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GOLDSBOROUGH news

GOLDSBOROUGH FINANCIAL SERVICES

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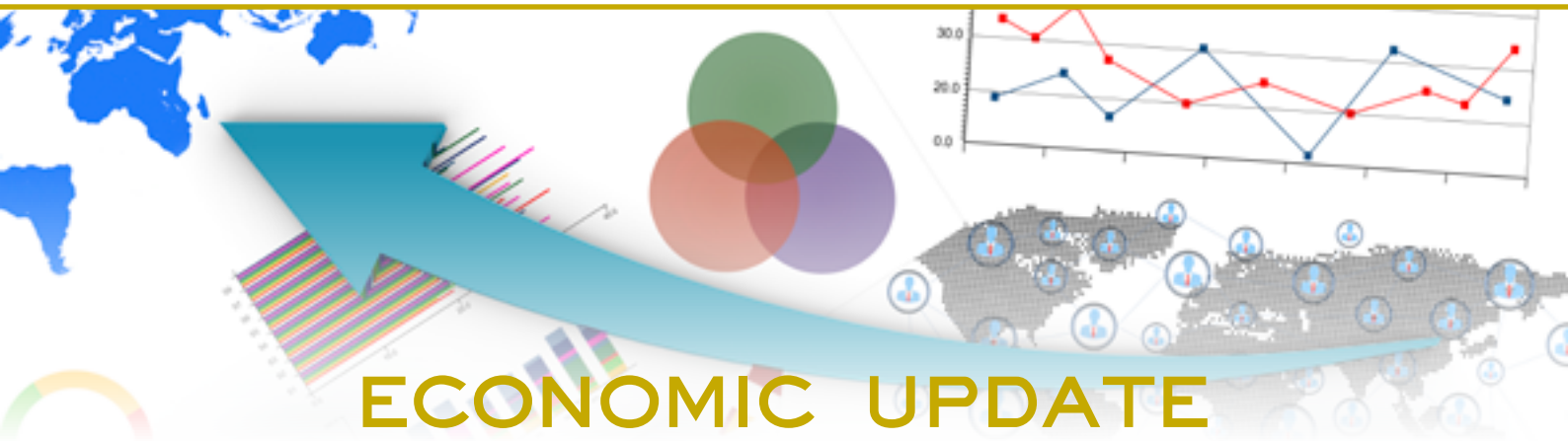
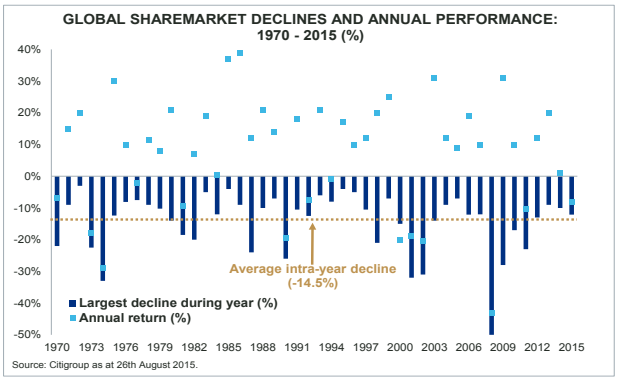


ECONOMIC UPDATE

The past few weeks have seen the Australian share market decline about 15% on the back of news coming out of China that their economy is slowing and their share market 'correcting' itself. Also, we have seen a drop in the Australian Dollar, resource prices decreasing and some inflationary expectations.

Share market corrections are common – both in Australia and globally! As you'll see with the chart below there has been an intra-year 'correction' every year since 1970. This does not mean that markets end the year negatively – in fact in over 2/3rd of the years shown here, global markets have ended the year in front! Will 2015 be different to this? Let's wait and see. Many fund managers are seeing this as an opportunity to find great value in stocks and investment opportunities are arising as a result.



Interest rates continue to remain at historic lows, not only here in Australia but globally. Here in Australia, the RBA Board has kept rates at 2% since May 2015, and there appears to be no end in sight to this low rate. At the time of writing this article the US Federal Reserve board was yet to meet (they gather in mid-September) and make a decision about interest rates there, with most experts suggesting that rates will remain on hold. It is likely that we will see US interest rates rise at the December meeting, but nothing is guaranteed at this time.

Unemployment is often a good gauge as to how the economy is going. In the US unemployment is dropping rapidly and is set to hit some historic lows. Associated with that we see the US economy looking as though it will continue to grow and move forward. Here in Australia our unemployment rate remains relatively high, and as we see all too often in the media the Australian economy continues to grow at a very weak rate.

The overall economic outlook remains subdued. We make no predictions about what will happen with interest rates, share market movements, currency movements and the like. We leave that to the experts – and even they have at best a 50% strike rate! We would encourage our clients to maintain a long-term outlook to investing. If you have any questions about your portfolio don't hesitate to give your adviser a call, they will be only too happy to talk it through.

BRENTON MIEGEL CFP®
Authorised Representative (227297)

GOOD *spending habits*

While many of today's workers will be in the workforce for at least 40 years some recent studies have revealed that our income growth does not always occur on a steady incline throughout our working careers.

The majority of our income increases generally come in our 20's and 30's. By the time we reach our 40's income growth tends to slow down and once we reach our 50's income growth can turn negative but more so on an inflation adjusted basis.

Accordingly the reality is that for those that are now in their 40's and 50's who happen to be behind on their retirement savings goals, it becomes exceedingly difficult to catch up and the options therefore are to either work longer, or reduce lifestyle spending. In other words there is little room for raises and future income growth to bridge the gap.

On the other hand for those in their 20's and 30's, the fact that the biggest raises come in that period of working life it is critically important to control the pace of spending habits. Otherwise the steady increase towards an expensive lifestyle as our income rises may not only hinder the ability to save now but leave little room to save in the future. The extent of earnings increases in the early years means that good spending habits established early on can make an astounding difference over a lifetime.

Now this all sounds good in theory and I know only too well how difficult it is to save in our early working years when you are paying a mortgage, sending children to school and so on but with a little discipline it can be done. The old adage of "pay yourself first" has never been more important. Make a commitment to save a set amount from your income (say 10%) and budget your expenses with the remaining 90%. It's an unfortunate situation where only 1 in 5 people seek financial advice and given that a far greater percentage of those in retirement seek advice then the number of younger people doing so is far less than 1 in 5.

Starting a financial plan early on could mean the difference between a modest retirement income and a very comfortable lifestyle.

JOHN OLIVER CFP®
Director
Authorised Representative (No 227298)

Investment *platforms*

Investing through a platform allows you to savour a smorgasbord of investment options, without being inundated by the administrative tasks associated with each investment. Examples of investment platforms which will be familiar to many of our clients are FirstChoice, IOOF Pursuit, OnePath and Wrap accounts such as Asgard, BT and Navigator.

What is a platform and what does it do?

In simple terms, a platform is an administration service for your investments. In order to achieve adequate diversification many people invest directly in a number of managed funds or shares, resulting in a deluge of paperwork. Instead, investing via a platform simplifies the management of multiple managed funds in your portfolio. Some investors also choose to invest through a platform to gain access to a range of investments that may not normally be available to retail investors.

The benefits of investing through a platform

- ***Diversity and choice*** platforms allow you to spread the risk, investing in a range of asset classes through a variety of managed funds — with some platforms also offering direct shares, ETFs, term deposits and margin lending (gearing). Depending on the complexity of the platform, this could give you access to a number of different fund managers, each providing a range of different investment options.
- ***Your investments are in one place*** without compromising on diversity, platforms can combine your investments under a single administration facility. You receive consolidated reports (simplifying your tax reporting), regular updates, and often 24 hour online access to your portfolio. In addition, the use of a consistent reporting style enables you to compare 'apples with apples' when analysing the performance of your investments.
- ***Access to specialist and/or wholesale funds*** which would otherwise be outside your reach. For example, many wholesale funds have lower management fees but higher entry levels, such as a minimum investment of $500,000. While this puts the fund out of the reach for most individual investors, by using a platform, the minimum investment amount is generally a lot lower — even as low as $100 in some cases.
- ***Flexible fees:*** some platforms provide flexible fee structures and certain fees may even be tax deductible.
- ***You retain control:*** over where your money is invested and, in consultation with your financial adviser, you can create the investment strategy that is best suited to your financial needs and goals.

Things to consider

If you're thinking about investing through a platform, it's important to consider how much involvement you want to have with the day to day management of your portfolio and whether you want to outsource this in part or in full, the types of underlying investments you want to utilise, and the kind of features that will be important to you. Goldsborough have experience with most of the major investment platforms in the market and one of the ways an adviser can assist you is in working out which platform will best suit you.

GLENN TODMAN
CFP®
Director
Authorised Representative (227295)

Business Succession INSURANCE

Many business owners have insurance cover against damage to physical business assets and professional indemnity insurance.

Alarmingly, few business owners consider in detail and plan what will happen to the business upon their death or disablement. A good succession plan enables a smooth continuation of a business in the event of the loss of a business owner. A business succession plan is documented via an agreement, commonly known as a buy/sell agreement.

The buy/sell agreement

A buy/sell agreement sets out how the interests of an exiting business owner will be transferred to ensure the ongoing survival of the business. Owners will exit businesses for one of four reasons (4Ds):

- Death
- Disability
- Divorce
- Departure

Whilst divorce and departure are voluntary, death and disability are not. Furthermore, death is inevitable…it's not a question of if, but when! With this in mind prudent business owners should put in place appropriate exit strategies for each of the 4D's through a professionally drafted buy/sell agreement. The buy/sell agreement will take precedence over a will because the business will be transferred pursuant to the contract.

Funding the agreement

The buy/sell agreement will usually be used in conjunction with an appropriate insurance policy to provide an efficient way of funding the exit strategy, in the event of death or disability. The policies can be held in any the following arrangements:

- Cross ownership, where the owners of the business hold policies on each other;
- Principal ownership, where the owner holds the policy on himself/herself;
- Discretionary trust, where the trustee hold the policies on behalf of all the owners; or
- Company ownership, where the business holds the policy on behalf of all the owners.

The buy/sell agreement will need to state either the value of the business or how the value is to be determined when the agreement is triggered. The agreement will state whether the value to be applied shall be:

- the book value;
- the agreed value;
- the appraised value at the time of the specific event;
- capitalisation of earnings at the time of the specific event.

Legal and tax advice should be sought on what is the most suitable arrangement for your business.

Capital gains tax implications

If a buy/sell agreement triggers payment of a life insurance policy, it will be exempt from Capital Gains Tax (CGT) provided the gain or loss is made by:

- the original beneficial owner of the policy;
- an entity that acquired the policy for no consideration;
- the trustee of a complying superannuation fund.

A trauma or total and permanent disability insurance policy is subject to CGT if it is owned by the business. Only a trauma or total and permanent disability insurance policy owned by the insured is exempt. Consideration can therefore be given to the business owner holding the policy on himself/herself. As the buy/sell agreement results in the sale of the business, a CGT liability will arise to the vendor. The small business CGT concessions may operate to reduce this CGT liability.

Deductibility of premiums

The essential characteristic of a deductible insurance premium is that it be intended to provide an income.

A self-employed business owner can claim a deduction for premiums on a policy which will pay income during a period they are disabled. Normally, if a policy includes a component to pay a sum on death or disability, the component relating to death cover will not be deductible. However, it may be deductible if the following four criteria are met:

- the premium is paid for a revenue purpose;
- the policy's purpose is to advance the business;
- the policy is owned by the employer;
- the employer is the beneficiary of the policy.

In short, buy sell cover makes sure sufficient funds are available to compensate the family/estate of the life insured for the transfer of the life insured's share in the business to the surviving business owners, without further cost to the those same business owners.

Once an agreement is put in place it is important that the agreement and insurance is reviewed on a regular basis (at least annually) to take in to account any change in business value, business structure and the future goals of the business owners.

CRAIG KIRKWOOD
ADFP
Authorised Representative (401525)

Age Pension *Changes* JANUARY 2017

We would like to remind all of our clients that are retired or planning their retirement that from January 2017 there are major changes coming to the way assets are assessed for the Age Pension (also including Disability Support Pension and Carers Allowance).

We know that many of the long-term projections that we have prepared in the past will need to be revised and in many cases people will need to reconsider their expectations of total income and the longevity of their retirement funds.

The changes are simple but far reaching. Please take the time to discuss the implications of these changes with you financial planner. If they don't affect you on 1 January 2017 then they may in the future. Chances are several people that you know will be impacted, so please spread the word.

Remember assessable assets exclude your own home but include money in the bank, home contents ("fire sale" value) the value of cars, bank accounts and financial assets. Holiday homes and investment properties are counted, as is cash (even when kept it home in a safe).

Key changes from January 2017:

Singles
Assets Test will reduce the pension by $3.00 per fortnight for every $1,000 of assets over $250,000 (homeowners) or $450,000 (non-home owners).
Couples
Assets Test will reduce the pension by $3.00 per fortnight for every $1,000 of assets over $375,000 (homeowners) or $575,000 (non-home owners).

LACHLAN HARVEY
CFP®
Authorised Representative (227293)

FINANCIAL PLANNERS *making Aussies happier*

Recently the Financial Planning Association (FPA) held its 15th Financial Planning Week. The FPA use this week as an opportunity to promote the positive impact financial advisors have within the community.

On the back of Investment Trends research showing 8.5 million Australian adults have unmet advice needs and 34% of Australians are concerned they will not have enough money to retire on, the FPA Chief Executive, Mark Rantall said "the role of financial planners is to find out the clients pain points and to help alleviate that stress". He also noted that the number of clients using a planner in Australia rose to 2.5 million last year, up 100,000 from the year before. He claimed "this is clear evidence that the value and quality of financial advice is being recognised".

Another research paper (The Australian Retirement Vision Survey, by State Street Global Advisors) containing research by Rice Warner has some very interesting statistics;

- 25.7% of people unadvised feel confident or very confident that they will meet their retirement goals as opposed to 48.4% of people who are advised.
- 39.3% of people unadvised don't feel confident or are not at all confident that they will meet their retirement goals as opposed to only 19.5% of people who are advised.
- Two in five superannuation investors nominated changes to superannuation legislation as the greatest concern about their retirement savings. This was the major concern, greater than underperformance of their investments within super.
- 29% of retirees who have received financial advice say their living standards have improved since leaving the workforce, compared to just 21.7% of unadvised retirees.

Another misconception commonly reported was dispelled in this research paper. The misconception that most Australians spend their superannuation as a lump sum before relying on the pension. This research revealed fewer than 20% of investors plan to do so, the remaining 80% expected to convert all or part of their superannuation into an income stream.

So as the very nature of retirement in Australia changes with people living longer, staying healthier and generally being more active there is going to be an increased level of strain on the government's Social Security system, the product providers of retirement income, and clients/investors themselves. The statistics that we are reading show that the trend of people taking up financial advice is on the rise and that the client experience is on the whole satisfying them both financially and personally through professional advice in educating, empowering and supporting everyday investors in setting and achieving realistic lifestyle goals.

SAM MARTIN CFP®
Authorised Representative (252676)

Foreign Currency *explained*

Foreign exchange is something that appears to most people as… well, foreign. Many will understand that when you buy another country's money with Australian dollars, a bank will charge a "buy" rate and offer a "sell" rate, and the difference is commonly known as a "spread" (aka profit)...

Hopefully when you buy another country's currency, you buy it at a time when the Australian Dollar (AUD) is high and the currency of the country you buy is cheap. The real question is,

"what is influencing whether one currency is high or low?"

It's a big question but here are some things to think about…

Just like most things in this world, currency is determined by demand and supply. If a country just printed money, the supply would increase so the value would drop. If a country was a very popular place to invest money, investors would need to buy that currency therefore demand increases and the value of the currency goes up. Following the GFC, Australia was seen as a safe country to invest and therefore our currency was popular. Since then, our mining boom is over plus the US is making a recovery so it has started to fall in value.

The upside to having a highly valued AUD was that overseas items became cheaper to import; our AUD can buy more things in an overseas currency. More recently the AUD has dropped with one AUD buying around US$0.70. So our value has dropped and it now means imports are expensive, but our exports have become cheaper for a US buyer. It's worth noting that not all currencies are popular or unpopular at the same time. The US is more attractive because their economy is making a solid recovery, but Europe isn't so our currency has dropped significantly against the USD but not as much against the Euro.

Another big factor is a country's interest rates. People will want to buy our currency to invest here when interest rates are high in Australia (relative to the rest of the world). If they are low or nil (i.e. Japan), then good luck trying to attract people to invest!

Interest rates also reflect how an economy is going, so when business is booming, interest rates are high due to the RBA wanting to keep our economy from overheating. Overseas investors like interest rates that are high and economies that are going well, so our AUD is popular. The reverse occurs if there is a downturn in our economy.

For Australian investors buying US investments when the AUD and USD were at parity, the AUD fall to US$0.70 has been enjoyable. Back then: US$1 = AU$1 and now US$1 = AU$1.42 so if that Australian sells their USD, just the currency advantage alone has offered a 42% return. Not so good for the US investor buying Australian investments back then…

I trust that this gives you a small insight into currencies. As always don't hesitate to discuss this further with your Adviser.

WILL CHAPMAN DipFS(FP)
Authorised Representative (311745)

How you receive your newsletter

We are now offering the option for you to receive your newsletter via email. If you would like to change to this method of delivery please email to

mail@goldsborough.com.au

requesting this option and we will alter our records.

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 September quarter are* Tony and Maureen Phillips — *congratulations Tony and Maureen, your voucher is on its way.

UPCOMING seminars 2015

TUE 13 OCT
TUE 10 NOV

2.30pm and 6.00pm

Retirement & Redundancy

A must for those approaching retirement, taking redundancies or experiencing income difficulties in retirement

Goldsborough can help relieve your financial worries.

Bookings essential

Telephone 8378 4000

or online at

www.goldsborough.com.au

A Farewell from Trevor Wood

I am writing these few words to confirm that I will be retiring on the 17 December this year.

I joined Goldsborough in 2003 after a 40-year career in the ANZ Bank. Now, 12 years later I feel it is time to retire — age has crept up on me and as a 70 year old I'm not as spry as I used to be.

I have enjoyed every minute of my time with GFS, have worked with a great bunch of people and will be sad to leave.

Client interaction and assistance has always been my main focus and I hope that I have been able to help many of our clients achieve their goals.

Anyway, as they say "when one door closes, another one opens" — onward to retirement!

With warm regards, TREVOR WOOD