

# Money Matters

Winter Issue #26



## Staying In Touch

Welcome to the winter edition of Money Matters 2011.

You may have recently read articles or heard the media debating whether you are better off paying for financial advice through fees or commissions. Pending legislation, it will mean that from July 2012, the future of financial advice will change. Read our front page article to see how these changes may affect you.



Earthquakes, floods, bush fires, droughts and other natural disasters can wreak havoc to their affected areas. The devastation they can bring may continue well after the actual disaster itself. It can also influence many economic areas. Just how much effect it has depends on many factors. Read our article 'When Nature Strikes' to find out more.

The start of a new financial year is a great time to set some resolutions about how you can better manage your money. The trick to sticking to them is to make sure each goal is realistic and achievable. We visit some simple financial resolutions for the new 2011/2012 financial year in our Happy New Financial Year article.

Nine to Five may have been a hit for Dolly Parton, but, for most of us, it's no longer true of working life. Longer hours, e-mail and technology make it hard to switch off and balance the demands on your time at home and work. To make sure you have the right balance between your personal life and your work commitments, read our tips in our lifestyle article.

With our continued focus and commitment to providing quality strategic advice to you, we want to make sure we are helping you in every way possible.

Please contact us if you have any questions or would like to discuss your financial position.

Regards,  
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## Future of Financial Advice

**You** may have recently read articles or heard the media debating whether you are better off paying for financial advice through fees or commissions. The government has taken matters into their own hands. Except for insurance outside of superannuation, after July 2012, the financial planning industry will no longer be able to offer products with what is called an "embedded" commission.

These changes will come into effect in conjunction with a number of different regulations that govern financial advice in Australia - collectively these changes are called "The Future of Financial Advice". So what is the difference between a commission and fee? And how might these changes affect you?

**Fee:** A fee is an agreed amount between the client and adviser for financial advice or ongoing service. This is often called an adviser service fee and can be deducted monthly from your investment or superannuation balance. Alternatively you may pay via cheque or direct debit. The fee might be calculated as a percentage of your investment balance e.g. 1.1% or it might be an agreed flat dollar fee eg. \$1,500 pa.

These fees are normally agreed between you and your adviser when initial advice is presented to you, but also can be agreed each year. You may already pay your fees this way and in fact many have done so for several years. Whilst you may have already elected to pay an adviser service fee to your adviser, you may in the future have to simply agree to this in writing on a more regular basis eg. every 2 years.


The government is now legislating how advisers can be paid through the banning of commissions but in reality the industry has been moving in this direction for some time.



**Commission:** A commission is an amount that is paid to your adviser from the product provider. This is not taken from the balance of your funds but from the fees you may pay the product provider eg. investment manager fees. The amount normally cannot be changed by you and the amount or level paid is determined by the fund manager or product provider. The fact that the amount could not be altered or stopped by you is the reason why the commission has been described as "embedded".

A commission was traditionally paid to the adviser to cover the cost of setting up investments and insurance. For example in the past you may have set up an investment fund and the fund manager would have paid a trailing commission to your adviser for the work involved in setting up the fund. These days most advisers charge a financial plan or statement of advice fee to cover the cost of advice and implementation of investments.

The ban of commission from 2012 is only one of the changes that will occur next year. The government has yet to legislate the changes. However, when they do Matrix and your adviser will ensure we explain the changes to you. In many cases we do not believe that any changes will be required as Matrix advisers having been moving to a fee charging mechanism for some time.

**Remember if you have any questions about what fees you are paying, commissions your adviser may receive and what services are to be provided for those fees, please speak to your adviser who will be happy to assist.** 



# Money Matters

## Happy New Financial Year



**The start of a new financial year on 1 July is a great time to set some resolutions about how you can better manage your money. The trick to sticking to them is to make sure each goal is realistic and achievable. Here are some simple financial resolutions for the new 2011/2012 financial year.**

### MAKE A BUDGET

It may seem a daunting task, but having a well-planned budget for the year can be the key to good financial health. Those with a budget, no matter how basic, will have a more disciplined approach to spending and will be less likely to waste money.

Work out what you spend on a daily, weekly and monthly basis and make sure you include absolutely every expense. It's an idea to take a notebook wherever you go to record all your expenses - you'll be amazed to see where your money goes. Even easier, keep your receipts for a month, including all credit card and cash transactions, and then tally up at the end of the month. The numbers don't lie!



### CUT SPENDING & INCREASE SAVINGS

When you've worked out where your money goes, you can start cutting out unnecessary expenses. Things like takeaway coffees, lottery tickets and buying your lunch (rather than home-made lunches) can add up to thousands of dollars each year.

When you've worked out where you can save money, put this money aside in a bank account or a term deposit. You'll be amazed how much you can save by

doing this - if you can save \$10 a day, you'll save \$3650 dollars a year. Do this for ten years and you would have saved \$36,500 - and that's not even taking into account compound interest!

### REVIEW YOUR STRUCTURE & SET INVESTMENT GOALS

It's a good idea to regularly review the structure of your investment assets to ensure they are in line with your personal goals. Contact our office to make an appointment to review your portfolio.

Set new goals - Think about what you really want in life and make these wishes your investment goals. For example, let's say you want to own your own home. This is a great long-term goal. Then think short-term about how you will reach this goal. You'll need to work out how much money you will need to put aside to meet this goal on, say, a monthly basis. Then work out how many years you'll need to save until you've got the deposit for your home.

### REVIEW DEBT

Consider whether your personal debt is 'good' or 'bad' debt and if bad, take steps to eliminate it. Bad debt is any debt that continually finances lifestyle or consumables and is not repaid promptly, particularly if the interest rate is in double figures such as for credit cards. The interest cost on bad debt is also generally not tax deductible.

Good debt is used to produce income, or to accumulate income producing investment assets quicker. Usually such debt has the added benefit of the interest being tax deductible.

A good New Year's resolution is to get rid of bad credit card debt, ideally by budgeting to repay it as soon as possible.

### PLANNING & MONITORING SUPER CONTRIBUTIONS

Individuals should be planning to maximise the annual concessional

(tax deductible) and non-concessional (undeducted or after-tax) contributions to superannuation for the year ending 30 June 2011.

In addition to planning to maximise super contributions, you should also be reviewing and monitoring superannuation contributions made personally or made by your employer (eg. as salary sacrifice) on an on-going basis to ensure that you do not exceed the relevant contributions cap, as your adviser cannot do this for you. This is important as excess contributions are a major focal point of ATO compliance and you do not want to be hit with a tax bill.

Note that employer super guarantee contributions are included in the concessional contributions cap. The maximum ('capped') amount that can be contributed to superannuation for a person is summarised in the table below. (Valid until June 2012).

### REVISIT PERSONAL INSURANCE

Make sure you have appropriate life insurance, income protection insurance, and trauma insurance in order to protect your loved ones if anything happens. It is worthwhile reviewing your insurance arrangements every few years to take account of changed circumstances.

### UPDATE OR MAKE A WILL

With Australians having more savings in superannuation and owning other assets, an up-to-date will is increasingly important. As well, a will should be updated when there is a change in personal circumstances (for example, the birth of a child or entering into a new relationship).

**Contact our office if you wish to discuss the details of your financial resolutions, and we hope you have a very happy new year!** 

| Age         | Concessional (Deductible) | Non-Concessional (Undeducted) | Total   |
|-------------|---------------------------|-------------------------------|---------|
| Under 50    | 25,000                    | *150,000                      | 175,000 |
| 50 to 64    | 50,000                    | *150,000                      | 200,000 |
| 65-74       | 50,000                    | 150,000                       | 200,000 |
| 75 and over | Nil                       | Nil                           | Nil     |

\* \$450,000 may be contributed over a rolling three-year period for persons aged under 65.





# When Nature Strikes - what is the economic impact of Natural Disasters?



**The recent spate of floods, cyclones and extreme weather events in Australia and Japan have affected many lives. The personal impact cannot possibly be calculated, and we express our sympathy and support for the Matrix clients who may be personally affected.**

**From a financial perspective, such events also cause many clients to raise questions about the impact on markets and investments, both short and long term. This article seeks to address these issues and bring some perspective to this aspect.**

Natural disasters can wreak havoc on their affected areas. Earlier this year, we were unfortunately reminded of just how much devastation they can bring with the earthquake in Japan and the Queensland floods closer to home. The effects of a natural disaster may continue after the actual disaster itself. Apart from the human tragedy, a disaster can also influence many economic areas. But just how much effect it has depends on many factors.

## **DIRECT IMPACT: Physical Destruction**

The biggest visible effect of natural disasters is the physical ruin they leave behind. Along with the tragedy of loss of life, homes, vehicles and other personal possessions are often destroyed within a short period of time. This can leave many families homeless and some businesses shutting down permanently. The extent of the damage depends on the type of disaster and its severity. For example, the earthquake and tsunami which hit Japan in March earlier this year had a devastating impact with reports indicating the death toll to be around 10,000 and an estimated rebuilding cost of US\$200 billion.

## **INDIRECT IMPACT: Short-term production loss**

While the visible effects of natural disasters are immediate and strongly

felt, communities that surround ground zero can be indirectly affected as well. Natural disasters almost always lead to a disruption in production and everyday services around the area impacted. This can include such things as loss of arable lands for grain production, decline in industrial production due to damages to factories and equipment, and other disruptions due to damage to roads, transportation or power shortages. This all leads to disruptions to economic output in the short-term.

## **THE COST OF A BANANA**

The flow on effect of short-term production loss can sometimes impact on the cost of living for the greater community. As we saw earlier this year, the Queensland floods and Cyclone Yasi greatly reduced agricultural production as harvests were disrupted. This impacted on the price of fruit and vegetables. In particular, banana prices reached up to \$15/kg in some supermarkets, a fivefold price increase, as more than 75 per cent of Australia's banana crops were wiped out by the cyclone. However, the shortage in supply which has hit the consumers' purses is expected to be temporary as we are likely to see a return to full production by the end of the year as crops recover.



## **LONG TERM IMPACT: The Recovery**

The long-term impact on economic growth following a natural disaster will depend on various factors such as the availability of human capital, institutions and financial capacity to undertake large-scale reconstruction. Rebuilding is made easier by the fact that it had previously been built and in most cases the investment pattern can be followed. Furthermore, due to improvements in technology, the infrastructure is usually improved upon, not simply repeated. Replacement by more efficient structures not only improves the ability to withstand a future natural disaster, but may promote further economic growth and productivity in the long-run.

Recent history suggests that countries with a strong financial position and a well organised disaster recovery process (such as Japan) will experience a faster recovery. In contrast, Haiti's economy continues to struggle after last year's earthquake due to lack of resources despite international aid.

## **IMPACT ON FINANCIAL MARKETS**

In most cases, the markets tend to overreact when natural disasters strike. This is usually driven by fear amidst the uncertainty of the situation. However, the markets generally recover as a better assessment of the disaster becomes apparent. We recently saw this happen in Japan where the Nikkei fell almost 20 percent on the first trading day after the catastrophes. Apart from Japan, which faces uncertainty amidst nuclear concerns, the financial impact on the rest of the world has been limited as market corrections soon followed.

## **...AND THE GLOBAL ECONOMY**

While natural disasters may disrupt supply chains and impact the exports of the affected country in the short-run, it is likely to have little impact on the global economy as other countries step in to meet the global demand.

## **THE BOTTOM LINE**

In general, notwithstanding the human impact, the types of natural disasters that we have witnessed this year are unlikely to have a significant or long-term impact on an investor with a diversified portfolio and a long-term investment horizon. For this investor, it would therefore be imprudent to make any sudden changes to their portfolio.

**Contact our office today if you wish to discuss your financial position.**



# Achieving Work-Life Balance

These days our working lives asks more of us, whether it's working through lunch or staying late. To make sure you have the right balance between your personal life and your work commitments, read our tips below.

## Work is not the enemy

Work can be a huge source of wellbeing. That said, there is a huge difference between being busy and being stressed.

## Work is not your family

Your family deserve your full attention when you are together – just as work deserves it when you are in the office.

Try to separate your worlds and close off your working day before engaging with your family. One executive famously cut a door into his house to allow him to go straight into a bedroom to change clothes and literally turn off before engaging with his family. While you don't need to go that far, there are benefits of managing the transition from work to home.

## Flexible working hours

These days employers are a lot more supportive to accommodate you and your commitments. So if starting an hour later

or working from home one day a week would improve things, ask for it. Sell the arrangement to your employer as a business case. Legally, managers are obliged to consider your request, although they don't have to agree to it.

## Manage your time

Self-discipline is your saviour. You might work 11 hours a day but if four are spent chatting or being interrupted it's not productive.

## Say "no" positively

If you take on too much, then you can't give each project 100%. Selectively saying 'no' to taking on additional commitments can be better for your clients, colleagues, and family.

## Focus on outcomes

Measure your performance by what you achieve – don't stay late for the sake of it. It could be that you can do your work in 35 hours and your colleague takes 50. It's the quality of the work that counts overall.

## Sharpen your skills

Take advantage of every training opportunity – you'll improve your skills and find ways to become more efficient.



## Look after yourself

Sleep and diet are often the first casualties when work becomes too much. Consistently working long hours is not good for you. Stress can lead to mental health problems and heart disease.


## Take time out

Some people go to the gym at lunchtime, others go out for a walk. A break will make you more productive and prevent that 3 o'clock output slump.

## Don't neglect your friends

Working relationships can lead to lasting friendships, but more often than not they fade when people move on. It's very easy to let workmates become proxy for friends and family. Make time for both.

## Talk to someone

If you're feeling stressed, say something early. Don't wait until you're cracking up and your work is hopelessly behind. Usually your manager is the best person to approach. 

## Market Update

### International shares:

A high A\$ v US\$ provides opportunities for international shares over the coming months and a benchmark weighting is appropriate for the sector. The US now provides opportunities as it undergoes recovery. Asia and emerging markets also remain long term growth regions, although in the short term they may under perform. Stock and country selection is going to be much more important over the coming year as volatility remains high.

### Australian shares:

Market valuations remain attractive and the generally strong state of the large corporates should be supportive for the coming year. Investors should continue to focus on quality in this environment. We consider a slight overweight appropriate on

a three-year outlook. Also, managers with strong stock picking skills are expected to out perform. The focus should be on quality companies with strong income streams.

### Listed Property Trusts:

Property is likely to under perform equities on a three year outlook and we suggest under weighting the sector. Quality direct property valuations are starting to show signs of recovery although likely to be slow as access to funding remains difficult. The listed property sector continues to slowly recover and opportunities are likely to emerge over the coming year.

### Fixed Interest:

With interest rates on hold globally and a pause in Australia, opportunities for fixed interest are likely to be limited over

the coming year. An underweight for the sector is appropriate. The credit market should provide selected opportunities over the coming year as credit spreads contract further and investment grade credit becomes more attractive. A cautious approach to sovereign debt is required with opportunities for corporate bonds preferred.

### Cash:

The risk/return profile of Cash and Term Deposits is increasingly attractive when compared to cash-based funds and those fixed interest funds with an allocation to sovereign debt.

Please contact our office to discuss any queries you may have on your investment portfolio. 