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Money Matters

Winter 2016

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 2016[1]
Vanguard Wholesale Growth Index Fund	1,600	9.89% p.a.
Black Rock Wholesale Balanced Fund	714	8.56% p.a.
BT Active Balanced Wholesale Fund	520	7.99% p.a.
ipac Diversified Investment Strategy No 2	202	8.80% p.a.
Macquarie Balanced Growth Fund	524	7.90% p.a.
Schroder Balanced Fund Wholesale Class	1,600	7.79% p.a.
UBS Balanced Investment Fund	820	7.66% p.a.
Zurich Investments Managed Growth Fund	104	8.71% 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

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Term Deposit interest rates 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 May cut in the RBA cash rate to 1.75% 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 3.12% 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 7.0% 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%	2.80%	2.55%
BankWest	2.90%	2.85%	2.75%
Bendigo Bank	2.40%	2.60%	2.80%
CBA	2.35%	2.35%	2.60%
ING Direct	2.20%	2.50%	2.70%
nab	2.25%	2.40%	2.65%
UBank	3.01%	2.86%	n/a
RaboDirect	2.55%	2.70%	2.90%

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 28th July 2016

Superannuation changes for the 2016/17 financial year

The concessional contributions cap is unchanged at $35,000 for the 2016/17 financial year for individuals who are aged 49 years or over on 30 June 2016. 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. There is a Government proposal to reduce this cap to $25,000 for everyone for the next financial year. However this change, along with many others, has yet to legislated and we won't know for sometime what the future superannuation rules might be from 1st July 2017.

Another proposed change is to introduce a $500,000 lifetime limit for non-concessional contributions (these are after tax contributions which used to be limited to $180,000 pa). This lifetime limit is to include all non-concessional contributions made since 1/7/2007. I suspect there may be some changes to this proposal before it is finally legislated.

The Super Guarantee rate remains at 9.50% for the 2016/17 financial year and the maximum level of salary that this rate has to apply to increases to $206,480 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.

Twelve scams you should be aware of

Over 100,000 scams were reported to to the Australian Competition and Consumer Commission (ACCC) last year, resulting in losses of more than $84 million. This number is only expected to increase in the future. I recently read an article from Macquarie that listed the top 12 most common personal banking scams. Well worth a quick read so that you aware of these and don't fall prey to the scammers. Top 12 most common scams.

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Watch out for the fee hike for small super accounts

I recently helped my son set up a Macquarie superannuation account (now I am starting to feel old!) as he had started working part-time at his old school in Mentone. Unfortunately we were a little slow submitting the Choice of Super form and his first super guarantee contribution went to the default industry super fund rather than his new Macquarie one. By the time we submitted the rollover form his default super balance was back to zero! His initial contribution had all been eaten away in fees and charges. This is something you should be aware of if you have less than $1,000 in your super account, or you have children or grandchildren with part-time jobs (or starting their first full-time job).

There used to be a “member protection’ rule which protected small super accounts (account balances of less than $1,000 which contained Super Guarantee amounts) from being rapidly eroded by fees charged by superannuation funds. However, since 1 July 2013 this rule was abolished by the Federal Government. Many superannuation funds charge a fixed weekly amount (typically $1.50) or have a minimum monthly fee so it won’t take long for any relatively small super contributions to be eroded away.

The other cost that didn’t help my son’s balance was the life insurance premiums for the default Life and TPD cover kindly provided by the super fund. Now, my son lives at home and doesn’t really have a need for life insurance yet and so this was another unnecessary charge to his superannuation account.

Anyway, it is all fixed now as his Macquarie superannuation account has no minimum fee, no fixed weekly fee and he has no life insurance premiums being deducted. The only remaining problem is that he won’t be able to touch his superannuation until he is at least aged 60 and probably later than that by the time he reaches retirement!

Given this long time frame he decided to fully invest in the Vanguard High Growth Index Fund (like father, like son).

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