RESERVE
Financial Consulting

Money Matters

Winter 2015

Welcome to this Winter edition of the personal finance newsletter from Richard Shermon at Reserve Financial Consulting. With the new tax year well under now is a great time to be updating your financial plan.

Index investing continues to outperform Active investing!

Regular readers of Money Matters will know that I am a big supporter of Index investing. Indexed funds typically have much lower fees when compared to actively managed funds along with potential taxation benefits. They also offer a higher level of diversification as index funds invest in all or most of the securities in an index.

The other key benefit is that index funds can provide competitive long term performance.

I recently compared the five year performance of the Vanguard Wholesale Growth Index Fund (which is a diversified index fund which many of my clients use) with a number of leading actively managed funds with a similar allocation to growth type asset classes (e.g. Equities and Property). The results are summarised in the following table.

Managed Fund	Fund Size ($m)	Five year return to 30 June 2015[1]
Vanguard Wholesale Growth Index Fund	2,180	10.93% p.a.
Black Rock Wholesale Balanced Fund	775	9.86% p.a.
BT Active Balanced Wholesale Fund	538	9.36% p.a.
ipac Diversified Investment Strategy No 2	213	10.93% p.a.
Schroder Balanced Fund Wholesale Class	858	9.86% p.a.
UBS Balanced Investment Fund	863	10.32% p.a.
Zurich Investments Managed Growth Fund	115	10.07% p.a.

[1]Source: Morningstar. Past Performance is not an indication of future performance

The key message is that you should seriously consider using low cost index investing for your wealth accumulation needs rather than pay higher fees to active fund managers who, on the whole, fail to deliver against their benchmark over the longer term.

If you would like to discuss any of these ideas further then please give me a call on **0401 357 071.**

Visit www.reservefc.com.au for more details

Term Deposit interest rates continue to slide to below 3.0% pa.

Over the last six months there has been further reductions in the interest rates available on term deposits for both short and longer terms following the cuts in the RBA cash rate down to 2.0% pa.

The shorter term deposit rates, including the online cash accounts (USaver remains my preferred choice) haven't reduced as much as for longer terms. The USaver rate at 3.37% pa. (assuming you have a $200 per month automatic savings plan in place along with their Ultra transactional bank account) is higher than these term deposit rates. I would suggest that you consider keeping your cash allocation in cash and shorter term deposits for now.

An alternative asset class to consider would be income securities which are issued by major banks and other corporates. These are currently offering gross yields (including franking credits) of between 5.0% to 6.5% pa. These securities do have higher risk than term deposits but are considered less risky than the corresponding shares as they do rank higher than the shares if the issuing company were to become insolvent.

Company	3 months*	12 months*	24 months*
AMP Bank	2.75%	2.90%	2.70%
BankWest	2.70%	2.90%	2.90%
Bendigo Bank	2.50%	2.70%	2.80%
CBA	2.00%	2.45%	2.60%
ING Direct	2.70%	2.90%	3.00%
nab	2.25%	2.40%	2.65%
UBank	2.76%	2.95%	n/a
RaboDirect	2.70%	2.85%	3.00%

It is worth the effort to shop around for the best rate. For the latest rates I recommend you visit the CANSTAR CANNEX website at www.canstar.com.au

* Effective annualised interest rates for a $250,000 term deposit as at 31st July 2015

Only minor superannuation changes for the 2015/16 financial year

The concessional contributions cap is unchanged at $35,000 for the 2015/16 financial year for individuals who are aged 49 years or over on 30 June 2015. For all others the general cap of $30,000 will apply. Concessional contributions are typically your Super Guarantee contributions and any salary sacrifice payments for employed people or deductible personal super contributions for the self employed.

The non-concessional contributions cap is also unchanged at $180,000. It is possible to contribution up to $540,000 in the 2015/16 financial year to your superannuation if you are able to fully utilise the bring forward rules.

The Super Guarantee rate remains at 9.50% for the 2015/16 financial year and the maximum level of salary that this rate has to apply to increases to $203,240 pa.

If you are currently salary sacrificing to make the most of the concessional contribution cap then it will be sensible to review your arrangements at this time of year to ensure it remains appropriate.

AMP have produced a useful information card with many of the latest limits and thresholds applicable for the 2015/16 financial year. You can download a copy here AMP Information Card.

YOURLifeChoices Retirement Update 6

YOURLifeChoices is a leading Australian website for people who are approaching or already reached retirement. I have recently written an article on the Ages and Stages of retirement for the website's latest Retirement Update. This publication can be viewed at YourLIfeChoices Retirement Update and it is full of useful information and tips.

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When applying for insurance always disclose important information

I often review my clients insurance needs which can identify important gaps in their existing cover. The amount of life insurance cover paid on death or in the event of a terminal medical condition may not be enough to ensure their partner and children are provided for in the future. They may also not have any Trauma insurance which can provide a lump sum on the diagnosis of a critical illness such as a stroke, heart attack or cancer to help cover medical costs as well as supplement their income whilst they recover. Sometimes the clients' income is not insured against temporary disability resulting from an unexpected accident or illness. Without this insurance they would have insufficient income to cover their regular monthly expenses including mortgage repayments and living costs once any sick leave and annual leave has been used up.

To close these gaps in cover I may recommend that the client tops up their existing insurance or apply for a new policy. To action this the client will need to apply to the insurance company and, depending on their age and the amount of cover being applied for, complete a personal health statement.

I am sometimes asked about whether they need to disclose in their application either existing or past health conditions or problems they (or a family member) may have experienced. My response is that it is always better to disclose too much rather than too little to reduce the chance that a future claim might not be accepted by the insurance company. This is not just a hypothetical scenario. Many life insurance claims are not paid each year in Australia due to the client forgetting (intentionally or not) to disclose a medical condition that, if the insurer had known at the time of application, would have resulted in the policy not being accepted or having a higher premium charged.

Macquarie Life have produced an excellent video on the importance of disclosure and it is well worth a view if you are considering applying for insurance cover. You can view their video here: Duty of Disclosure

How can you obtain quality financial advice?

By contacting Reserve Financial Consulting which is a financial planning business based in the Bayside area. I specialise in providing advice in the area of Investments, Insurance, Superannuation and Pensions.

I am the Managing Director of the business and I have over 25 years experience in the financial services industry in the UK, Singapore and Australia.

Richard Shermon **BA FIA DIP FIN SERV (FP)**

I provide advice to my clients on a fee for service basis and no commission is received on any of the products I may recommend. A typical financial plan costs approximately $2,000 (plus GST) to research, prepare and implement.

Please give me a call to set up an initial appointment to discuss any personal finance issues or concerns that you may have. I am sure I will be able to help.

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There is no charge for the first meeting

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