Don't lose your most important asset

Australians are chronically under-insured. One of the reasons for this is because we generally don't protect our ability to earn an income. Human nature steers us towards protecting our material possessions like cars and household contents rather than taking into account what's potentially the most important asset we have – our ability to work for a living.

Insure your income

Salary continuance insurance replaces a percentage (generally up to 75%) of your salary if you're unable to work as a result of sickness or injury. You'll generally be covered if you're unable to perform one of the important income-producing duties of your usual occupation.

Previously, it was widely thought that tax deductions were only available inside super on salary continuance premiums for a two-year benefit period. However, thanks to a recent Australian Tax Office tax determination, it's now clear that you can purchase salary continuance to age 65 through your super fund and enjoy all the benefits it provides, such as tax deductions.

Arranging additional cover

You may already have salary continuance cover through your super fund. If the cover was arranged by your employer on a group basis, your employer can approach the super fund to ask for the cover to be extended to age 65 for its employees. You can choose not to take this additional cover.

If you arranged your own salary continuance cover, you will need to apply for the additional cover and the usual underwriting process will apply.

If you do choose to increase your cover to age 65 you should note that your insurance premiums will generally be higher because the insurance will be covering an extended period.

Speak to your financial adviser about the adequacy of your insurance cover.

Awash with money

Did you know an estimated $4.5 billion of 'dirty money' is laundered through the Australian economy every year? New laws are designed to protect Australian business from being used for money laundering activities.

In an effort to detect and prevent money laundering in Australia and the threat to national security caused by the financing of terrorism, the Australian Government recently introduced the Anti-Money Laundering/Counter-Terrorism Financing Act.

The new laws meet higher international standards to protect Australian businesses from being used for money-laundering and terrorism-financing purposes. These laws will make it more difficult for criminals to disguise and use the profits of their crimes, and for terrorists to receive money to carry out terrorist acts.

Financial advisers need to know their customers

Since 12 December 2007, a range of businesses including financial advisers have been required to identify and verify all clients prior to providing a 'designated service', as part of the Know Your Customer (KYC) obligations.

A 'designated service' includes opening an account, sending and receiving electronic funds transfer instructions, accepting a contribution, rollover or transfer in respect of a super fund member and withdrawing from a super fund.

Businesses that don't comply with the obligations face civil penalties of up to $11 million from the national anti-money laundering regulator, the Australian Transaction Reports and Analysis Centre (AUSTRAC).

Guidelines and forms

The two industry bodies IFSA and the FPA have developed guidelines and forms to help financial advisers meet their KYC obligations and ensure consistency across the wealth management industry. Securitor has aligned its approach with the IFSA/FPA Guidelines so you can be confident that your financial adviser is acting in accordance with industry practice.

What does this mean for you?

When you next visit your financial adviser, you may be required to verify your full name and either your residential address or date of birth using, for example, a valid driver's licence.

If you have any questions, please contact your financial adviser.

Market commentary

The December 2007 quarter was disappointing for growth assets as the US sub-prime mortgage crisis deepened, unnerving global markets. Investor risk aversion and a dysfunctional credit market forced central banks to flood global money markets with capital on relatively easy terms.

Economic overview – December 2007 quarter

The Australian dollar weakened over the December quarter, making unhedged international investments out-perform hedged international equities in local currency terms.

Australia's economic growth accelerated to an annualised rate of 4.3% (4.7% E) driven by consumer spending and exports. The US economy recorded above-trend growth, but both manufacturing and employment growth slowed substantially in the final month of the year. The Japanese government revised down its reported annualised economic growth from 2.6% to 1.5% due to a severe slump in the domestic home building sector. Eurozone economic growth is beginning to slow under the combined weight of a strong Euro, record energy prices and the credit crunch. Although the UK's GDP expanded at a robust annualised growth rate of 3.3%, weak growth is expected at least for the next few quarters due to the economy's reliance on the housing and financial sectors. China's economic growth continued unabated with annualised GDP growth almost reaching an astonishing 12%.

Market outlook by asset class

Australian shares

We anticipate early bouts of weakness but are positive on domestic shares over this quarter because a lot of negative news is already factored into current market prices.

International shares

We expect the market will be volatile and experience bouts of weakness. However, once markets stabilise and investor risk appetite returns, investors who presently are in safe-haven investments are likely to diversify their investments away from cash and towards equities giving equity prices upward momentum.

Listed property trusts

Listed property yields, although attractive at present levels, are likely to remain under pressure until global real estate markets and the global economy show signs of stabilisation.

International bonds

There is a possibility that the market can rally further on negative economic news or further risk aversion. However, we believe that bond yields will be moving higher during the latter part of this quarter once equity and credit markets settle down and investor risk appetite returns.

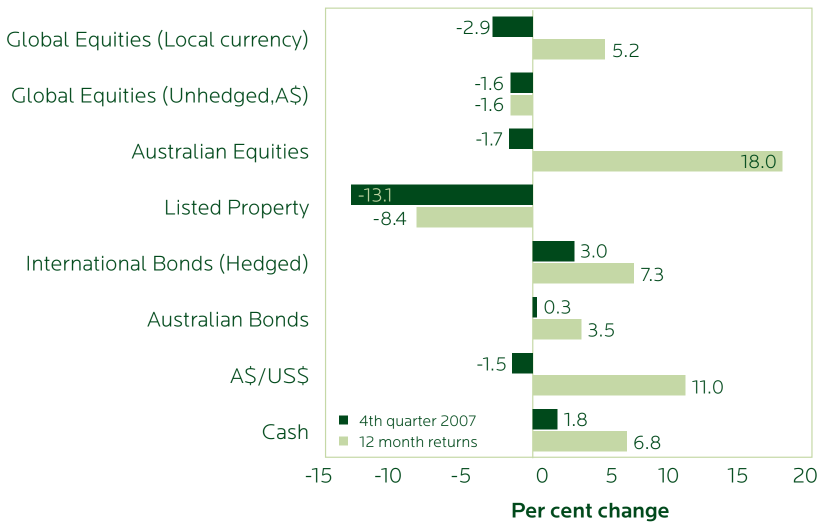
Australian bonds

Australian bond yields have widened relative to US Treasuries quite significantly since the recent credit market turmoil and the onset of global investor risk aversion. However, the relative yield advantage in Australian bonds will attract overseas investor capital once risk appetite returns.

Currencies

The Australian dollar should remain relatively strong versus the US dollar but gradually weaken against a stronger US dollar. The Australian dollar is also likely to remain weak against the Japanese Yen as Japanese financial year-end capital repatriation supports the Yen. The Australian dollar is likely to remain strong versus the British Pound and the Euro, but weak against emerging market currencies.

Asset Class movements for 3 and 12 months to December 2007



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