MyLife

**MyLife Newsletter Autumn 2015**

Welcome to our latest newsletter!

# Understanding Your Risk Profile

**One of the crucial elements of successful investing is understanding your risk profile. How willing are you to accept fluctuations in the value of your investments?**

The problem with risk profiling is that an investor's risk tolerance is dynamic. Interestingly, in a bull market, when asset valuations tend to be higher, investors are often more willing to take on a higher level of risk. In a bear market, however, when valuations tend to be lower and therefore asset prices less expensive, investors tend to be more risk averse. In essence, our risk tolerance tends to increase at the exact time we should be scrutinising our portfolios the most!

So, how do we get away from this way of thinking? One way is to set a savings goal and only take as much risk as is needed to reach your target. Even as markets move up and down, the overall level of risk will remain the same. That way, you are not tempted to stretch your risk tolerance just because markets are strong.

Another way to look at your risk profile is to look at age-based risk profiling.

If you are a younger investor, you might be more willing to take on a higher degree of risk because you have a longer investment time horizon, greater earnings capacity and more time to ride out the volatility in markets.

As you get closer to retirement and start looking at pensions and how much you need in retirement, your risk profile is likely to become a little more conservative. This is simply because losses at this later stage of life are harder to recoup as there is less time available.

Once you reach retirement, your savings need to serve two purposes. You still need to earn a return from your investments to ensure they'll last the distance. But at the same time, you need to be able to make regular withdrawals in order to fund your lifestyle since you no longer have an income. Finding the right balance between investing for the long term and retaining short-term access to your money can be difficult.

With an ageing population and people living longer, you need to manage your pool of savings by targeting a certain level of earnings. What does this mean? If you are a risk-averse investor, who avoids shares and other more volatile investments, you potentially run the risk of outliving your savings. You might want to consider holding a portion of higher risk investments in order to meet your overall retirement needs; being mindful, however, to limit that exposure to manage any market volatility.

Whatever your stage of life, it's important to discuss these issues with us to make sure your investment strategy reflects a risk profile that's appropriate for your situation.

Source: IOOF

## Supporting Elderly Relatives

**It's common for borrowing or transferring of assets to occur within a family. It could be parents helping their children to buy their first home or children providing financial support to their elderly parents. When this occurs, it may be worthwhile for the party providing the funds to formalise the transaction as a loan arrangement. This could avoid potential disputes down the track i.e. when the children go through a divorce or when there are disputes about inheritance.**

The most important starting point for people with elderly relatives is putting an Enduring Power of Attorney agreement in place while the elderly person is still of sound mind. An Enduring Power of Attorney enables a person to appoint someone they trust to make financial and property decisions on their behalf.

If you wait until the person has lost legal capacity i.e. dementia, you will not have access to the person's financial assets to pay for medical treatments and other expenses. You may have to ask a court or Guardianship Tribunal to appoint you as a guardian before you can access funds – a process that can be frustrating and time consuming. It's possible to take an early inheritance in order to help pay for their care but such a transfer may have capital gains tax (CGT) implications for the elderly person. While the usual after-death transfer of assets still causes a CGT event, the inheritor of those assets usually doesn't have to pay CGT (if any) until they eventually dispose of the asset.

If the elderly person is receiving the Age Pension, gifting an asset worth more than $10,000 to a family member means the amount in excess of $10,000 will continue to be assessed by Centrelink as their asset, and also deemed as income. This may adversely affect the elderly person's Age Pension entitlement.

There are exceptions, though. If an elderly person decides to move in with their children, as long as it is to establish a right to accommodation for life, they can transfer their principal residence in which they previously lived into their children's name. This is known as a 'Granny Flat Right' and it does not affect the elderly person's pension entitlement. Because it's the transfer of a principal residence, it generally does not create any CGT liability for the elderly person.

Sometimes the physical and mental condition of an elderly person can deteriorate to the point that they need to enter an aged care facility. The rules around this are complicated and could have significant financial implications, and could happen at a highly emotional time. It's therefore vital to consult your financial planner if anything more than small cash transfers are being made.

SOURCE: Colonial First State Investments Limited

Should you have any queries in relation to this newsletter, please feel free to contact our office on 03 9017 4114 or email admin@mylife.com.au .

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# Get On Top Of Debt Before It Gets On Top Of You

**Australians have more than $38 billion owing on credit cards, which is an average of $4,900 per card holder . And if you hold multiple credit cards (which many of us do) your total credit card debt could be double or even triple this average amount. If this is the case, you may be paying a lot in interest repayments.**

### The cost of borrowing money

The ability to borrow money is a wonderful thing. For example, it allows us to buy items when they're on sale rather than waiting until we have the spare cash. And how many of us would be able to purchase a house with cash? Unfortunately, many people get too caught up in the euphoria of buying things without giving enough thought to how they are going to repay the money. The simple fact is borrowing money comes at a price. This price is your interest repayments.

Interest charges accrue on your outstanding debt until it is repaid in full. All it takes is a few different credit cards with different lenders on top of a large mortgage or personal loan and before you know it, you're feeling the pinch of too many interest repayments.

### The costs may be higher than they first appear

Money that you borrow for personal use, such as credit cards, car loans and mortgages, is called non-deductible debt. This term refers to the fact that the interest you pay on this debt is not tax deductible. So when it comes to the real cost of your debt i.e. the after-tax cost, you may be paying more than you think. For example, if the interest on your credit card is 7%, that's the equivalent of paying 10.8% on an after-tax basis assuming you're on a marginal tax rate of 35%.

### Focus on reducing your non-deductible debt

Due to the high after-tax cost of interest on non-deductible debt you should make it a priority to reduce this type of debt. If you have any surplus cash, consider using this money to pay a lump sum off your non-deductible debt, such as a credit card or car loan. This will reduce the amount of interest you're paying, making your repayments more manageable and improving your cash-flow at the same time.

And you can use this extra cash to reduce your interest payments elsewhere. For example, if you have a mortgage, you could direct this extra cash-flow to your mortgage offset account. This way, it will still be available to redraw if you need emergency funds, but it the meantime it will help reduce the total interest you pay over the life of your home loan. This may even reduce the number of years it takes to pay off your mortgage so you'll own your home sooner.

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