

Aspirations

Live the life you desire now and in the future

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Live long and prosper

Early planning can help you enjoy the benefits of increased longevity and live the life you want in retirement

Australians are living longer and enjoying more productive retirements than ever before.

Australian men can expect to live until the age of 79, while the average Australian woman lives until 84.* This puts Australia up there with the most advanced societies in the world – our life expectancy is the fourth highest for men and third highest for women.†

Getting on top of your superannuation early and formulating a long-term savings plan will see you best placed to prosper in your retirement.

Changing face of retirement...

By 2041, one in five Australians will be over 65 years of age and 7 per cent of the population will be over 80, representing the fastest growing sector of the population.‡

As we live longer, many of us are opting to retire earlier than ever. In 2007, the average age of retirement was 47 for women and 58 for men, which means we may end up spending as long retired as we did in the workforce.§

And the nature of retirement is changing. It's now a reward for hard work – a chance to develop new hobbies or travel the world. But do you have enough saved to fund your retirement dreams?

...and the workplace

Living longer is set to change the way we work. We are more likely to move between

jobs and opt for multiple career paths during our working lives.

Older workers offer years of experience, valuable skills, and tend to be highly motivated. Companies will need to develop more part-time and contractual positions that suit older people.

An ageing population will also spell public policy challenges. By 2047 there are forecast to be only about 2.4 working-age Australians for each retiree aged 65 and over.¶

The government will need to remove any benefit or pension disincentives that act as roadblocks to participation in the workforce, as well as reduce pressure on the public purse by lifting the pension age.

The goal – a comfortable and fulfilling retirement

As we retire earlier and live longer, we will need a bigger retirement nest egg to keep pace with inflation and see us through. In order to achieve a comfortable retirement a couple needs an estimated \$53,565 a year.**

The days of relying on the age pension are long gone and we are increasingly expected to fund our own retirements.

Planning is key. The earlier you start saving, the more likely you are to enjoy a comfortable and fulfilling retirement.

* http://www.aihw.gov.au/mortality/life_expectancy/trends.cfm

† http://www.aihw.gov.au/mortality/life_expectancy/compares.cfm

‡ <http://www.wesleymission.org.au/publications/ageing/introduction.htm#Australian>

§ <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features50March%202009>

¶ <http://www.apf.gov.au/library/pubs/BriefingBook42p/17SocialPolicy-ImmigrationandPopulationAging/Population.htm>

** <http://www.superannuation.asn.au/mr100628/default.aspx>

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Rebalance and tone up your investments

Rebalancing may seem simple in theory, but it is good practice to seek the advice of a professional to assess the full implications – the strength and performance of your portfolio depend on it.



What is rebalancing?

Portfolio rebalancing is the process of bringing the different asset classes in your portfolio back into the shape set out in your financial plan. By rebalancing regularly – for example every 12 months or after a significant change in the market – you exercise essential financial disciplines by checking risk tolerance, time horizon and financial goals. And you keep your portfolio in good financial health.

Rebalancing is important because the different asset classes in your portfolio such as shares, bonds, cash or property, are not synchronised. Over any period, some will move more strongly than others, even within the same asset class. Within Australian shares, for example, the performance of mining shares could outstrip retail or bank shares.

But if your portfolio is increasing in value, why does any of this matter?

The reasons may not be obvious at first, but they are important. Because asset classes tend to rise and fall in cycles, a big increase in the value of your mining shares, for example, could leave you exposed and in a loss-making position if there was a fall in mineral prices and a drop in the value of those same shares just months later. In fact, the loss could wipe out a year or more of gains. (Think about the dotcom bust of 2000, for example, or compare Telstra's current price with what it was three years ago.)

The major purpose of rebalancing is to manage risk – to correct any over or under exposure to one or more asset classes. At the same

time you are also sticking to the basic rules of disciplined investing, and this in turn is likely to boost the long-term performance of your portfolio.

Why do portfolios need regular rebalancing?

Consider the following case history. Alice invests \$100,000 in a growth-oriented portfolio made up of Australian and international shares (\$65,000), bonds (\$30,000) and cash (\$5,000). The share market has a great year, and 12 months later Alice's portfolio looks quite different: shares \$81,600, bonds \$31,150 and cash \$5,250. Her portfolio has gone up by \$18,000 and she is very happy indeed, as she should be.

At the same time, Alice's portfolio is now out of balance, leaving her more exposed than she wanted to be to the share market, with less of a buffer from the bonds and cash that provide stable returns. To rebalance, she has to sell some of her shares and reinvest the money in other asset classes to again reflect the original portfolio allocations of 65 per cent in shares, 30 per cent bonds and 5 per cent cash. She can either sell off some growth stocks and re-invest the proceeds in cash, or review the entire share portfolio and weed out underperformers – in practice, usually a combination of both.

Rebalancing for profit

The good news is that while she is bringing it back into balance, Alice's portfolio is getting stronger. She is locking in some profits when share prices have risen, and adding to her

cash and bond holdings. She is putting into practice two important principles of successful investing:

- 1 Sell high, buy low. By selling off some of the top performers, you are taking your profit before that asset sector falls, and re-investing the profits in lower-priced asset sectors that have potential to become top performers in the future.
- 2 Discipline. By investing in a disciplined, balanced way, you resist the temptation to anticipate or guess which sector will come out on top next year. Figures show that taking that approach – chasing the market – usually ends in tears.

Positive money management

By rebalancing your portfolio you will experience fewer negative returns than if you left it alone, and when the market cycle changes you'll have more capital in higher performing asset classes to take advantage of the upswing.

If your money is invested in a multi-asset-class managed fund, your fund manager will almost certainly rebalance to stay aligned with the fund's investment objective. And if you manage your own superannuation fund or have direct shares or other investments, following a regular rebalancing cycle is a simple discipline but one you should take seriously.

However, remember that if you sell some of your shares you may bring forward tax liabilities, depending on your current and likely future tax rates.

Working smarter A super future

If you are over 55, there may be a quicker way to build up your nest egg while you access a generous concessional-tax or tax-free income stream at the same time.

Or, if you are a little nervous about retiring completely in these turbulent times, how about the opportunity to make a gradual transition into retirement while continuing to work part time and build your super?

Both these options are available right now through a special retirement income plan called a non-commutable allocated pension (NCAP). And the best thing about it is that you don't actually have to retire to start one. Anyone over 55 can commence an NCAP from their superannuation fund and draw a tax-advantaged income stream from it, yet continue to work full or part time and make ongoing super contributions out of their salary.

How does it work?

If you are over 55, you can elect to convert all or part of your super into an NCAP, which is a pension fund that, like a super fund, offers you a choice of portfolios. You then nominate and draw an income stream from your pension fund each year. Your age determines the minimum drawdown you must make. If you are under 65, for example, the minimum withdrawal is normally 4 per cent of your account balance.* This income is tax free if you are aged 60 or over and attracts a 15 per cent tax offset if you are aged between 55 and 59 (inclusive).

You are entitled to keep on working full or part time while receiving the income from your NCAP, so you can continue making superannuation contributions to a super fund from your salary. That means you can reduce your taxable income while continuing to build your nest egg. It is quite possible to receive the same amount of money to live on from your combined NCAP and salary as you were before starting an NCAP, and at the same time make larger super contributions through salary sacrifice.

If you're looking for a way to boost your retirement savings without cutting your living standards, a transition to retirement strategy could give your superannuation a boost this year.



Sarah's story

Sarah, aged 55, is an engineer and plans to retire at 65. She earns \$110,000 per annum and has \$450,000 in super. She wants to maintain her disposable income while increasing her super account balance.

To achieve these objectives, Sarah commences an NCAP while salary sacrificing a larger pre-tax portion of her income into super.

The NCAP's tax advantages work for Sarah to reduce her personal income tax: the investment earnings and growth on her pension account are tax free, plus her NCAP income is taxed at a concessional rate. Using this strategy, Sarah can salary sacrifice to boost her superannuation by around \$64,000 by the time she is 65.†

* The minimum drawdown has been reduced by 50% for the 2010/11 financial year.

† Assumptions: The projections in this strategy are based on various assumptions, including, but not limited to: maximum pension payment = \$32,237 in year 1; salary sacrifice = \$40,100 in year 1; no change in take-home pay before/after strategy; no change in risk profile; estimated investment return (Growth portfolio) = 6.4% pa (super), 7.3% pa (pension); all investment earnings figures are after tax and after fees; no change in Super Guarantee contributions, ie 9% of \$110,000; administration fees and charges are not included.

Note that taxable pension income from an NCAP qualifies for a 15 per cent tax offset if aged 55–59. The payment is tax free if over age 60.

Chasing a rainbow

How to miss the pot of gold



When investors read the financial press and hear commentators analyse the best performing companies or asset classes, they might be tempted to move their investments around to capture better returns.

And when the share market produces negative returns – and 2008 saw the worst returns Australian investors have faced – a common response is to talk about moving out of shares into something less risky and with reliable returns; perhaps cash or fixed interest. After all, cash and fixed interest produced much better returns than shares in 2008.

It is easy to understand the lure of the 'if only' argument: 'If only I had invested in cash last year ...' or 'If only I was in property in 2000 ...' We have all heard this chatter, even if we haven't said the words ourselves.

But, take this path and you risk falling into the trap of becoming a 'chaser', potentially reducing your chances of financial success. While it might seem like a normal response to go after the best, in this case it can lead down a road with some very big potholes.

So, what is a 'chaser' and what difference does it make to your wealth if you are one, compared with being a stable investor with a long-term plan who sits tight in tough years?

The past – a forecast of the future?

Comparing the performance of the major asset classes between 1987 and 2009 shows that the best performing category usually varies from year to year. As a result, when investors move between asset classes to chase last year's best returns, it usually means they miss out on a better year in a different category. It reminds us – yet again – that past performance does not guarantee future returns!

The table to the left covers a 23-year period and it tells a sad story for chasers – as well as a cautionary tale for those who may be tempted to join them.

Notice that 1987 was a terrible year for Australian shares but a great year for bonds. Typically, the chasers shifted to bonds in 1988

- Unfortunately for the chasers, Australian shares bounced back in 1988 while the return on bonds dropped by half, so ...
- The chasers went back into Australian shares in 1989. But oops! While Australian shares did quite well in 1989, international shares did so much better, therefore ...
- They chased international shares in 1990, an asset class that fell by 15% that year. Ouch!

It's true that this response does work sometimes: the table shows chasers 'won' in 1998–99 if they had jumped into international shares after it topped the table in 1997; and again in 2001–02 if they moved into Australian property after it led returns in 2000. But four winning years out of 23 is not a great score!

Discipline is the essence of successful investing

It's important to define your investment goals, know the level of risk you can happily live with, diversify your investments to help smooth out the ups and downs that happen from year to year in each asset class, and think long term for optimum results. This is the best way to avoid the trap of becoming a 'chaser'.

That does not mean that you 'set and forget', and never change your investment mix. Review your investment portfolio every year and adjust the balance of your portfolio as necessary.

Historical asset class performance

Major market – calendar year returns, 1987–2009

Year	Australia				International Shares
	Shares	Property	Bonds	Cash	
1987	-7.9%	5.7%	18.6%	14.2%	7.5%
1988	17.9%	16.1%	9.5%	13.2%	4.5%
1989	17.4%	2.3%	14.4%	18.6%	26.6%
1990	-17.5%	8.7%	18.1%	15.9%	-14.3%
1991	34.2%	20.1%	24.4%	11.0%	21.1%
1992	-2.3%	7.0%	10.2%	6.7%	5.3%
1993	45.4%	30.1%	16.5%	5.3%	24.6%
1994	-8.7%	-5.6%	-6.7%	5.3%	-7.6%
1995	20.2%	12.7%	22.8%	8.0%	26.5%
1996	14.6%	14.5%	13.0%	7.6%	6.6%
1997	12.2%	20.3%	12.2%	5.6%	41.7%
1998	11.6%	17.9%	9.5%	5.1%	32.6%
1999	16.1%	-5.0%	-1.2%	5.0%	17.5%
2000	4.4%	19.7%	12.1%	6.1%	2.6%
2001	10.3%	14.7%	5.4%	5.2%	-9.4%
2002	-8.1%	11.0%	8.8%	4.8%	-26.9%
2003	15.9%	8.8%	3.1%	4.9%	0.0%
2004	27.6%	32.0%	7.0%	5.6%	10.8%
2005	21.1%	12.5%	5.8%	5.7%	17.6%
2006	24.7%	34.0%	3.2%	6.0%	12.3%
2007	18.0%	-8.9%	4.0%	6.4%	-1.7%
2008	-40.4%	-55.3%	16.5%	6.7%	-24.9%
2009	39.6%	9.6%	-2.0%	3.3%	-0.3%
Best	45.4%	34.0%	18.6%	5.3%	41.7%
Worst	-40.4%	-55.3%	-6.7%	3.3%	-26.9%

Denotes highest return in that calendar year

Shares = S&P/ASX All Ordinaries Accumulation Index
 Property = S&P/ASX 300 Property Trust Accumulation Index
 Bonds = Australian Commonwealth Bank All Series/All Maturities Accumulation Index
 Cash = RBA Cash Rate
 International Shares = MSCI World Accumulation Index (\$A) unhedged



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