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When will it end?

No one can accurately predict how long this crisis will last and when it will begin to recover. The heads of the world's major governments, financial system regulators and central banking organisations are under enormous pressure to engage in a co-ordinated response to demonstrate they can act in unison to address the crisis and to restore the confidence of shareholders. In these circumstances our Managed advisers continue to help their clients with immediate portfolio management to optimise their outcomes.

Most of our clients in Queensland are long term investors with investment horizons extending at least 10 years and in certain cases even longer.

These include self managed superannuation funds in accumulation and pension phase, corporate superannuation funds, personal clients and family trusts.

Above all, this long term perspective provides our clients with an enormous advantage over other more short term focused shareholders.

Australia's Defined Contribution (DC) retirement savings environment means most of our clients have a further advantage over those investors that face significant asset-liability mismatches.

In times of severe market stress these long-term 'wealth maximising' investors such as DC super funds have the luxury of riding out short term market declines and indeed are in theory best placed to take advantage of opportunities that will almost certainly arise on the other side.

Despite the significance of the negative returns being experienced now, it is important for all our long term clients to maintain their focus on their objectives (which are typically framed as long term average real return targets) and not be distracted by short term market activity, however extreme.

It is also worth considering the very strong performance achieved by most growth-oriented investors over the past four years prior to 2007/08.

Even after allowing for the -7% produced by the median employer superfund in the 2007/08 financial year and the significant recent sharemarket declines in September and October 2008, most super funds will still be able to point to a +4% pa real return (i.e. return in excess of price inflation) over the past five years, a result likely to be close to most funds' long term return objectives.

We continue to believe that this tumultuous period is far from over.

It is clear that we will need to see further government intervention before any form of stability returns to financial markets.

It is also the case that the broader economic outlook is indeed gloomy.

However, capital markets typically respond in anticipation of underlying economic improvement.

Furthermore, even ahead of any equity and credit market recovery, opportunities for skilful managers are typically greatest.

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It is therefore important that having experienced significant losses from nearly all equity oriented strategies our clients are appropriately positioned to be able to capture returns when markets ultimately recover – which they will in time.

Our thirty years of experience from past severe capital market and economic downturns is that where markets are seized by panic and uncertainty it is very difficult to make changes to a long term investment strategy with any confidence that such action will enhance returns.

Maintaining a well-diversified portfolio through these environments is therefore critical. However, there are a number of issues which may require immediate action to ensure your strategy implementation remains robust through these volatile markets such as insurance, superannuation, estate and succession planning.

If you have any concerns on a particular issue, please contact your Managed adviser immediately.



Generation 'You': Credit Card Debt Trap

Welcome to our new series of articles entitled **Generation You** aimed at assisting our clients' 18-27 year old (the bracket known as **Generation Y**) family members gain a better understanding of key financial issues.

How easy it is to receive 'free' money in a world where credit is given away at your local shopping centre. All of Australia's big name chain grocery, furniture, electrical and car dealerships now have a credit line ready to seduce young consumers into losing themselves in the debt cycle.

According to a survey by the Commonwealth Bank, 73 per cent of twentysomethings already have some form of debt with the average credit card debt being almost \$6,000, not surprising considering the record number of 3.7 million credit card applications recorded from this age group in 2006.

Veda Advantage has also recently reported that 18-27 year olds were responsible for more than a third of the defaults listed in 2006. A default is a debt that is overdue for 60 days or more and normally stays on your credit report for a minimum of five years. This can have serious consequences as lenders will check your credit report when you apply for credit such as a car loan or mortgage. Existing defaults might not be deleted – even if you pay off the debt, they will only be marked as paid and a lender may still deny your loan application.

Here are some Managed tips for young Australians to get themselves out of the credit card cycle and keep their credit history clean:

Get the 'right' card – Consider the 'total borrowing cost'. This is the total amount the credit facility will cost you, and it should include the interest rate and annual fee.

Concentrate on finding a card with a low borrowing cost, and don't be afraid to transfer the balance of your existing credit cards if you're not getting the very best deal possible. And remember that loyalty programs are at the cost of the consumer, and they will usually have a higher borrowing cost.

Beware of interest-free periods – You likely will only receive an interest-free period if the full closing balance on your credit card is repaid by the due date. If not, then you will likely incur interest charges. Please ensure that you are aware of how your interest charges are calculated.

Pay more than the monthly minimum – Consider how much interest you are paying versus how much the monthly minimum repayment is. You may only be paying the interest and sometimes not even that.

Don't make a credit application lightly – 'Shopping around' for a credit card can reflect badly on your credit history because it can indicate to a financial institution that you are potentially being rejected in your other credit applications.

Worst case scenario – If you can't get out of the credit card cycle, then it's time for evasive action. Cut up your cards, spend less and get a better interest rate. Consider moving to a personal loan which may have a lower interest rate and lacks the redraw facility that is so alluring about credit cards.

Finally, if you simply can't do it yourself, speak to family and friends, or make an appointment to see a Managed adviser about debt consolidation.



Surviving and taking advantage of a bear market

A bear market is typically defined as a fall in the share market by more than 20%, and a feeling of widespread pessimism and fear. But when fear reigns it's always good to look at history, to see what makes the market tick.

Generally bear markets have occurred in times of slower or negative economic growth and a pickup in unemployment. However, to date the Australian economy is still growing, albeit at a slower pace than in recent times, and the unemployment rate is at around 30 year lows.

In spite of this, the S&P/ASX All Ordinaries Index fell from its high of 6,853 points on the 1st November 2007, to a low of 3,768 on the 27th October 2008 – a fall of around 45%.

The share market had not fallen so much since the share market crash of 1987. This equated to dramatic share price falls of around 30% for some of Australia's most recognised brands such as Westpac, Fosters and Harvey Norman.

It's interesting to note how we react to lower share prices. Often when we see prices of consumer goods fall, many of us race in to catch a bargain. However, when it comes to shares we tend to react differently. If the share prices of well-managed, dividend-paying companies fall, we view them with suspicion and fear, when perhaps we should see them as opportunities.

Buying shares after the crash of 1987 would have been a good long term investment strategy. From the end of 1987 to the end of 1989, all major banks rose by more than 50% as did BHP, Rio Tinto, Harvey Norman, Coca Cola, Caltex, Wesfarmers and QBE Insurance. These are all household names providing services at a profit. That's what businesses do and will continue to do into 2009. While we may not see such rapid gains as post 1987 there are opportunities for growth in share prices as profits rise over time.

Some share prices have been punished and rightly so – because they will not be able to earn the profits they and the market had been expecting. However, others have just fallen as investors start to panic and sell everything. And when this occurs, opportunities for bargains emerge.

We acknowledge that negative investment returns are unpleasant and that this

current bear market is one of the worst in living memory.

However, mistakes to try and avoid during a bear market include:

- **Converting investments to cash**
Rushing out of the sharemarket for the safety of cash may not be the most sensible investment strategy. This may end up being a case of jumping ship after it has already sailed. Essentially investors adopting this strategy may well find themselves out of the market when the best recovery in prices occurs. Remember that market recoveries can happen quickly.

If we look back to the last market cycle peak (March 2000), we can see what a strategy of moving to cash would have produced. Assuming all income is reinvested, a \$10,000 investment in the Macquarie CMT would have grown to \$14,750 whereas the same \$10,000 invested in the Australian Sharemarket (index) would have grown to \$20,652 – up to the 30th September 2008.

Even allowing for the more market conditions of the last 12 months, the Australian sharemarket index has returned 12.5% pa over this 8 ½ year period from the last market cycle peak.

- **Refusing to make portfolio changes**
You certainly don't need to make a portfolio change simply because an investment or sector has fallen in value or is out of favour.

However, you must ensure that you own quality investments.

If a particular investment has little prospect of recovery then it is prudent to reassess the role of that investment in your portfolio and consider changes where appropriate.

Fundamental principles of investing during a bear market include:

- **Own quality investments**
Quality investments will provide better outcomes over the long term and in particular during a bear market. Low debt, dividend paying companies with strong market positions are much better placed to outperform during difficult economic times. Woolworths is a very good example of this at present – with its share price only falling by 8% in the last 6 months.
- **Don't forget to consider investing in struggling sectors**
If investing for the long term, you want to consider employing a system of buying low when the best opportunities present themselves. Thought needs to be given to what types of investments are offering compelling value and are well placed for a recovery in fortunes in the coming 12 months or so.
- **Maintain portfolio diversification**
Successful asset allocation of a portfolio has always been a key risk/return management tool. As markets are booming systematic profit taking should be considered as much as topping up investments in a bear market should equally be considered.

One of the important points to bear in mind is that the sharemarket is a forward looking market – in the sense that it attempts to anticipate and price-in future events. The market can over-react to information – both on the upside and the downside. A recovery in market fortunes may begin when the economic news is still bleak.

If this is of some interest to you we encourage you to contact your Managed adviser to discuss it in more detail and how it could be incorporated into your investment strategy.



Superannuation Investment Rules – Your unit trust is not necessarily dead!

Despite sweeping changes to the superannuation investment rules that were introduced in August 1999, trustees of self managed superannuation funds can still take advantage of their investment in a related unit trust—subject to a complete understanding of the legislation and the structure of their unit trust.

Since August 1999, an investment by a superannuation fund in a related or 'closely-held' unit trust is defined as an 'in-house asset' and thus is limited to 5% of the fund's assets. However, structures already in place at that time are 'grandfathered' or permanently exempted from the changes.

Additionally, a transitional investment period of some ten years applies to give small superannuation funds with existing unit trust structures further scope without falling foul of the new restrictions.

The transitional period applies until the 30 June 2009. During this period, a superannuation fund can make certain further investments in a related unit trust without those investments becoming in-house assets. This is subject to the new investments being made additional to an arrangement that is already exempt under the 'grandfathering' provisions.

In the context of related trusts the type of investments contemplated under the transitional rules are payments on partly

paid units, reinvestments of income distributions and investments made under a debt repayment election.

If you would like to know more about these changes to the Superannuation Investment Rules please contact your adviser or Managed's reception and ask to view Michael Lorimer's technical paper on this subject.

Do you need a solution for your staff superannuation?

Choice of fund, while beneficial for employees, has placed an additional burden on the shoulders of the employer and the administration arm of the business. At managed. financial strategy (Managed) we understand that if you have a large business, or a business that has grown through acquisitions, this can become a cumbersome administrative burden and we aim to provide you with a tailored corporate superannuation solution that suits your business needs.

Our corporate superannuation service process:

- We begin by reviewing your company's existing default fund and insurance arrangements and compiling a report that not only provides analysis and suitability on your existing arrangements but goes on to recommend an alternative platform, if required.
- Once we have designed a complete superannuation package for your staff, that you agree with and are confident in, we will present the new package to your employees in a friendly and informative manner.
- We then arrange for implementation of the set up of the new fund, training of your payroll department and assistance with transfers from other funds.

- Finally our consolidation service for staff arranging the rollover/s from other funds will ease the burden on your human resources department.
- Ongoing support is provided by your designated account manager to personally co-ordinate your fund and ensures that you and your staff receive the greatest benefits possible. We also offer a corporate superannuation staff hotline to answer all of your staff's questions rather than tying up human resources and payroll.

We view superannuation not only as a compliance issue but as a key part of your Human Resource management, ensuring it adds value to your company. We can work with you to design a plan that will not only meet your company's needs, but which will exceed your employee's expectations, potentially incorporating benefits for all categories of personnel (executives, management, etc).

Our thirty years worth of superannuation experience has shown us that an attractive superannuation fund can be used as an employee retention tool by building life insurance, salary sacrifice and income protection benefits into a tailored plan. We can even give you the option of meeting some of your insurance expenses by way of extra tax deductible contributions, this strategy is a proven human resource tool to assist in staff retention.

The experience of running your own business and building your wealth should be an enjoyable one without the stress and frustration of organising your own superannuation or your employee's superannuation. Why wait until you retire to enjoy your goals, enjoy the journey.

If you would like to know more about Managed's Corporate Superannuation service please contact Michael Lorimer or Pamela Panagenus on 3391 5055.

James, Barry and Lauren's Story

Courtesy of CommInsure

James (42) and Barry (44), enter into a business together, LiveWire Electrical Pty Ltd. When Barry unexpectedly dies of a heart attack two years later, the business is worth \$3,000,000.

James takes on all work in the business and wants complete control of the company. However, because the business partners neglected to arrange business insurance or a 'buy sell' agreement, outlining the sale price and transfer terms should something happen to either of them, James is now legally obligated to share 50% of the profit with Barry's wife, Lauren.

Having worked in the media for the last 20 years, Lauren wants no part in the electrical business and is happy to sell the shares she inherited from Barry. However, James is unable to get financing from the bank now Barry is gone so, Lauren looks to sell her shares to an outside party. Outside parties assess the business but no suitable offers are made.

Lauren is now forced to work with James in the business in order to support herself and her family. With no expertise in the industry, James resents Lauren's involvement and the business doesn't thrive as it had when Barry was alive. Revenues reduce, impacting Lauren and James' profit.

James and Barry should have considered purchasing Life, TPD and Trauma cover on each of their lives to represent the agreed value of the shares – \$1,500,000 cover each.

A Business Insurance Agreement with two self owned policies would have ensured that Barry's shares could be provided to James in exchange for the \$1,500,000 insurance proceeds.

James would then have the shares and sole right to run the business and draw profits. And Lauren would have \$1,500,000 and no further involvement in the business, providing her and her family financial freedom.

Please contact our risk specialists Don Fessey or Ritchie Elliott if you would like to organise a Business Insurance Agreement for your business.

What Causes A Heart Attack?

A heart attack occurs when there is a sudden, complete blockage of an artery that supplies blood to an area of the heart. As a result, some of the heart muscle begins to die. Without early medical treatment, this damage can be permanent.

Heart attack symptoms

Heart attack symptoms vary. The symptoms usually last for at least 10 minutes and you may experience more than one of the heart attack symptoms below.

Pain in the chest

A heart attack usually causes discomfort or pain in the centre of the chest. The pain may come on suddenly or starts slowly, developing over minutes. It may feel like tightness, pressure, heaviness, fullness or squeezing. The feeling has been described as: 'like a steel band tightening around my chest', 'like an elephant sitting on my chest' or 'like a red hot poker in the centre of my chest'. The pain may be severe, moderate or even mild.

Pain spreading

The chest discomfort may spread to the neck and throat, jaw, shoulders, the back, either or both arms, and even into the wrists and hands.

Discomfort in the upper body

Some people do not get any chest pain – only discomfort in parts of the upper body. There may be a choking feeling in the throat. The arms may feel 'heavy' or 'useless'.

Other symptoms

Often there may also be difficulty breathing, nausea or vomiting, a cold sweat, or a feeling of being dizzy or light-headed.

John Sullivan's Tour de France Cycling Challenge 2009

Managed client adviser, John Sullivan will be taking the ride of a lifetime in the Heart Foundation's first Tour de France Cycling Challenge. As part of the challenge, our cycling enthusiast will join 'le Tour' for the first ten days, cycle on the same roads as the professional peloton and be part of the world's largest and most spectacular annual sporting event.

The cycling adventure will commence in Monaco where John and his fellow Heart Foundation cyclists will join the crowds on the world famous Formula 1 Grand Prix circuit to cheer the Tour de France riders to the finish line of the opening time-trial stage. At the time of writing, the route of the 2009 heart challenge is unknown. However, it is anticipated that the cyclists will travel through Provence, and along the Mediterranean Coast to the Pyrenees in Southern France. During this time, this group of very special cyclists will witness the action of various stage starts and finishes whilst riding daily on the same gruelling roads as the professionals culminating in the first of the Tour's mountain passes.

The Heart Foundation's Tour de France Challenge Cyclists have each committed to raise a minimum of \$10 000 for this extraordinary organisation. The monies raised will greatly assist the Heart Foundation to fund life saving research and prevention programs to combat Australia's leading cause of death – heart, stroke and blood vessel disease. If you would like to support John in his fundraising efforts, as Managed have done, or follow his journey, please go to <http://my.artezpacific.com/personalPage.aspx?SID=70658> or call 07 3391 5055 to discuss.



Your Will doesn't deal with assets held in your superannuation fund

It is critical to ensure your superannuation arrangements are included in the estate planning process. You should also be aware that your superannuation does not automatically form part of your estate, and so it cannot be specifically dealt with under your Will. Binding death benefit nominations can go some way to providing certainty in how your superannuation is distributed in the event of your death, but not without a degree of inflexibility.

In this regard, a self managed superannuation fund can play an integral role in your estate plan, with the ability to provide flexibility and certainty. However, the structure of the fund must be appropriate, particularly the terms of the trust deed.

In a self managed superannuation fund, the death of a member also means (in the vast majority of cases) the death of a trustee (or director of a corporate trustee).

So who assumes responsibility for deciding how and to whom the death benefit is paid?

There is no single answer to this question, as each fund and member's circumstances will be different. However, the following issues are key considerations:

- Are there or should there be valid binding death benefit nominations in place?
- To whom can a benefit be paid under the applicable trust deed?
- Does the trust deed provide for the appointment of a replacement trustee for a deceased trustee?
- Do the trustees have enduring powers of attorney in place?
- Have the trustees made valid Wills?
- Does the trust deed allow for lump sums and pensions to be paid on the death of a member?

These issues highlight the importance of implementing and reviewing an estate plan and including your self managed superannuation fund in that process. In this regard, it is critical that the lines of communication between you, your accountant, your solicitor and your financial adviser are as fluid as possible.

Traditionally, superannuation fund trustees have had the final say in the distribution of death benefits to a person's beneficiaries or estate. However, since 1999 the superannuation legislation does allow superannuation fund trustees to accept nominations or directions from members that are legally binding on the trustees in relation to the payment of death benefits.

The outcome is that certainty can

become an element of the estate planning process in superannuation, rather than just a reliance on the goodwill of the parties involved. Binding nominations can give you control over how your superannuation is to be distributed.

The difficulty with binding nominations is that they can lock you in to inflexible outcomes with potentially costly tax consequences. Care must be exercised with these arrangements, as once they are in force and valid, the trustees are strictly bound to carry out the instructions. This obviously means that as soon as your circumstances change, you must review any binding nominations you have made to ensure that they are still relevant.

In the self managed superannuation fund environment, we often find that discretionary death benefit provisions are preferable to binding nominations—particularly in terms of their flexibility in dealing with income tax consequences and changing circumstances.

You should consult with your financial adviser, accountant or solicitor to commence the process of preparing an estate plan. To ensure the plan is robust, the process must involve a cohesive partnership of these professionals so that the legal, tax and financial planning aspects are all addressed and brought together in the most effective manner possible.

Once implemented, your estate plan should be subject to regular review to ensure it reflects any changes in your personal, business or financial circumstances.

Please don't hesitate to contact Managed if you would like advice on superannuation and estate planning or if you have an estate plan that needs to be updated.

For suggestions, feedback or to receive Managed email updates please contact cthompson@managed.com.au

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