Capstone FINANCIAL PLANNING

Informed investor

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The newsletter for Capstone Financial Planning clients

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Buffering your super

You have worked hard, purchased a home, paid off debt, contributed to superannuation and invested in other assets. You plan to retire in a few years but the GFC has played havoc with your superannuation, which has dropped in value.

While the experts tell you your super will recover, it's taking its time. If you stick to your original retirement date, you risk not having the retirement income you want or running out of money in retirement, or both.

To reduce this risk without delaying retirement, you could consider building a buffer outside your superannuation fund, of one to two years' income, while you are still working.

Why create a buffer outside superannuation?

Market volatility is one reason. If you have not reached retirement age and are still working, retaining access to your money is another. You may also already be contributing to superannuation up to your maximum concessional limit and need to consider other investment options that can maximise your financial situation.

Buffer building

You can build a buffer by establishing:

1. Direct assets outside superannuation (property, shares)
2. Non-super tax-effective funds (insurance bonds, managed funds)
3. An alternative income stream – think outside the square

Alternative income streams

If you have ever earned income from hobbies or interests or you have lifestyle assets such as special tools, workshops, or a hobby farm, you have the potential to earn money from them in retirement, so explore the possibilities. Or perhaps you want to pursue an interest which could potentially generate income, such as sewing, gardening or even singing.

While the income you receive from doing the things you love may be erratic, it could just provide you with the cash you need to keep your retirement dreams intact.

As you can see there are many 'buffering' strategies available and it's important to work with a Financial Adviser to determine which strategy is most appropriate for you. For further information on building your buffer and retirement income – speak to a Capstone Financial Adviser.

Source: BT Financial Group

Economic Highlights

- US – the Fed believes the US economy is expanding at a "modest to moderate pace".
- Europe – industrial production has slowed, with construction output data further highlighting weaknesses.
- China – economic indicators appear somewhat mixed.
- Australia – the economy grew at an average pace over the December quarter with retail sales increasing.
- US sharemarkets gained ground in March while sovereign credit concerns weighed on the European markets. The Australian sharemarket lost ground due to weakness in the materials sector.
- While the prospect of increased supply is weighing on commodity prices, the AUD performed well against major currencies.

Australia

Gross domestic product (GPD) rose by 0.6% in inflation-adjusted terms over the December quarter. This translates to annual growth of 3.1%, which is broadly in line with the long-term average. The result was highlighted by a strong increase in dwelling investment (+2.1%), which is likely to continue, aided by lower interest rates and rising population levels.

More recent data from the consumer sector showed that retail sales rose by 0.9% in January. Sales were buoyed by a 2.6% gain in the other goods category, which includes newspapers, books, recreational goods, pharmaceuticals, cosmetics and toiletries. Household goods (+1.3%) sales also rose strongly, however the gain appeared largely confined to smaller retailers, as department stores and supermarkets posted flat results.

United States

In its latest Beige Book survey of regional economic trends, the US Federal Reserve (Fed) indicated that US economic activity is expanding at a "modest to moderate pace". Subsequent economic data releases have been broadly consistent with this observation. Industrial production rose by 0.7% in February, as did the forward-looking measure of capacity utilisation now at 79.6%, its highest level since March 2008.

The Fed described demand for services in the consumer sector as "generally positive", consistent with a rise in retail sales for a fourth consecutive month in February (+1.1%). Increased willingness to spend mirrored a strong labour market report for February. Furthermore, an increase in the working week (from 34.4 hours to 34.5 hours) contributed to a 0.2% fall in the unemployment rate to 7.7%.

In line with the Fed's view that residential real estate markets "strengthened in nearly all districts", new housing starts increased, and the forward-looking permits series rose to its highest level since the US recession.

Europe

The pace of industrial production eased in the UK and Europe. Data for January showed a sharp fall in the UK (-1.2%), and the fourth decline in the last five months in Europe (-0.4%). In both the UK and Europe, weakness was notably evident in capital goods production, where output declined by 1.4% and 1.2% respectively. As a result, the near-term outlook is downbeat as these goods typically form the input capacity for future production.

Weakness in the European fixed capital sector was further illustrated by construction output data, which showed a fall of 1.4% in January. Weakness was widespread, but particularly evident in France (-4.0%), Europe's second largest economy. In contrast, output in Germany (+3.0%) rebounded strongly following two consecutive monthly falls.

Sovereign risk returned to prominence in March, as Cyprus became the latest peripheral European Union nation to fall into financial difficulty. A proposal to levy a universal deposit tax on Cypriot bank deposits as part of a European bailout deal failed to win parliamentary approval, and led to ratings agency Standard & Poor's (S&P) downgrading Cyprus by one notch to CCC with a negative outlook. A subsequent proposal sought protection for insured deposits, but envisaged substantial losses for uninsured depositors and bondholders. This prompted disquiet in financial markets, amid conjecture over the potential extent to which creditors, bondholders, depositors and taxpayers would be required to participate in future bailout arrangements.

China

February economic data releases in China were highlighted by resilience in exports, which rose 21.8% in year-on-year terms despite the impact of the Lunar New Year holiday.

Elsewhere, indicators of activity were somewhat more mixed. The year-on-year rate of industrial production growth decelerated to 9.9% over the first two months of the year, down from 10.3% in December. The creation of productive capacity nevertheless gathered pace, with fixed asset investment edging up to 21.2% from 20.6% previously.

Source: OnePath

Self insuring – not for the faint hearted

If you are like many people, you probably have few qualms about insuring your car, home, health and even travel plans – but when it comes to life insurance, you can't justify it. You have a safety net of savings set aside and if tragedy strikes – and what are the chances? – you'll just use that.

You may find life insurance unpalatable because you have heard that insurance companies don't pay claims. In fact, Australia's 10 biggest life insurers paid out just under $4 billion in claims in 2011[1].

It can't happen to me

Another reason you may have decided not to buy life insurance is because you don't think there's much risk of anything happening to you any time soon.

But did you know that statistically you are at greater risk of getting cancer before age 75 than you are of having your car being stolen and not recovered?

What are my chances?[2]

	Statistically
Car stolen and not recovered	1 in 800
Claiming on home &/or contents policy	1 in 13
Becoming disabled for more than 3 months before age 65 and having no income	1 in 3
Suffering from cancer before age 75?	1 in 3 (men) 1 in 4 (women)

1. http://www.moneymanagement.com.au/opinion/insurance/why-life-insurance-is-a-necessity-in-tough-times

2. Source: Westpac Insurance 2010 via http://www.lifeinsuranceadvocates.com.au/statistics.php

Source: BT Financial Group – in conjunction with Capstone Financial Planning

Before deciding not to insure what are your greatest assets;

- Your own life; and
- Your ability to earn an income

Ask yourself:

1. Can I really afford to meet my own expenses if I suffer a major illness or injury?
2. Are my circumstances likely to change in the next five years?
3. What financial impact will my death, illness or disability have on those closest to me?

While no one likes to dwell on the 'what if's', having a plan to protect yourself and your family is an important consideration.

As you can see above, the statistics are quite distressing but there are techniques to reduce the impact of these events. A Financial Adviser can help you assess your life and develop an appropriate protection strategy.

There are a myriad of insurance solutions available and seeking professional advice helps you make informed financial decisions. Don't wait until the 'what if' happens, protect yourself first.

Make it last

Looking forward to your retirement? We discuss how you can manage your retirement nest egg.

If you're looking forward to retiring in a couple of years, the thought of finally getting your hands on your super after a lifetime of hard work can be exciting. You may want to pay off your mortgage, you may have your eye on a new car, or you may be planning a trip around Asia.

At the same time, have you thought about whether your super will last the distance?

Many people make the mistake of viewing retirement as one big holiday and treating their super as a windfall. If you spend up big at the start, you could be struggling later on. Relying on the age pension will put basic food on the table, but you may not have much left over to enjoy the lifestyle you deserve.

With Australians living longer, your retirement could last 30 years or more. You could find your money running out very quickly.

Rethink debt repayments

Taking your super as a lump sum to pay off all your debt as soon as possible may seem a tempting prospect. But for some of you, using up the lump sum to pay off all debt may not necessarily be the best use of your retirement nest egg. You could end up asset rich, but income poor.

You'll also need to think about the tax implications. Some 'bad' debt, such as credit cards, personal loans and mortgage loans, is not tax deductible. Other 'good' debt, such as investment loans, is tax deductible. Generally, you're better off dealing with the bad debt before the good debt.

Think about your investments

Turbulent investment markets are always tricky to navigate. But when you're retired, you don't have a regular pay cheque to make up lost ground. You're looking for consistent returns and you don't want any nasty surprises.

Many Australians have turned to term deposits. When interest rates were higher, term deposits may have made sense. They offered decent returns and peace of mind. But with official cash rates down, they could leave you at the mercy of inflation, particularly as a higher proportion of your budget could possibly be going on increasing healthcare and power bills.

Term deposits still have their place… but as part of a diversified portfolio that generates enough income to enjoy a comfortable retirement.

Take full advantage of benefits

Many self-funded retirees are entitled to Centrelink benefits and healthcare cards.

And if you're still working part time, you should consider taking full advantage of schemes such as the government co-contribution.

Consider staying in the workforce

The division between work and retirement isn't clear cut any more. More than two in five Australians who work full time and intend to retire are looking to reduce their hours first[1].

Working part time not only keeps some money coming in – it can also keep you connected to a wider network of people, give you the chance to teach others, enable you to do what you love at a slower pace, and generally help you to stay active.

Aim for the long term

You'll need to develop a long-term strategy that generates income and capital growth to make sure your money lasts for as long as needed.

Keen to get a more in-depth view of your options? Contact a Capstone Financial Adviser - we're ready to help.

1. Source: Australian Bureau of Statistics. (13 December 2011). Summary of findings in 6238.0 – Retirement and retirement intentions, Australia, July 2010 to June 2011.

Source: AMP Financial Services

PERSONAL FINANCIAL ADVICE

Head Office:
Capstone Financial Planning
Level 14, 461 Bourke Street
Melbourne Vic 3000

Phone: 1300 306 900
Visit our web: www.capstonefp.com.au

AFSL/ACL No: 223135
ABN: 24 093 733 969