LIFE FINANCIAL PLANNERS Pty Ltd

Prepare for life

+ wealth + security

issue one 2011

New Year's • Resolutions •

I will manage my money better

At the start of every year we make rash resolutions aiming to overcome the excesses of the year before. Just like dieting, we pledge to stick to a more frugal budget, cut down on spending and watch our figures!

And like dieting, budgeting cannot be viewed as a "crash" exercise, but should be embraced as a complete lifestyle change and a lifetime commitment.

A recent survey in the US indicates financial honesty and dealing openly with money issues are crucial within a relationship or family. The Harris Interactive online poll commissioned by the National Endowment for Financial Education shows 31% of American couples who have combined finances were not truthful about issues such as hiding cash or a bank account or about debt or earnings. Committing "financial infidelity" by lying to their spouses about money often leads to consequences such as conflict and at worst, separation or divorce.

"These indiscretions cause significant damage to the relationship," said Ted Beck, chief executive of the National Endowment for Financial Education.

Some people say they can't budget. They say it's too complicated or they don't know where to start. Or they think they've got enough money and don't want to be restricted by a budget because it might mean going without.

But a budget is a flexible tool, not a straightjacket.

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No matter what you earn, it's easier than you think to take control of your money. A few simple things done regularly can put you in charge and really make a difference.

A budget helps you understand where your money goes so you can take control. A budget can help you decide what you want and plan how to achieve it.

Source | www.understandingmoney.gov.au

Steps to setting your budget:

1: Pick a timeframe

2: Estimate your income

3: Estimate your expenses

4: Work out the difference

5: Fine tune and plan

6: Keep it up-to-date

In this issue....

Make your money work harder

Too young to start investing? It's never too early to start. In fact, the earlier you start investing, the better – not only will you have more time in the market to increase your potential returns, but you will reap the benefits of compounding interest (or interest on your interest).

Source | IOOF

A good place to start is to look at your super. Your super fund invests your money for you, so getting to understand your super will give you a broader understanding of investing.

Your goals will ultimately shape the way you approach the sharemarket. Whereas saving is for the short-term, investing is for the long-term, so remember that it's not about timing the market (trying to predict the highs and lows) but rather about time in the market. With time on your side to ride out market fluctuations, you may be willing to take on a higher level of risk for a higher potential return.

Managed funds

In terms of an effective long-term investment plan, the traditional bank savings account and fixed term deposit fall short of the mark as they only offer a standard rate of return and no prospect of capital growth. As an alternative, ideally if you have an investment timeframe of at least five years, managed funds have the potential to offer higher returns compared to cash and fixed term investments.

Managed funds pool your money with that of other investors to give you access to a world of investment opportunities. They also offer an easy way to invest in particular asset classes, such as Australian and international shares, without having to do all the research yourself. And you can spread your money across different asset classes, reducing your risk and increasing the potential for growth.

When investing in a managed fund, one of the benefits is capital growth as a result of rising unit prices and you will also receive income from distributions. The income you receive is taxed in the same way as bank interest, at your marginal tax rate. You may also receive 'franking credits' for the dividend income you receive, which reduces the tax payable.

What is an asset class?

An asset class is a categorisation of investments with distinctly similar attributes, for example Australian shares (or equities), international shares (or equities), fixed interest, property (direct or listed on the share market) as well as 'alternative' investments. Each asset class carries a different level of risk vs return – that is, they all perform differently. Diversifying your investment across a number of different asset classes is a smart way to reduce your overall risk.

How much do you need to start?

Depending on the fund you choose, you can start with an initial investment of as little as $1,000. Then you can make regular payments to purchase more units. Salary deduction is an ideal way to establish a regular investment plan and you reap the benefits of dollar cost averaging.

What is dollar cost averaging?

A dollar cost averaging strategy is simply investing the same amount of money at regular intervals over a period of time. In so doing, you actually reduce market risk; when the market is down, you receive a higher number of units and when the market is up, you receive a lower number of units. However, over time, you get a lower average price per unit.

Start a good habit

Your financial adviser can help you develop and manage an investment strategy that suits your goals, circumstances and needs, all while you continue living your life! Talk to your financial adviser now to start making the most of your money.

It pays to have Trauma Insurance

By Marc Fabris, Strategic Marketing Manager, Zurich

While it's not nice to think about, trauma insurance can be viewed as "recovery insurance" – taking the pressure off while you focus on recovering from an illness or accident rather than worrying about your finances. It should be considered an essential part of any robust wealth protection plan, as the case studies below illustrate.

In each case – taken from actual experiences – better levels of risk protection, specifically trauma insurance, could have helped reduce their financial and emotional stress.

Melissa confronts the impact of an accident

Melissa was a 33-year-old sales executive when she fell off the platform while boarding a train six years ago. One leg had to be amputated above the knee; the other was seriously damaged. Melissa spent three and a half months in hospital, six months in live-in rehabilitation and two months in part-time rehabilitation. During this time, Melissa's earnings reduced from a $100,000-plus annual sales package to $45,000 in compensation payments. Melissa found her old job too physically challenging and now works for a charity, earning $42,000 per annum. She has moved back in with her parents and spends $205 per month on massage and therapeutic treatments to help deal with 'phantom' pain.

Since the accident, Melissa has lost around $250,000 in after-tax income and spent more than $13,000 on treatments. Her state's no-fault traffic accident compensation scheme pays replacement costs for her prosthetic leg ($70,000 every five years) and specialised shoes ($300 every four months).

What difference could Trauma cover have made?

It's quite likely that Melissa could have claimed a partial Trauma benefit and a Total and Permanent Disability benefit, and thereby still realised her pre-accident goal of buying a house instead of moving back home.

Tony grapples with illness

Tony was 44, super-fit and working as a police officer when first diagnosed with heart problems. His double bypass operation was successful, but Tony became depressed and took 13 months leave. The police force paid Tony 80 per cent of his income during this time. Five months after returning to work, Tony became depressed and resigned. Two years on, Tony and his wife now rely on her nurse's income to pay their living expenses, sizeable mortgage and medical bills ($130 per visit for counselling; $300-$400 per visit for the cardiologist). On doctor's orders, Tony is taking a year off before looking for work again.

What difference would Trauma cover have made?

Despite his employer's financial support, Tony's recovery was impeded by the stress of a high mortgage and his fear he may not cope with work as a policeman. Trauma insurance would have enabled the couple to reduce their mortgage and would have given Tony the breathing space to re-evaluate his employment options without money worries.

To buy or not to buy?

That is the question.

Source | All Star Funds

According to expert portfolio managers, two of the best times to buy equities during this investment lifetime were after the economic recoveries of 1974 and 1990. The lead-up periods to each of these recoveries were also the closest in terms of economic meltdown to what we have recently been through, and are facing now. In 1974 and 1990, after the first spurt of economic growth, growth decelerated again (as it has in this past quarter) before the economy took off again.

The best investing environments come when markets strengthen, yet investor sentiment remains negative. Again, we are seeing this happen right now.

According to the American Association of Individual Investors, investor sentiment was recently at its lowest level since 1987 - when its record-keeping began, yet we see that the market is now strengthening. China in particular is leading the way higher. We must also note the role of the US Presidential cycle in driving the US stockmarket: From the market's low point in 2009 to the following year (2010 mid-term elections), the major indexes have averaged gains of nearly 50%.

For the Australian market, economic growth remains excellent for mining and related industries, commodity prices are strong and the reporting season has ended, so no major surprises are likely in the near-term. Cash is also plentiful. With approximately $17 billion in dividends being paid out over the last few months, in addition to cash coming back from current cash bids - plus buybacks - about $25 billion went back into markets in late September and October. That is about 2.4% of the market capitalisation of the ASX.

In summary, for investors who are hesitant, waiting for some "sign" to indicate the right time to get back into the market, history tells us both the time and the environment to invest are right, right now.

Five key signs the market is improving

1 Leading indicators have picked up and reporting reflects corporate profit improvement

2 China's economy moderating to sustainable high single digit growth

3 CBOE Volatility Index at its lowest since before the financial crisis

4 Investors adding more risk to portfolios

5 Market trading volumes starting to trend upwards

Life Financial Planners

We are back on deck after a very relaxing break and the new year has started off very busy. We are working through our client reviews and ensuring that our service commitments to our clients are being achieved. Our review system is very thorough and we pride ourselves on our proactive client involvement.

Cliff is spending less time in the office and is enjoying a more relaxed family lifestyle in Busselton. He is however maintaining his contact with the office and is making the trip to Perth once a week to meet with clients as the need arises.

The economy is strengthening and all the indicators are that 2011 will give investors solid returns. We are confident that our asset selection will provide our clients with good returns at a lower cost, this as you are aware is being achieved by using more index funds which are far less expensive than the traditional fund manager model.

We are looking forward to a healthy, happy and prosperous 2011 for all.

www.lifefinancialplanners.com

Contact your local office for further information:

Life Financial Planners Pty Ltd
Marijana Ravlich B.Bus SA Fin
Authorised Representative/Director

12/643 Murray St
West Perth WA 6005
Ph: 08 9322 1882
Fax: 08 9322 1883
Mobile: 0410 549 562
Email: marijana@lifefinancialplanners.com
Web: www.lifefinancialplanners.com

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