ability one financial management pty ltd

December 2014

Welcome to the latest edition of our client newsletter!

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

Reflecting on the importance of financial security, now might be a good time to speak with those close to you about the importance of being financially literate – no matter what stage of life they're at. Transferring your knowledge and ideas can really help improve the financial literacy of those you care about.

If you have any questions or enquiries about any of the articles in our newsletter, or any other financial planning topic, don't hesitate to contact us on 1800 004977

We hope you enjoy reading this edition.

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To sell or not to sell?

For many Australians, the family home is their largest asset. And if you're planning to wind down from work, you may be considering what you'll do with yours.

Like many people, you may have worked for a lifetime to build the value you hold in your family home. While selling your home may not be your first choice, if your super balance is low this may be one way to release funds to help pay for your retirement. Or the idea of selling may be liberating—you may be ready to move and keen for a new adventure.

Either way there are financial, practical and emotional factors to consider first. Many people who sell up and move expect to have more money left than they end up with.

Things to consider

If you're thinking of moving to release money from your home, planning ahead can help you feel more in control and provide greater peace of mind.

Consider:

1. **Making a wish-list** before looking for a new place. Buying the right home means you're less likely to need to move again. Think hard about what features you need in your new home and what you can live without, as the more proceeds you have leftover can help fund your retirement.
2. **The best location for now and the future.** Remember you may need to access services and community support down the track so you may not want something which is too isolated.
3. **Selling your existing home before buying another**, although this may not be necessary if you can afford to hold two properties. Make sure you consider any potential capital gains tax implications if you own more than one property. While you don't have to pay capital gains tax on the sale of your primary residence, this is not the case for an investment property and you can't have more than one primary residence.
4. **The costs of moving.** For example stamp duty, real estate agent fees and property styling.
5. The impact of selling your home on any **pension entitlements** you may have.
6. **Renting or house-sitting before buying** in an area that's new to you.
7. **Investing conservatively** while you are house hunting so you give yourself some flexibility as you learn more about the choices and trade-offs involved in choosing the right property.

It's never too late to explore your options. And if time is on your side then planning ahead can help you to:

- uncover the opportunities available to you
- consider keeping your home and perhaps using it to generate income
- tidying up your key asset before selling so you can maximise its value
- manage your money from the sale—your home may be exempt from the assets test but a rise in your bank balance could reduce pension entitlements
- explore new locations that you may not have considered in the past

Regardless of your timing, it's always a good idea to speak with your financial adviser about the options for uncovering value in your home and creating a better retirement.

The hunt for world class investments

Chances are if you have recently bought a computer, watched a movie or popped a headache pill you have boosted the profits of a global company based in LA, Tokyo or Berlin. So why not grab a share of the profits by investing globally as well as locally?

There are compelling reasons to consider an investment in global shares, not least of which is the opportunity to share in the success of household names such as Apple, Google, Johnson & Johnson, Boeing and Visa.

By international standards, the Australian market is a small fish in a big pond accounting for just 2.3 per cent of the global market.[i]

What's more, Australia lacks any major stocks in significant sectors in the world economy, such as technology, pharmaceuticals and aerospace.

Offshore trend

So it is not surprising that many investors are recognising the diversification and other benefits that come from investing in quality companies with a global reach.

According to Morningstar's 2013 Global Flows Report,[ii] Australian investors favoured international share funds at the expense of their domestic counterparts.

Reasons include renewed confidence in global markets, such as the United States and Europe, and opportunities in significant growth industries and regions not available here, from consumables to fast growing emerging economies such as China and India.

Superannuation funds have been leading the charge, although Australian Tax Office statistics show self-managed superannuation funds are also investing more in offshore assets overall.[iii]

With $1.8 trillion in superannuation money looking for a home, the opportunities to invest in a diverse range of large Australian companies is limited. The local market is dominated by the big four banks, BHP Billiton, Rio Tinto and Telstra. In fact, our top 10 companies represent 50 per cent of the local market's value.

Easy access

Luckily, gaining access to offshore investment opportunities has never been easier. The simplest and most cost effective way is to purchase units in a managed global share fund and let specialist fund managers research and work with you to select suitable investments.

You can choose from a wide range of listed and unlisted global share funds and international exchange traded funds. Listed on the Australian Securities Exchange (ASX), exchange traded funds are funds created to track a range of stocks or sectors from around the world, much like an index fund.

In fact, the most difficult thing about investing overseas is that Australians are now spoilt for choice. We can help you explore your options.

Currency movements

One issue that arises whenever you invest Australian dollars overseas is fluctuation in the exchange rate. It is for this reason that many global fund managers offer hedged and unhedged versions of their fund to take account of these currency movements.

An unhedged fund means investors are exposed to fluctuations in the Australian dollar. This can be a good thing if our dollar falls relative to the currency in the country where the investments are held.

With a hedged fund, the investment manager uses strategies to offset the impact of currency fluctuations. Investors will be protected from the adverse impact of a rising Australian dollar but they will also miss out on the benefits of a falling dollar.

Lower risk

A key to reducing investment risk is diversification. Within the share portion of your portfolio that means buying a variety of stocks in different industry sectors and in different countries.[iv]

International shares offer access to some of the most established and successful brand names, in dynamic sectors in some of the oldest and newest markets.

i. 'Why Australia's biggest funds are moving huge amounts of money into overseas stocks' by Narayanan Somadundaram, Business Insider Australia, 14 Apr 2014, http://www.businessinsider.com.au/heres-why-australias-biggest-funds-are-moving-huge-amounts-of-money-into-overseas-stocks-2014-4

ii. http://www.morningstar.com.au/s/documents/Global-Fund-Flows-13.pdf

iii. CoreData Trends in SMSFs

iv. https://www.moneysmart.gov.au/investing/investing-basics/risk-and-return/diversification

Things you need to know about personal insurance

Personal insurance premiums have increased significantly over the past 18 months, running the risk that cost-conscious consumers might consider cutting back their cover. Suddenly those quick, off-the-shelf insurance products advertised on TV look enticing.

But simple is not always cheaper, the cover may be inadequate or, worse still, may not pay out when you need it most.

Underinsurance

Personal insurance is a general terms for term life, total and permanent disability (TPD), trauma and income protection insurance.

The reality is that even those people who think they are covered are likely to be underinsured. According to Rice Warner, the average Australian couple aged 40 with two children requires life insurance cover of about 10 times annual earnings to repay debts and maintain current living standards.[i]

Yet the median level of life insurance cover across the working age population is only 42 per cent of the amount needed to fully maintain the standard of living of family members. Median levels of TPD and income protection cover are even lower, at 14 per cent and 16 per cent respectively.

Life insurance lite

Life insurance is sold through three main channels: your superannuation fund, financial advisers or direct from the insurance company.

Direct life insurance generally offers pared-down ('lite') products sold without comprehensive financial advice and often with little or no underwriting. It is marketed to consumers via daytime TV and radio advertisements, direct mail or over the phone.

Consumers are often attracted by the simplicity of direct life insurance and offers of 'no blood tests, no medical tests', believing that it will be cheaper than going to an adviser. But medical checks are designed to help insurers evaluate the risk of insuring you, so if you are low risk you will be rewarded with lower premiums. This is the process known as underwriting.

The benefits of underwriting

To take out fully underwritten life insurance you must fill in a health and medical questionnaire and sometimes undergo some blood tests – at the insurer's expense. The insurer will often write to your doctor. If you are young, healthy and in a low-risk occupation you are assessed as lower risk to the insurer than someone who is overweight, a smoker and employed in the building industry, for example.

The key to buying any life insurance is to find out exactly what you are covered for, how much the insurer will pay out and how much you will pay in annual premiums for the benefit.

Say someone hurt their back 18 months ago and spent time off work but hasn't had any serious back issues since. If they applied for income protection insurance, insurers would generally exclude a payout as a result of the pre-existing back problem. However, a fully underwritten policy would allow the underwriter to write to the applicant's doctor to understand the scope of the previous problem, with a view to reviewing and possibly removing the exclusion.

Avoid low payouts

What's more, the maximum sum insured by 'lite' products is generally capped, compared with no maximum for advisor-authorised products.

Where there is no underwriting, no questions are asked. Premiums are often higher, there are generally more exclusions and at the same time the maximum sum insured is often lower. There may be accident-only cover for the first few years or no terminal illness benefit to avoid people taking out life insurance if they suspect they are seriously ill.

The best way to avoid any nasty surprises is to take out personal insurance when you are young and healthy. The premiums are 'guaranteed renewable,' meaning any changes in health that occur after the insurance is taken out won't result in denial of cover, premium increases, or exclusions.

Please don't hesitate to contact us if you would like to discuss your current or required insurance needs.

i Rice Warner, Underinsurance Research Report, 2 December 2013.