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life



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# MAKING THE BEST OF REDUNDANCY

Have you been made redundant or suspect it may happen? You could be faced with new emotional and financial issues that you need to make informed decisions about. It's not an easy thing to sort through but the following information provides a quick overview of some things to consider.

## COMING TO TERMS WITH REDUNDANCY

Being 'retrenched' is a shock. You could be in a state of disbelief, acceptance or happy at the thought of a payout.

It may sound ridiculous, but redundancy could provide you with the money and the opportunity to change direction.

The key is to emotionally and financially handle the transition. Generally, a redundancy payment is where:

- You are required to leave your job because your role is no longer needed or no longer required in a certain location
- You are under age 65 at the time of receipt of the payment
- There is no arrangement for future employment made on your behalf or by your employer
- The amount paid must not exceed an amount for a dismissal that is reasonable on an arm's length basis

If the conditions above are satisfied, then you may be entitled to a tax free amount.

In the 2012–13 financial year, the tax-free amount of a genuine redundancy payout is defined as the first \$8,806 received plus \$4,404 for every year of completed service.

Any redundancy payments exceeding this are described as

an 'employment termination payment' (ETP) and are subject to different tax rates when cashed out. You can only take your ETP amount in cash.

## CHECK YOUR PAYMENT AMOUNT

It's important to have someone check your employer's calculations to ensure that you are being paid the correct amount. Make sure all your relevant years of service have been included and that the payment is consistent with your company's stated redundancy policy or your contract. You should speak to your financial adviser as early as possible to make sure you are receiving all the benefits you are entitled to.

## WHAT SHOULD YOU DO WITH YOUR MONEY?

It's tempting to view a redundancy payout as an opportunity to have a holiday or pay off some debts. Before doing that you need to make sure that you can cover your living expenses for the next few months until you find a new job. If you have large debts, and you do want to reduce them, make sure you pay off the most costly ones first.

## SOME OPTIONS TO CONSIDER

If your home loan provider offers a mortgage offset account, this can be an excellent way of reducing your loan interest payments while still being able to access the money. Even if you are an aggressive investor by nature, using the proceeds to have a flutter on the share market can be a risky move.

Before making any changes, you should speak to your financial adviser to ensure you get the best outcome for you.

Source | Colonial First State

In this issue...

1 Making the best of redundancy 2 All I want for Christmas  
3 Overcoming the desire to follow the herd 4 SMSF insurance cover

# *All I want for Christmas*

## *..is to survive it debt free!*



With the holiday season fast approaching, it's tempting to throw out the year's careful planning and budgeting to splurge in the name of Christmas. But getting into the Christmas spirit doesn't mean you have to get into debt.

Follow these tips to emerge in the new year debt free.

### *Set a budget*

First take some time out to review your current finances. Determine how much you can realistically afford to spend without getting into the red. Remember to include gifts and entertainment as well as all the small things that come with the season like cards, stamps, decorations, food and travel. Next make a list of everyone you plan on giving a gift to and decide how much you want to spend on each person. Finally check that the total figure you want to spend is not beyond your budget.

You may need to reduce the amount you are able to spend on each person or reassess the number of people on your list.

### *Start early*

Before you know it, Christmas will be upon us. In fact, the department stores have already started spruiking their Christmas wares. By shopping early, you can look out for sales and great deals for later in the year. You also have time to comparison shop rather than last-minute shop; where your panic to pick up something (anything) will usually mean spending more.

### *Look for savings and incentives*

If you choose to use your credit card, look for any rewards or discounts that may be available through your credit provider.

Also try to shop online first as you are less likely to impulse shop and can easily compare prices across various websites.

There are plenty of online retailers that offer savings across a number of product categories such as fashion, skincare, make up, fragrances, books and electrical appliances. You can also find discounts through online community classifieds, auctions and daily deal sites.

### *Remember who you're shopping for*

When you're shopping for family and friends, it's very easy to find things which will be just perfect for you. This is a very common mistake which is sure to break your budget. Christmas shopping isn't a 'one for you, one for me' deal. Don't buy it. If you really need to have it, wait until after the holidays when it's more likely to be on sale.

### *Stick to your budget*

Remember that a deal is not a deal if you can't afford it. Once you reach your budget limit, stop.

### *Save early*

Get off the overspending merry-go-round by saving early for next year. As soon as the holiday season is over, determine next year's Christmas budget and set up automatic direct debits into a dedicated Christmas savings account. You'll be all set by the time the department stores bring out their tinsel again.

If you would like more information on how to manage debt and build a savings plan, contact your financial adviser today.

# Overcoming the desire to follow the herd

Conforming to group or societal norms is a critical part of what it means to be human. But in investment there is a danger in conformity because herding in financial markets can boost the values of certain securities to extreme levels, causing bubbles that invariably pop.

The urge to conform is powerful. Psychology pioneer Solomon Asch carried out conformity experiments in the 1950s that showed that people are willing to make basic cognitive errors to go with the crowd. Fortunately, Asch also revealed it doesn't take much to snap them out of it.

While the crowd is often right in momentum-driven markets, there are countless examples of the herd being wrong-footed at market-turning points. The widespread dash into technology stocks in the late 1990s was a classic case of herding. Investors made a collective cognitive error in their overly optimistic assessment of prospects for dot.coms, many of which had achieved little.

Identifying bubbles is straightforward in retrospect, but it's more challenging when investing emotions are running high. Economic historian Charles Kindleberger helpfully identified five phases of a bubble.

## Stage 1

Stage 1 is displacement, where the introduction of a technology (such as railways or the internet) or growth dynamic takes hold. This is often when the "smart money" gets in.

## Stage 2

Stage 2 is the boom, when a persuasive narrative takes hold (e.g. the thinking that internet will change everything). This phase is often accompanied by access to cheap credit.

## Stage 3

Stage 3 is euphoria where the boom becomes over-extended; new investors are sucked in by the lure of easy gains. The rationale behind the boom is now stretched.

## Stage 4

Stage 4 is crisis where insiders sell and prices drop.

## Stage 5

Stage 5 is revulsion where investors capitulate and prices overshoot on the way down. This phase is often accompanied by the political backlash and calls for regulatory reform that we have seen after the global credit crunch.

Investors can reduce their exposure to bubbles. For instance, there is some persuasive evidence that market capitalisation based indices tend to over-reflect the thinking of the herd. This is because their reliance on price means that they systematically give higher weight to glamorous, overvalued stocks.

Hot sectors take a higher weight in the index as they grow, making subsequent reversals in those sectors more painful. In 1996, for example, the IT sector accounted for around 10% of the overall market cap of the S&P 500 Index. By 2000, it had more than trebled to 33%, making an investment in the S&P 500 a bet on US technology.

The subsequent correction saw this figure fall back to 14% by the mid-2002. Investing to avoid such concentrations when risks begin to outweigh rewards is critical. It's one advantage that active investing has over passive investing.

Source | Fidelity





# SMSF TRUSTEES MUST NOW SPECIFICALLY CONSIDER INSURANCE COVER FOR MEMBERS

The Government has amended the superannuation regulations to require that SMSF trustees now give consideration to whether an SMSF should hold life insurance cover for its members.

Previously, SMSF trustees were not specifically required to consider the insurance needs of members when formulating an investment strategy. In fact, during the recent Super System Review, it was noted that less than 13 per cent of SMSFs have insurance.

The new regulation will mean that trustees, who are also normally the members, must now consider insurance in order to discharge their obligations under the SIS Regulations. For newly established SMSFs, insurance should be considered when formulating the initial investment strategy. For existing SMSFs, this practice should form part of the regular investment strategy review.

## What the legislation stipulates

Paragraph 4.09(2)(e) of the Superannuation Industry (Supervision) Regulations 1994 now requires that a trustee of a superannuation fund

must formulate, review regularly and give effect to an investment strategy that has regard to the whole of the circumstances of the fund, including, for an SMSF, whether the trustees of the fund should hold a contract of insurance that provides insurance cover for one or more members of the fund.

The level of cover is not prescribed in the Regulations; rather trustees are expected to be self-reliant in determining the type and level of insurance members might require. The Explanatory Memorandum to the new rule states that in meeting this requirement, trustees should have regard to the personal circumstances of their members. For example, if a member holds insurance cover outside of the SMSF, this should be considered in determining how much, if any, insurance the SMSF should hold.

Trustees may evidence this requirement by documenting decisions in the fund's investment strategy or minutes of trustee meetings that are held during the income year.

Source | BT

TO FIND OUT MORE ABOUT SMSFS, CONTACT YOUR FINANCIAL ADVISER TODAY.

## From my Desk

As another year draws to a close, we would like to wish all our loyal and trusted clients a safe and happy Christmas and Holiday season. We are looking forward to a prosperous 2013. Our office will be closed commencing Friday 21st December and we will be reopening Monday 7th January 2013. After yet another challenging year, we take a final look at the key factors of 2012 and the outlook for 2013, courtesy of Instreet.

## Economic Outlook Australia's Outlook

We believe low rates will stick around longer than the market expects as global central banks provide more unconventional easing. This will take some getting used to in Australia, as we haven't experienced such low rates for 50 years. The drop in interest rates may push people out of term deposits toward high yield stocks. We expect economic conditions to remain stable enough to enable high-yielding stocks to continue to pay their dividends throughout 2013. China has stabilised and may begin to accelerate in 2013. This should also provide support for the Australian Dollar, offsetting the selling pressure caused by the falling interest rate. Australia looks set to consolidate itself as a reserve currency and safe haven and maintain our AAA rating. Even though Australian interest rates are falling, they remain higher than those other reserve currency countries, providing additional support for the Australian dollar. Finally to the residential property sector, we expect to see improvement in the residential property market as construction picks up and credit growth improves, supported by lower interest rates and real wage growth making housing more affordable.

## Global outlook

The US growth momentum, encouraging market conditions and an improving residential property market are expected to continue into 2013. Whilst Europe will still provide tail risk (which won't be discounted by markets) we expect the region's issues to move out of focus as the market concentrates on accelerating growth from the US and China. The major European market and large quality stocks we believe will continue to rally in 2013.

Source | Instreet

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