MyLife

MyLife Newsletter Summer 2013

Welcome to this month's newsletter. In this edition, we put the spotlight on key topics relating to financial wellbeing many of our clients often want to know more about. We hope you find our digest informative and look forward to discussing any questions you may have as a result. Happy reading!

A Smarter Way to Use Debt

Debt is an almost unavoidable part of modern day life. This isn't necessarily a bad thing as long as your debts are kept at an appropriate level. In fact when managed properly, debt can be used to your advantage especially if you have deductible debt.

Not all debt is the same

Many people think of all debt in the same way but it can be classified one of two ways:

- **Non-deductible debt is money that has been borrowed to buy personal items. For example, credit cards, car loans and home loans are all classified as non-deductible debt. This is because the interest you pay on this type of debt is not tax deductible.**
- **Deductible debt is money that has been borrowed to buy an income producing investment. This includes debt such as investment loans used to purchase a share portfolio, an investment property or managed funds. As the name suggests, this type of debt is tax deductible.**

A better way of using debt

Your mortgage is probably your biggest debt, but interest repayments on your home loan are not tax deductible. So while you get the benefit of being able to purchase a home much sooner, you pay handsomely for the convenience.

But if you've had your mortgage for some time, you may have some equity in your home that could be used to restructure your debt in a way that is more beneficial for you. For instance, it is possible to borrow up to 80% of the value of your home. This money could then be used to reduce some of your non-deductible debts that charge higher interest rates, such as credit card debt, or simply as an emergency cash reserve.

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Restructuring your debt using a line of credit

Another way of restructuring your debt is to consolidate your non-deductible debt into a single loan using a line of credit facility. The consolidation of debts into one, easily-managed facility may result in lower ongoing interest costs and possibly reduce the amount of bank fees you have to pay too.

Put your extra cash to work

By restructuring your debt you can save on interest repayments. With this extra cash you could start an investment loan which is deductible debt. Any investment returns you receive can be used to further pay down your non-deductible debt, creating a positive cycle for growing your wealth.

Get it done the right way

Restructuring your debt can be quite complex. There are many factors that need to be considered, such as penalties for refinancing your current loans and keeping on the right side of the tax rules. To make sure your debt is restructured in an optimal way you should seek professional financial advice.

Being a Confident Investor

In recent years, with the global economy going through a relatively chaotic phase, we have seen plenty of screaming headlines like "$40 billion wiped off Australian share market in one day!" "Markets brace as crisis in Europe flares up again." These headlines might be great for selling newspapers, but they are not much use to us as investors and can seriously mislead us.

In the face of all these apparent disasters, it's very easy to panic and make snap decisions. That's only natural—it's also one of the worst things you can do.

Don't panic

Douglas Adams put it very neatly on the cover of the Hitchhikers' Guide to the Galaxy, which read 'Don't Panic!'. When we see share prices plummeting due to the latest apparent economic catastrophe, our immediate reaction is likely to be "I must do something before it's too late!"

So what do we typically do? We withdraw our investments and reinvest the money in a term deposit. Then, when prices pick up again, we cash in the term deposit and buy shares again. What are we really doing when we do this? Often the result is that we have repurchased our shares at a higher price than we sold them — exactly the opposite of a desirable outcome.

But is it different this time?

After every major fall, the Australian share market has bounced back in a big way — over the last 100 years the overall trend has been consistently upwards. Of course there have been negative years but these are easily outnumbered by years with positive returns.

Any attempt to pick short-term stock market high and low points for buying and selling inevitably leads to incorrect decisions by a majority of people. Even the most expert investors don't have a crystal ball telling them what the market's going to do in the short term, so what chance do we have of getting it right?

Slow and steady wins the race

For those with capital to invest, a simple a comparatively low risk way to invest is to ignore the rises and falls of the market and keep investing at a steady pace. You might buy at a higher price one month, a lower price the next. Over time it all averages out, but you've substantially reduced the risk of making a big but avoidable mistake.

Assuming we have very well diversified investments, good advice might be to just stop tinkering with them altogether. A sensible approach can be to stop trying to squeeze out the last percentage point of potential return and accept 'market' returns which can be far easier to obtain and very satisfactory.

To make this approach work though, you need a long-term plan.

What's your idea of long-term?

People have different ideas of what long-term means, but it may be longer than you think. A long term investor is a person who makes an investment for a period of at least five years in order to achieve their long-term goal. This goal could be a comfortable retirement.

Retirees, who have been sensible enough to seek advice that has resulted in them owning broadly diversified, well managed investment portfolios to generate their income, continue to be content even during recent stock market volatility. Evidence suggests even after drawing minimum legislated income from such a portfolio (this % amount increases with age), our capital can last many years.

And what's your idea of a plan?

If you're serious about investing you'll have already worked out a long-term plan with your financial planner; a plan designed to ride out the lows and highs of the investment markets; a plan that covers investments, superannuation and insurance.

Your financial planner will show you how you can diversify your investments so that when one class of assets goes down (e.g. shares); another may well go up (e.g. bonds). The key is choosing a mix of investments that suits your goals and where you are in your life, and then sticking with these investments through the market highs and lows or until your objectives change.

Which investments? Your financial planner can help you diversify your investments across Australian and International shares, bonds and property. This approach can reduce your exposure to any

To find out how to get your finances in shape, speak to us. We help people from all walks of life make the most of their financial future and we'd be happy to extend our advice to you, your family and friends. Please call 03 9017 4114 to set up a time to discuss.

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It Pays to Keep Your Super Together

There is over $17 billion dollars in lost and unclaimed super money in Australia.[1]. Some of this money could be yours.

Losing super is like throwing money away

If you've changed jobs a few times you have probably ended up with more than one super account. This is because every time you start a new job your employer is required to pay the superannuation guarantee (currently 9% of your gross wage) into an eligible superannuation fund on your behalf. And unless you notify your new employer about your existing super fund, a new super account will be established for you.

As time goes on, it's easy to forget about your previous super accounts. These accounts become inactive when two years pass without any member activity. When this happens, the accounts are considered to be 'lost' or 'unclaimed' and may end up on the ATO's Lost Member Register.

Get your super on track

Having multiple super accounts generally isn't a good idea because you:

- Pay duplicate fees
- Don't know what you're invested in
- Have extra paperwork
- May be missing out on entitlements.

The end result is that your money is not being invested as efficiently as possible.

Do something about it now or the Government will do it for you

From 2014, the government is introducing a new process for automatically locating and consolidating multiple member accounts. Under this process, lost and inactive accounts with balances of $1,000K or less will be consolidated into the member's current active account unless the member opts out.

While this process will definitely help reduce the number of lost super accounts, it may derail your existing financial arrangements.

Consolidating your super has many benefits

By actively taking charge of your super accounts you will be able to make decisions that work for you. What's more, consolidating your super into a single account will make a big difference to your super savings.

[1] As at July 2012, Australian Tax Office

To find out how to get your finances in shape, speak to us. We help people from all walks of life make the most of their financial future and we'd be happy to extend our advice to you, your family and friends. Please call 03 9017 4114 to set up a time to discuss.

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