RESERVE
Financial Consulting

Money Matters

Summer 2016

Welcome to this Summer edition of the personal finance newsletter from Richard Shermon at Reserve Financial Consulting. With the Christmas and the New Year festivities behind us now is a great time to be reviewing your financial plans and making sure you remain on track.

Start planning now for the end of the tax year!

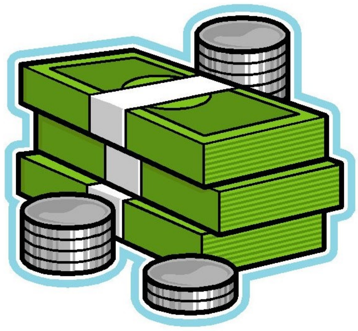
While you are enjoying the warmer Summer weather this is a really good time for making sure you have plans in place for the end of this tax year. It is much better to plan ahead now rather than leaving it to the last minute. Here are seven tax and financial planning tips for this tax year.

1. If your total income for this tax year is likely to be less than $50,454 then consider making a contribution to your superannuation fund of up to $1,000 as you may qualify for the Government super co-contribution (which is a maximum of $500 for the current tax year).
2. If you are expecting to earn over $90,000 ($180,000 for couples) this year then make sure you take out a basic private health insurance plan with hospital cover or you will be liable to pay the Medicare levy surcharge which is now income tested (up to 1.5% if you are expecting to earn over $140,000 or $280,000 for couples) in addition to the current 2.0% Medicare levy.
3. Consider prepaying the interest on an investment loan on a rental property as this will entitle you to a full deduction in the year it is paid. Also make sure you have a depreciation schedule (also known as a quantity surveyor's report) for your investment property.
4. Ensure your 13 week log book is completed to maximise your claim for work related motor vehicle expenses and keep all motor vehicle receipts such as petrol, registration, insurance and repairs.
5. Make the most of the concessional contribution limits for your superannuation (via salary sacrifice or personal super contributions) to potentially reduce your marginal tax rate and at the same time boosting your retirement savings. The concessional contribution cap is $30,000 for the 2015/16 tax year, increasing to $35,000 if you are aged 49 or over on 30 June 2015.
6. If you are nearing retirement and looking to boost your superannuation consider making a non-concessional contribution of up to $180,000 before the end of the tax year. Super remains one of the most tax effective ways to save for your retirement.
7. If your spouse's assessable income plus reportable fringe benefits plus any reportable employer super contributions is expected to be less than $10,800 then consider making a $3,000 spouse's contribution to their super. This should provide a tax offset of $540 as well as boosting your spouse's retirement savings.

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

2016 Vanguard Economic and Financial Outlook

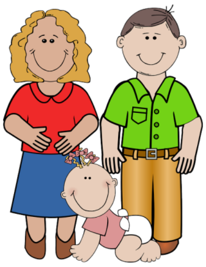


The investment markets have certainly not started 2016 well. Concerns regarding the slowdown in China, rising interest rates in the USA and falling commodity markets (especially oil) are weighing heavily on investors minds.

Despite this poor start to 2016 it is very important that you stay focussed on your long term financial goals and do not over react to the daily to and fro of the market.

Over the Christmas and New Year break I read the Vanguard 2016 Economic and Financial Outlook. This is a good discussion of the global outlook from the perspective of an Australian investor with a dollar-denominated portfolio. I thought it was a well balanced report which gave Vanguard's Conservative view of potential investment returns over the next 10 years for typical diversified portfolios (see page 30). Worth a read.

Paying insurance premiums for your children



I recently read this article by Noel Whittaker, a well regarded commentator, in YOURLifeChoices titled "Money Advice for your kids". The main argument in the piece was that older people, in or approaching retirement, might consider paying life insurance and income insurance premiums for their adult children. There is more to this strategy than first meets the eye, including the need to take steps to make sure the tax benefits attached to premiums remain available. Please give me a call on 0401 357 071 if you would like to discuss this possible approach for your adult children.

Keep a close eye on your expenses

During the holidays, not wanting to be the "plumber with the leakiest taps", I took the opportunity to update my own family budget. Now the numbers are starting to look a little better as my eldest son has finished private school and is off to Melbourne University where the fees are much lower than for Mentone Grammar. There were three areas where we have managed to make other reasonable expense savings. The first one is mobile phone charges. Several of our mobile phones are out of contract and we decided to move to SIM only post paid contracts. We ended up staying with Optus but moved to their latest $40 per month 7G 12 month plan. This not only increased the family data allowance significantly but also reduced the monthly costs. The plan also included 300 minutes of free International calls a month so we can phone the UK from our mobiles rather than use the home phone.

The second area I looked into was our Electricity and Gas contracts. After researching a few providers we decided to switch from AGL to Energy Australia with an estimated annual saving of $500.

The final area was our cable broadband where we were also out of contract. Despite a very competitive offer from Optus I decided to stay with Telstra but moved to one of their latest plans which offered increased download speeds and reduced our package cost by $35 per month. Every little helps!

Finally we took the plunge and replaced all the halogen downlights in the house with LEDs. It is early days but our electricity usage appears to have reduced by approximately 15%.

Updated Financial Services Guide

Please note that I have an updated Financial Services Guide (issued on 20th October 2015 as Version 6). A copy can be downloaded from my web site at www.reservefc.com.au or by clicking on this link Financial Services Guide

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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 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 provide competitive long term investment performance.

Standard & Poor's have recently released their latest analysis comparing the performance of actively managed funds against their benchmark indices.

The report shows, for the five year period to 30th June 2015, that the majority of active funds have again failed to beat their respective benchmarks. With the exception of active Australian mid and small-cap equity funds, more than **70%** of all active funds **underperformed** relative to their benchmarks over a five-year period.

In particular the S&P/ASX 200 Accumulation Index has outperformed active Australian equity funds over 1, 3 and 5 years. It has outperformed **54%** of Australian Equity General funds over the last 3 years, increasing to approximately **71%** over the last 5 years.

The picture is even worse when we consider active International Equity funds against the S&P Developed Ex-Australia Large Mid Cap index. Here, over a five year period, the index has outperformed approximately **89%** of actively managed international equity funds.

It is not quite as bad when we look at Australian Bond funds relative to the S&P/ASX Australian Fixed Interest Index. However, at least **eight out of ten** of active Australian Bond funds have failed to beat the benchmark over both a 3 and 5 year period.

The one area where you could argue that Active management has added value is in the Australian Equity Mid and Small-Cap funds area. However, I would argue that investors should only have a limited exposure in their portfolio to this asset class.

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 long term.

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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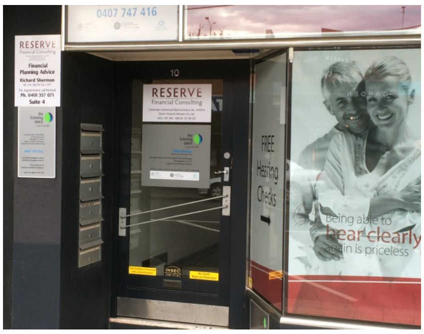

There is no charge for the first meeting