informed investor

RESERVE
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Six things to consider when investing for retirement

Many people aged between 50 and 65 are uncertain about being able to cover living expenses in retirement. In the past retirees could rely on the age pension to secure their retirement. Many retirees are now less confident about this source of support, as a growing number of baby boomers are retiring and the number of working people to support them is not keeping pace.

Governments are now encouraging Australians to save and invest on their own, so they can build income streams for retirement to supplement social security payments, and the earlier people focus on how to fund their retirement, the greater their capacity to respond.

How to set retirement goals

The first factor in retirement planning is establishing a retiree's goals. Not everyone will have the financial resources to meet all their goals, so an adviser must help their client set priorities.

Retirement goals can be diverse, but most belong to one of three broad categories:

1. Essential needs

A person's immediate need in retirement is to have an income to deal with the essentials in life, including food, housing, transport and paying regular bills. This represents the most important set of goals and requires the most pressing financial attention.

Confidence about the receipt of a steady cash flow becomes paramount. An adviser may recommend strategies centred on income-focused securities that deliver sustainable cash flow which keeps up with increases in the cost of living.

2. Lifestyle wants

Retirees may also want to set aside some capital to fund discretionary spending on goods and services such as holidays, hobbies, or the purchase of a new car. Attainment of these lifestyle wants enables a

Welcome

Welcome to our latest edition of the Informed Investor newsletter.

As always, should you have any questions or would like some further information, please get in touch and we'll be happy to help.

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more enjoyable retirement, but the retiree doesn't regard them as essential to their wellbeing. To help fund these lifestyle wants, investment strategies should grow capital steadily over time and have a low probability of producing a major or protracted decline in value.

3. Legacy aspirations

Finally, retirees with additional financial resources may aspire to leave a bequest for future generations.

Six things to look for when considering investment solutions

There are six key factors that advisors and investors should focus on when considering retirement investments.

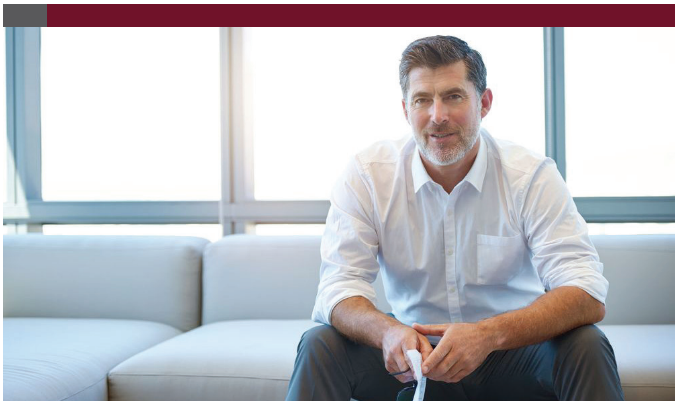
1. A predictable and reliable stream of income: Consider strategies that aim to deliver a steady income in the form of coupons from quality bonds, dividends from shares or distributions from Real Estate Investment Trusts (REITs) and infrastructure.
2. Resilient returns: Focus on strategies that are designed to exhibit greater resilience in challenging market environments.
3. Inflation protection: It's important that the overall portfolio seeks to grow with the cost of living to maintain purchasing power over time.
4. Tax effectiveness: Even though most retirees have an income tax rate of zero per cent in retirement, franking credits attached to the sustainable dividends of quality Australian companies represent a good additional source of retirement income. But it is important to watch out for potential regulatory change in this area.
5. Liquidity: It is easier to redeem money from liquid investments when a change in circumstances may require it.
6. Transparency of strategy: Seek strategies that are easy to understand and where the manager offers regular communications and insight into how funds are performing against retirees' goals.

Set up success

The key is to understand retirement goals: what does success and failure look like? What do retirees want at this point in life and how might that evolve over time? What constitutes a 'must have'; what is 'nice to have' and what is 'aspirational'?

By answering those important questions, various goals can be matched with investment strategies that meet the unique challenges and risks of retirement.

Source: AMP Capital



Market Volatility: An Overview

Many investors become concerned when volatility occurs in global financial markets – particularly about the impact on their superannuation and other investments. In times like these, it is important to understand the causes of market movements and how to minimise your risk.

Why do markets move so much?

Markets are influenced by many things – industrial, economic, political and social factors can all have an impact. For example, consumer and business confidence affect spending and therefore company profits. Global trade and production naturally affect economic growth.

Poor political and fiscal decisions in some countries may lead to a flow-on effect in other countries who are owed money. And of course, natural disasters can cause major damage to any economy with no warning. During times of market volatility, it's important to remember one of the fundamental principles of investing – markets move in cycles.

What is the effect of market volatility on super funds?

In times of market volatility your super balance may decline, but it is important to remember that markets move in cycles. Volatility is a natural part of the economic cycle. Markets are influenced by a range of factors and are inherently unpredictable.

The Australian Securities & Investments Commission's (ASIC) MoneySmart website states "Don't panic if the short-term returns are negative: remember that super is a long-term investment." History demonstrates that over the long-term, the general trend of share markets has been upward.

Don't lose sight of the bigger picture

Super is a long-term investment. Shares, which usually form a large part of most balanced super accounts, are also generally a long-term investment. They are designed to provide capital growth over a period of five years or more. Think in years, not days.

The time frame for super may be 20 years or more, so short term volatility shouldn't diminish the long-term potential of your investments. Growth assets (such as shares) tend to fluctuate in the short-term, but have historically provided excellent returns for investors over the long-term.

When share markets fall in value, it may be tempting to sell up. However, trying to time the market by selling now and buying back later is a risky strategy that rarely results in investors coming out ahead. By taking a long-term view of investing, you can ride out any short-term fluctuations in the market and take advantage of growth opportunities over the long-term.

Diversification

Diversification is one of the most effective ways of managing volatility. It can help deliver smoother, more consistent results over time. Your investment may benefit by being spread across a variety of asset classes, including shares (domestic and global), fixed income, cash, direct and listed property and alternatives.

This diversification should help soften the effects of any share market falls as some asset classes often tend to do well whilst others are struggling. Also, spreading your assets around means you are less reliant on any one asset class at any particular time.

Understand your risk profile

All investments carry some risk. How much risk you're willing to accept will be influenced by your financial situation, family considerations, time horizon and even your personality. If market volatility has caused you to reassess the way you feel about risk, it's important that you see your financial adviser to discuss any necessary changes to your financial plan.

Understanding the implications of withdrawing

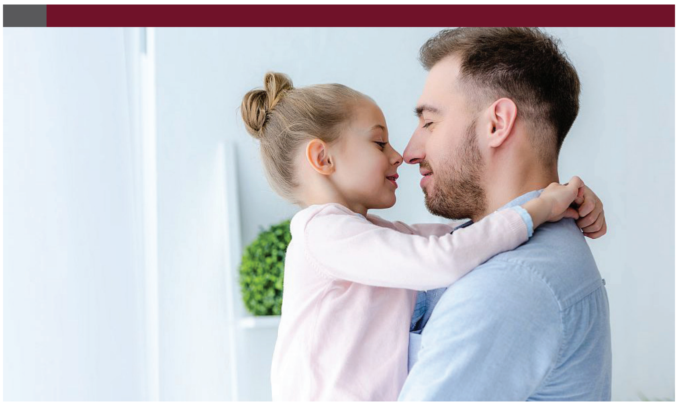
- Before you withdraw from an investment you should understand all the implications, risks and costs involved.
- Crystallising losses. If the value of your investment is falling, you are technically only making a loss on paper. A rise in prices could soon return your investment to profit without you doing anything. Selling your investment makes any losses real and irreversible.
- Incurring capital gains tax (CGT). Make sure you know what your CGT position will be before selling any asset.
- Losing the benefits of compounding. If you're thinking about making a partial withdrawal from an investment, remember that it's not just the withdrawal you lose, but all future earnings and interest on that amount.

Key takeaways

Keep in mind that:

- Super is a long-term investment designed to generate sufficient money so you can enjoy your retirement.
- Diversification is an important part of a long-term super investment strategy. To create the lifestyle you want in retirement, it may be necessary to invest in growth assets like shares so that your returns stay ahead of tax and inflation.
- It may be beneficial to ride out the bad times in order to achieve long-term growth.
- Your financial plan was designed exclusively for you to suit your investment objectives and risk profile. It's important to stay focused on your long-term goals.

Source: Colonial First State



How to protect your loved ones after you're gone

As the old saying goes, there are only two things certain in life: death and taxes. Unfortunately, most of us spend too much time worrying over the latter and not enough discussing the former, uncomfortable though it may be.

But while no one enjoys contemplating the end of their life, planning for your death is just as important as managing your finances, if not more so.

It's difficult enough for families to cope with the loss of a loved one, but the added burden of dealing with the remaining estate can make an emotional time even more traumatic - which is why drawing up a will is essential, regardless of your age and the state of your finances. Here's what you need to know.

What happens if you don't have a will?

If you pass away without a will, the law will determine who can be appointed to administer your estate and how it will be distributed once debts are paid out. Administrators have the right to make allowances for persons who might have been left out, which could result in a smaller share being provided to those you love the most. Similarly, others may receive more than you would have otherwise wanted.

If you do have a will

Where is it?

It's important that your original documents are stored somewhere that's both safe and accessible. Most solicitors will store your will for you and provide you with a certified copy, which should ideally be safely filed both digitally and in hard copy.

Executors and Powers of Attorney

An executor is the person appointed to administer the estate according to your wishes, and is an essential part of making a will. An executor may be required to sell assets, invest money, complete tax returns and pay debts. Your executor should be someone responsible and capable of undertaking such an important role, especially in complicated cases where the appointment could be long term.

A Power of Attorney is not essential and is appointed in a separate document to your will, as this person's duties are only relevant during your living years. A Power of Attorney is authorised to act on your behalf in financial or health matters, if you are otherwise unable to do so.

What happens after a death?

Your executor will need to apply for a Grant of Probate in order to begin administering your estate in accordance with the will. An executor is entitled to obtain legal and accounting advice to assist them throughout the application process and dealing with any tax implications for the estate.

Accessing the will

It is crucial that your executor knows where and how to access your will. It's a good idea to provide your executor with a copy of your will which will include the contact details of the solicitor storing it.

What about super?

Superannuation is usually not included in the distribution under a will, but rather the superannuation legislation and requirements of individual funds dictate how it will be distributed. Special clauses can be included if you wish to bring superannuation into the will but it's a good idea to seek financial advice first to ensure there are no tax implications.

Disagreements

If there is a disagreement over the will which can't be sorted out between the parties, then legal representation will be required. The best way to reduce the chances of a disagreement is to ensure your will is carefully drafted and regularly reviewed and updated to reflect your current circumstances.

Whether you're young and single or have children to consider, creating a will not only ensures your estate is distributed according to your wishes, it drastically reduces the stress and trauma for the family you leave behind.

Without a will, there's no guarantee your loved ones – and your affairs - will be taken care of in the manner of your own choosing.

Source: Macquarie Group Limited

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