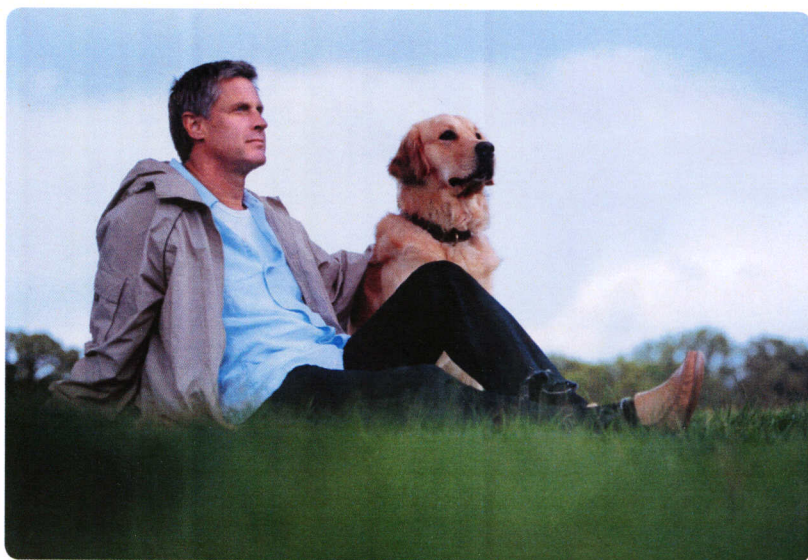


your money your future

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To fix or not to fix – that is the question

In an environment of concerns about continued rises in inflation and interest rates, more Australians are opting for fixed-rate home loans.

Australian Bureau of Statistics figures show the number of people with fixed-rate loans increased to 24 per cent, or nearly one in four, in November 2007, compared to 21 per cent in the previous month¹.

Fixed-rate loans have an interest rate that stays the same for a set period, usually one to five years, compared to variable-rate loans where the interest rate rises or falls in line with market conditions.

When interest rates are rising, a fixed rate can give you the security of

knowing your ability to meet mortgage repayments won't be affected by interest rate increases.

Quite often though, fixed-rate loans don't have the flexibility of variable-rate ones. And switching from a variable to a fixed rate may attract fees. If market rates fall below your fixed rate, you will continue to be locked into your higher, fixed rate.

One option to capture benefits from both strategies is to choose a 'split-rate' loan, where the interest rate is fixed for part of the loan and variable for the rest.

Contact us to work out the best option for your circumstances.

1 ABS 5609.0 – Housing Finance, Australia, Nov 2007



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History shows share markets can recover from present turbulence

In the midst of worldwide share market instability sparked by the sub-prime mortgage crisis and fears of a recession in the US, the key questions for investors are how markets will be impacted and for how long.

It's impossible to say with certainty when a sustained recovery will occur. And while it can be dangerous to attempt to pick the precise turning point, history shows that markets can and have recovered from dramatic downturns such as the one we have been experiencing.

The chart illustrates the performance of international share markets since 1987. It shows that a range of events including the Asian currency crisis, the Russian bond market default and September 11 all had a sharp impact on markets, but did not halt their long-term rise.

Global economic fundamentals still sound

Commentators have noted that despite market volatility all over the world, global economic 'fundamentals' are sound or largely unchanged. In support of this, consider the following:

- The world economy, while slowing, is still projected to grow at a solid rate of between 3 and 3.5 per cent in 2008.



Source: MSCI International Share Index as of 22 January 2008, ipac newsnote, 23 January 2008.

- Forecasts already assume slower growth in the US, Europe and Japan, but stronger growth in China and emerging markets such as India.
- There is some risk of the US economy slowing sharply, although we have recently seen significant policy responses to reduce this risk.
- The global corporate sector is in good shape with profit margins at a 30-year high, gearing at low levels and strong internal cash flows to fund growth.
- Developing economies are strong, with strong surpluses and high capital reserves, government budgets in good shape, and financial institutions well regulated and managed.

Overall, the world economy appears to be on a strong footing and a recession in the US is not a certainty. However, share markets are very sensitive to short-term news flow, and volatility is expected to remain elevated over the coming months.

Outlook for Australian investors

Within Australia, share markets have performed strongly, with the ASX/S&P 300 Index returning 16.2 per cent in the five years to 31 December 2007. Australia's strong economic ties with China and emerging markets in Asia will provide some protection against the direct impact of any continuing weakness in the US economy.

Investors in typical balanced funds with around 70 per cent of growth assets can expect to see lower unit prices, at least in the short term. Periods of market turmoil are dangerous times to make changes to long term investment strategies without first seeking expert advice.

The most prudent strategies continue to be based around quality, diversified portfolios representing a range of asset classes.

To discuss your investment portfolio and strategy, please contact our office.



Have you planned your transition from work to retirement?

If you are close to retiring you've probably already spent some time thinking about how you will manage the important transition from worker to retiree.

Everyone is different and perhaps you would prefer to retire early, at 55. Or maybe you'd like to keep working until you are 70 or even older, if that is a possibility for you. You may wish to go straight from full-time employment to complete retirement, travelling the world or pottering about in the garden. Or you could be thinking of moving into part-time work for a while before leaving your paid employment for good.

Whatever your objectives, it's likely that in the years before you retire you will want to do everything you can to maximise your retirement savings. And you might be wondering if there are strategies you can use to reduce your tax and grow more super.

Perhaps you've heard that you can start accessing your super from the age of 55 while continuing to work, via a 'transition to retirement' income stream, and would like to know more about the potential tax savings and other advantages.

These income streams, commonly known as non-commutable allocated pensions or NCAPs, can have a number of benefits for people aged 55 and over who aren't yet ready to retire completely.

How an NCAP works

If you're 55 or over but less than 65, you are eligible to commence an NCAP arrangement to access your preserved superannuation benefits without having to retire.

An NCAP can allow you to salary sacrifice a significant proportion of your income into your super, while supplementing your take-home pay with a regular income stream from your pension account.

This can help you to:

- reduce your work hours, ease into retirement and retain the same income, or
- work the same hours, boost your retirement savings through salary sacrifice and retain the same income.

You will pay less tax on income and super earnings, and gain a tax offset on your pension payments if you're less than 60, or receive tax-free pension payments if you're 60 or over.

NCAP tax advantages

The tax advantages of an NCAP come about because of the differing tax rates applied to ordinary income, super and pension accounts such as NCAPs.

Ordinary assessable income is taxed at your marginal tax rate. Super is taxed at a concessional rate of up to 15 per cent on entry and 15 per cent on any investment earnings, with withdrawals tax free if you're 60 or over. Payments from NCAPs are also tax free if you're 60 or over. If you're aged from 55 to 59, all or part of the NCAP income may be taxable, but a tax offset of 15 per cent of taxable pension income will apply. In addition, there is no tax on any investment earnings in an NCAP.

Case studies

The following case studies show just how effective an NCAP can be in transitioning to retirement and boosting your super:

Transitioning to retirement

David is 56 and works full-time as a pharmacist, earning \$120,000 a year. He enjoys his job but wants to gradually transition into retirement, initially reducing his workload to three days a week, but is concerned about the reduction in pay.

By commencing an NCAP he can work part time yet still receive the same take-home income as he did when working full time.

To date, David has accumulated \$550,000 in super. Naturally, drawing down on his retirement savings via an NCAP may result in less super for David when he does finally retire.

But this may be offset by the ongoing super contributions made as a result of his part-time work and the fact that his NCAP investment earnings will now be tax free. Also, the taxable portion of the NCAP payment is eligible for a 15 per cent tax offset, and will be tax free after he turns 60.

A super boost and tax savings

Sarah, aged 55, is a senior administration officer. She enjoys her work and no intention of retiring until she reaches 65. Sarah currently earns \$70,000 a year and has \$450,000 in super.

To boost the amount of super she'll have at retirement, Sarah begins salary sacrificing a significant portion of her regular pay into super, and commences an NCAP to

maintain her take-home income at the same level as before.

As the table below illustrates, she keeps the same income, pays less tax and contributes more to her super via salary sacrifice than she's withdrawing as a pension payment. Better still, it's projected that by age 65, she will have an additional \$118, 284 in super.*

	Current position	With NCAP and salary sacrifice
Gross salary	70,000	70,000
Salary sacrifice super contribution	0	(55,584)
Cash salary	70,000	14,416
Allocated pension	0	45,000
Taxable income	70,000	59,416
Gross PAYG tax	(15,600)	(12,425)
Mature age worker tax offset	0	500
15% pension tax offset	0	6,750
Medicare levy	(1,050)	(891)
Net tax and Medicare levy	(16,650)	(6,066)
Net cash after tax	53,350	53,350

* The assumptions made in the projection are:

- salary is constant for each year of the projection
- all contributions and pension payments are made monthly
- no other income is received
- shading-in rules for Medicare levy for low income earners are not taken into account
- Medicare levy surcharge does not apply
- Super Guarantee contributions are based on 9 per cent of gross salary in both scenarios
- nominal rate of return (net of management fees for growth portfolio) is 6.4 per cent per annum (super), 7.3 per cent per annum (pension)
- 2007/08 tax rates apply in the first year and 2008/09 tax rates apply in each subsequent year
- Contribution caps are indexed by Average Weekly Ordinary Time Earnings of 4 per cent per annum.

To find out how an NCAP could work for you, speak to us today.

Q: What is... gearing?

The term **gearing** refers to using borrowed money to buy assets. Broadly, there are three types of gearing:

1. **Negative gearing** – when an investment is purchased with the assistance of borrowed funds and the annual income (after the deduction of expenses) is less than the interest commitment on the borrowing. Typically, this loss results in a tax deduction.
2. **Positive gearing** – this is the reverse situation where annual investment income is greater than the interest commitment on the borrowed funds. This will produce income for an investor.
3. **Neutral gearing** – when investment income is equal to the interest commitment on the borrowed funds.

Gearing can help you accumulate wealth more rapidly if the purchased assets increase in value. Conversely, it is important to understand that gearing also has the potential to magnify losses if the investments decrease in value. The

associated costs of borrowing are tax deductible when the borrowed funds are invested for income-producing purposes.

Your suitability to gear investments will depend on your individual circumstances, including:

- your marginal tax rate
- your personal risk tolerance
- your investment timeframe

- the amount of money you wish to invest, and
- your profit (or loss) expectations.

Contact us for more information on whether gearing may be beneficial in your individual circumstances.

We can also advise on the most appropriate gearing arrangement for any borrowing strategy you may pursue.



Do you invest with your head or your heart?

One of the most surprising facts when it comes to investing is that the difference between success and failure is not necessarily what happens in the market. It turns out that one of the big differentiators is how investors perform, not how markets perform.

Independent US research conducted by DALBAR Inc found that:

- between 1985 and 2005 the US S&P 500 Index delivered average annual returns of 11.9 per cent, and
- the average share fund investor over the same period earned just 3.9 per cent.

Why did so many investors fail to achieve even average investment returns?

The answer is simple. People buy and sell investments at the wrong time. That is, they move their money out of low-performing share funds just before a recovery in performance and move into high-performing funds just before a fall.

Irrational investing and the fear of losing money

But why do people make poor buying and selling investment decisions?

According to Daniel Kahneman and Amos Tversky, who studied the emotional impact of investment loss and profit, the answer is people's natural fear of losing money. In fact, they found the pain of loss was roughly twice as great as the pleasure of an equivalent gain.

Instead of investing rationally, people make emotional decisions based on short-term market happenings that can end up costing them long-term investment returns. And, by being risk-averse, these investors:

- seek to avoid short-term regret; hence, they fail to take calculated investment risks and end up negatively impacting their portfolio returns, and
- hold losing investments too long – to avoid the regret of crystallising the loss, investors hold losing investments too long, hoping they'll come good, which inevitably leads to greater losses.

Research conducted in Australia in 2007 similarly found that the most significant factor holding back many people's financial ambitions with their retirement savings was the fear of losing money. In fact, 58 per cent of Australians said they should be doing more with their retirement finances but more than two thirds of respondents said they didn't have the confidence to invest for greater investment growth.

Profiting through long-term planning

Fortunately, your financial adviser can be a great source of objective and independent investment advice. They can help you avoid making emotional investment decisions and provide a systematic approach to building a long-term and rational investment plan that is based on your personal risk profile.

For more information, make an appointment to speak us today.