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GOLDSBOROUGH news

GOLDSBOROUGH FINANCIAL SERVICES

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MARCH 2016

Vale

Glenn Todman

It is with great sadness that we share the passing of Glenn Todman after a brave battle with cancer.

Glenn was a founding partner of Goldsborough Financial Services and a larger than life character which made him incredibly endearing.

He was a firm believer in the value of professional financial advice and this saw him become a recognised figure within the industry, and led to his time on FiveAA, and later as a columnist known as the *"Sunday Mail Money Man"*.

We have been especially touched by the kind messages of support that we have received from our clients and business associates since Glenn passed away, and this is testament to how valued he was both as an adviser and a friend.

His open, welcoming manner encouraged people to warm quickly to him, and he was held in very high esteem by those who knew him.

He was a great colleague, mentor and above all friend, and he will be sorely missed.

In memory of

Glenn Todman *(1955–2016)*

ECONOMIC UPDATE

If you've been reading the financial media in the past month it has probably not given you a feeling of certainty or optimism. Sentiment in most financial markets is poor and has led to a sell-off in shares here and overseas.

Companies with exposure to oil prices and other commodities have been particularly hard hit. It's difficult to know if this price instability is driven by supply and demand or price manipulation by oil producing countries. I did however fill up my car at the local petrol pump for 91.9 cents per litre and that put a smile on my face.

Hugh Giddy, from Investors Mutual Limited described the global economy as being in a state of "sustained sluggishness." Hugh highlighted three global factors for this sluggishness.

1	**Excessive debt** Financial institutions, governments, corporate's and households are all in significantly more debt now than they were at the end of 2007 when the global financial crisis hit.
2	**Demographics** Developed countries including Australia have major demographic challenges ahead. Our ageing population will place enormous strain on our budget deficit as the number of taxpayers to welfare recipients reduces. At the same time consumer spending will reduce because an individual's peak spending occurs in their early forties.
3	**Weak underpinnings** The likelihood of slowing growth from emerging economies and in particular China impacts the global economy and in particular commodity producing countries such as Australia and Brazil. The Chinese economy will certainly still grow, and likely at a rate above 5%. However, we may not see the excessive development which led to the great Chinese ghost cities that the western media discovered in 2010 (internet search *Ghost City Ordos* if you haven't seen the images).

The end of February saw the S&P ASX 200 show a one year return of -13.7%.

International shares to the end of February report a -12.3% return in US$ terms. But investors in the same market using Aussie dollars achieved an average return of -3.9%. The fall in the dollar providing the extra performance boost for Australian investors in unhedged international share funds.

Despite the recent poor share market performance, when I look through the performance of some individual client portfolios I am encouraged by the resilience that a genuinely diversified portfolio can show in difficult times. For many clients we've recommended a greater allocation to international shares and also alternative assets compared with what they may have if doing it themselves. In most cases this has added to performance and reduce volatility over the last five years. I feel that both the investment portfolios and also the mindset of our clients that I speak to are well-prepared to ride out what is likely to be a volatile 2016.

LACHLAN HARVEY CFP®
Authorised Representative (227293)

too soon?

The right time to start thinking about retirement

Most Australians are financially unprepared for retirement, partly because we are living longer and we have higher expectations of our retirement lifestyle. As a Gen X'er myself, I know it's also hard to get excited about your superannuation when you won't be able to access it for 20, 30 or even 40 years. But if you want a comfortable life in retirement, then your 30's and 40's are a good time to start thinking about what that life after work will look like.

The *Association of Superannuation Funds of Australia (ASFA)* says the average couple needs at least $640,000 to fund a comfortable retirement, while a single person needs at least $545,000 (both calculations assume receipt of a part Age Pension based on the Age Pension means test effective 1 January 2017) .

The savings gap

If you're relying on your employer's compulsory super contributions alone to meet this retirement goal, you could be in for a nasty surprise. Based on employer contributions alone, a full-time worker earning $55,000 per year can expect to retire with about $325,000 in super (in today's dollars, assuming the gradual increase in the super guarantee to 12% by 2025.)[1] This is a shortfall of over $200,000 and will mean the average Australian will fall short of a comfortable retirement if they take no action.

Often the wealthiest retirees are not those who had the highest income but rather those that invested sensibly early in life and let their assets grow and compound in value.

Some of the ways to boost your superannuation balance are outlined in the following columns.

Strategies to help close the gap

1. Sacrifice some of your salary

Making regular contributions from your pre-tax salary into your super is a simple way to help boost your retirement funds. The amount you sacrifice into super will generally be taxed at 15%, or 30% if you earn over $300,000. However, this is likely to be less than the marginal tax rate you pay on your salary, which is currently up to 49%.

2. Consider co-contributions

For people earning up to $50,454 (before tax for the 2015/16 financial year), making an after-tax payment to your super could make you eligible for a Government *co-contribution* of up to $500 — effectively boosting the value of your contribution.

3. Contribute to your spouse's super

When one partner takes time off to care for children or elderly parents, they lose the benefit of regular super contributions, adding to the super gap. To help counter this, the Government offers a tax rebate of up to $540 when you contribute up to $3,000 into your spouse's super, provided they earn less than $13,800 in the year.

4. Make a lump sum contribution

For many people who receive a lump sum, whether it is a bonus, an inheritance or a redundancy payout for instance, their first thought is to pay it off of the mortgage. But, depending on your circumstances, you may be better off putting it into super, or using it to supplement your income and increasing your pre-tax contributions.

The best strategies for you will depend on your personal circumstances, including how much tax you pay. You should also be aware that other eligibility requirements may also apply in relation to each of the above strategies, and that there are caps (or limits) on how much you can contribute to super before penalty tax rates apply.

So before you decide how to close your super gap, you should talk to a financial adviser to find out what's right for you.

CRAIG KIRKWOOD
ADFP
Authorised Representative (401525)

1. Assumes 7% return and inflation of 3% (Australian Institute of Superannuation Trustees)

WHEN CAN YOU ACCESS *your super?*

As an adviser I am regularly asked about accessing super. You've worked hard, built up your super balance and you're looking forward to retirement. To help make that happen, you need to understand when you can start drawing down your super.

The government puts age and other restrictions on when you can access your super, to help ensure that you use your super savings for retirement purposes.

Generally, you can access your super:

- When you turn 65 (regardless of whether you keep working or not).
- When you reach your preservation age and permanently retire
- When you reach your preservation age and start a transition to retirement income stream
- When you become permanently disabled or terminally ill.
- In some special circumstances including compassionate grounds and severe financial hardship.

When you reach 'preservation age' — which is the age you're generally first allowed to access your super — it's up to you to decide the right time to draw down your super. You'll need to think about how the timing fits in with your financial situation and personal circumstances.

For example, you may pay tax if you withdraw your super before you turn 60, either via an income stream or as a lump sum, although some of it might be tax-free. After the age of 60, your super withdrawals are usually tax free.[2]

Your preservation age depends on your date of birth. When you turn 65, you can generally access your super regardless of whether you retire or not.

Your birthday	Your preservation age
Before 1 July 1960	55
1 July 1960–30 June 1961	56
1 July 1961–30 June 1962	57
1 July 1962–30 June 1963	58
1 July 1963–30 June 1964	59
From 1 July 1964	60

Source: Australian Taxation Office (ATO) website. 26 August 2015.

Your Goldsborough adviser will be able to assist you to understand appropriate strategies for your superannuation once you reach preservation age.

BRENTON MIEGEL CFP®
Authorised Representative (227297)

2. Tax may still apply to withdrawals after age 60 from untaxed funds such as State and Commonwealth Government Sector Super Schemes

How much capital is *enough* in *retirement*?

I have read some articles in recent newspapers that have indicated that $1 million is now not enough to retire and provide a comfortable income.

Well that's what the headline says anyway. You do however need to read a bit further to appreciate the context of the articles which do clarify that it is not a hard and fast amount. There are a whole lot of other arguments going on at present such as governments proposing to disallow access to super as a lump sum and how super funds should be taxed in future. It is making many people feel very uncomfortable about the direction of the treatment of superannuation.

But back to my main point. It is true that if you were to use $1 million of your super or savings today to invest in a "Lifetime Guaranteed Annuity" it will only provide $33,700pa of income indexed to inflation. This is pretty much exactly what the full age pension for a couple provides, which means a couple with no assets would get the same income for nothing invested. Having said that, however, interest rates are at the lowest I can recall and I do not know anyone who would lock up their entire nest egg into an inaccessible investment when interest rates are so low. Interestingly if interest rates reverted back to their long term average the capital figure needed to provide $33,700pa is around $650,000.

There is no doubt that governments would like to lock up our superannuation so that we cannot spend it and then go on an age pension but they need to remember that we have contributed to super based on the current rules and that should continue. I have no problem in the rules changing for whatever is contributed from when the rules change but it shouldn't be retrospective.

Given that under the new Age Pension Asset Test rules to apply from next year a couple with in excess of $832,000 in assets ($547,000 for singles) will be excluded from the pension it will become more and more important to plan early for being able to be self funded in retirement. It also does not make sense to "dispose" of assets to help you get more pension. I would rather have a million dollars and not get the pension. The plan should be to run down your assets over your life and use the age pension as a fall back position if needed.

There is no doubt that we as advisers believe in the importance of seeking financial planning advice (well before retirement if possible) to help you build that nest egg as much as possible and to discuss all the possible strategies available to you before and in retirement. Strategies that include salary sacrifice, negative gearing, debt reduction, wealth protection etc. Retirees are also usually prepared to take a little more risk with some of their retirement capital to potentially receive a higher return than a risk free interest rate. That's how you achieve a better long term return. So don't read the $1 million figure as gospel but with careful planning in your younger years you may just get there.

JOHN OLIVER CFP®
Director
Authorised Representative (No 227298)

MARKET *volatility*
Warren Buffett *sensibility*

At times of high market volatility it is always good to reflect on what the great investors have said over the years, particularly Warren Buffett. The quotes that he is known for can summarise complicated subject matters in a simple way.

> *"Two super-contagious diseases, fear and greed, will forever occur in the investment community. The timing of these epidemics will be unpredictable…We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."*

This is a great saying epitomising Goldsborough's investment philosophy of never trying to time the market.

> *"Only when the tide goes out do you discover who's been swimming naked."*

After every boom there is a bust, during the boom times even the poorer performing companies get swept up in the euphoria and their share price increases but when the economy sours only the stronger companies will be left remaining. These are companies that have sound balance sheets and positive cash flows.

> *"The best thing that happens to us is when a great company gets into temporary trouble… We want to buy them when they're on the operating table."*

The media cycle is now 24/7 and it is the media's business to create attention grabbing headlines which clients find hard to ignore. The more clients listen to the media the more likely they are to get caught up in the emotion of the market and when clients become emotional they feel like they have to do something, this is just human nature.

It is the fund manager's job to filter out the noise and focus on the investment decisions at hand. Good fund managers institutionalise the stock selection process, they may review their portfolio every quarter but when they do they focus on the stocks 3–5 year outlook not the short term euphoria that may be in the media on any particular day.

Goldsborough's investment philosophy relies on the use of good active fund managers where they have the resources to analyse specific companies and the markets they operate in. When analysts understand a company, its marketplace and are focused on a 3–5 year outlook a poor performance in the short term may become a great buying opportunity.

SAM MARTIN CFP®
Authorised Representative (252676)

The *Parent* Bank

Numerous reports show that becoming an "Empty Nester" is harder these days as adult children remain living with their parents or choose to move back into the family home (the so-called "boomerang generation").

For parents out there, this article deliberately overlooks all the wonderful things that can come from having an adult child live with you but there are definitely financial challenges that parents should consider.

BILLS The obvious one is the direct cost of extra bills, the fridge being raided plus the general wear and tear; charging board is often a solution.

BOARD Board and Lodging is considered a non-economic rental income and generally not taxable. The downside here is that you can't claim your kids as a tax deduction... It may also impact any Centrelink benefits you receive. For those who decide to charge their children commercial rates of rent and want to claim a tax deduction, be mindful that this comes with capital gains tax implications that otherwise would not have applied to the home.

DOWNSIZING Deferral of downsizing your home due to a family member not leaving may be costing you. If you were to cash up a bit by selling, you're losing the investment return you may have otherwise received. Many downsize into newer homes so you also may need to pay more for maintenance in the meantime.

DEPENDENCY Often overlooked is how your estate matters are affected by having one adult child who is a financial dependent living at home and another adult child who is not. Taxation and Superannuation Laws have different rules for adult children based on dependancy, meaning the independent adult child may not inherit as much leading to complications with your estate.

RELIANCE It's one thing to provide shelter and food, it's another to provide cash flow or even loan guarantees. Savings and retirement benefits can quickly be squandered by providing an ongoing cash supplement to keep your kids afloat so don't give away what you can't afford. Guarantee arrangements are also a way of getting into trouble (i.e. using your home as security), particularly if you are retired and don't have the ongoing income to meet the loan repayments of a recalcitrant adult child.

I recently heard of a retired person who helped one adult child out having 'loaned' a very large sum of interest free money to help them buy a home; then to be fair, felt compelled to do the same for another adult child. The two loans totaled nearly everything available in super and then the kids didn't meet the repayments. It was an informal loan agreement and Centrelink treated it as a gift (deprived asset) so for the next 5 years, this person is not eligible for an age pension as punishment for their kindness.

The question to ponder is whether your financial future is being deferred or derailed by your generosity and if so, by how much?

WILL CHAPMAN DipFS(FP)
Authorised Representative (311745)

Goldsborough is a referral based business

The biggest compliment any client can give us at Goldsborough is the referral of a friend, relative or business associate who could benefit from our services.

As an indication of our appreciation for the referrals that we receive from our clients, we have instituted a quarterly draw where the names of the referring clients for that quarter are put in a box and one is drawn out.

The winner of the draw receives a $100 shopping voucher!

We have pleasure in announcing the winners of our 'Referrers Award' for the March quarter are Steve and Linda Skinner — congratulations Steve and Linda, your voucher is on its way.

UPCOMING seminars 2015

TUE 12 APR
TUE 10 MAY

2.30pm and 6.00pm

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