



Financially Speaking

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Is it time to get back in?

The recent periods of sharemarket volatility and uncertainty have caused many investors to flee to the safety of cash.

While cash is an important component in any diversified portfolio, it is a low risk, low return asset class which is unlikely to provide the growth required to help you rebuild your long term wealth.

This means that it may be time for you to consider rebalancing your portfolio with

higher returning, and therefore, higher risk asset classes, such as shares.

Four reasons to reinvest

As your financial adviser will tell you, attempting to “time the market” - that is trying to pick the best moment to invest or divest in order to maximise gains or minimise losses - is near impossible. It is actually “time in the market” which is more important to the overall performance of your portfolio.



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This article outlines four good reasons why it is important to ensure that you are following a properly diversified investment strategy that is in line with your long term investment objectives.

1) The global economic recovery is underway

After 18 months into the global economic recovery, investors are now faced with a situation where markets are neither cheap nor overly expensive. In other words, there are no longer obvious bargains to be found. Even though cash returns for Australian investors are attractive, investors should consider speaking with their financial planner about retaining a bias or heavier weighting towards equities.

2) A better, if bumpy, year for equities is forecast

In the year ahead, some believe equities are going to be one of the best asset classes in which to invest. They are likely to provide investors with some modest returns, with forecasts in the high single digits. However, it is likely to still be a bumpy ride due to volatility caused by market risks. Some believe international equities may have greater earnings upside and more attractive valuations than the Australian market.

3) Other markets are also set to improve

Real assets such as real estate and infrastructure should also perform relatively well in 2011 despite ongoing market uncertainty. After a turbulent 2008, both listed real estate and listed infrastructure posted very strong returns in 2009 and 2010.

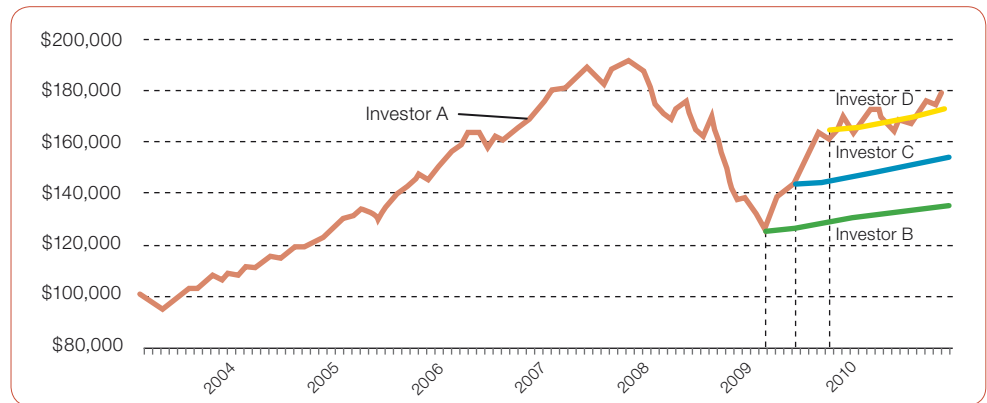
Emerging markets have solid medium term prospects and acceptable market valuations. This is despite some near term risks such as a slowdown in China and rising inflation which has the potential to trigger tighter Chinese monetary policy.

Due to the likelihood of interest rates continuing to rise, fixed interest assets and global government bonds should be approached with caution.

4) Diversification is a sound long-term investment strategy

The theme for investors during 2011 is diversification. Global investment opportunities should also be considered based on your risk and return profile. Although we may experience high volatility and lower returns during the next 12 months, investors may consider maintaining a bias to riskier or growth oriented assets such as equities.

Chart 1



Source: Russell Investments, the red line (Investor A) shows the growth of a \$100,000 Russell Balanced Fund portfolio from 1 January 2003 until 31 December 2010

What happens if I stay in cash?

Over dependence on more defensive assets such as cash or bonds may provide you with comfort that you are protecting your portfolio against future losses, but this strategy could actually end up costing you more in the long term.

Let's look at what happened to the value of a \$100,000 balanced portfolio over a seven-year timeframe. This model portfolio represented in the chart above is owned by four very different types of investors.

The 'steady as she goes' investor

In the chart above, the red line (Investor A) shows the growth of a \$100,000 Balanced Fund portfolio from 1 January 2003 until 31 December 2010. By the end of last year, it was worth \$179,659. Investor A did not change her long term balanced investment strategy and as a result, her returns are now creeping back towards their pre market downturn high.

The switchers

The green, yellow and blue lines show how switching from a balanced strategy to the perceived safety of cash can negatively affect the long term returns of your portfolio.

The green line (investor B) represents the performance of an investor who panicked and switched out of his balanced portfolio to cash on 31 March 2009 and remained there. Over the two year period he stayed in cash, his portfolio returned \$43,865 less than investor A, who stayed fully invested.

The blue line (investor C) represents the performance of an investor who waited until the markets improved following the global financial crisis and then switched her investment to cash on 31 July 2009 and then remained there. Over the 18 month period she stayed in cash, her portfolio returned \$26,518 less than the investor A, who stayed fully invested.

The yellow line (Investor D) shows the impact on a balanced portfolio had the investor waited to switch their investment to cash until 31st December 2009 and then remained there. Over a period as short as one year he would have returned \$6,855 less than the Investor A.

Investor	Switched to Cash	Value at 31 December 2010	Difference in portfolio returns
Investor A	Never	\$179,659	-
Investor B	31 March 2009	\$135,795	-\$43,865
Investor C	31 July 2009	\$153,141	-\$26,518
Investor D	31 Dec 2009	\$172,804	-\$6,855

As you can see, switching to the perceived safety of cash significantly affected the portfolio returns of investors B, C and D. This example illustrates that the longer you remain in cash, the greater investment return you potentially miss out on. When adjusting your investment strategy, it is important to make sure that it is in alignment with your own personal needs and investment objectives not based on what's happening in the market.

But what if the market goes down again?

There's little doubt that markets take time to recover and volatility is a normal part of any market cycle. It's important to remember that down market cycles don't last forever so that's why 'time in the market' should be your priority if you want to build long term wealth.

We've historically seen that markets always bounce back, and a portfolio diversified across a number of asset classes and investment managers is a prudent way to manage your investments. This is a sound strategy to help you weather all market conditions.

Historically, stocks go up higher and for longer periods in rising markets than in down markets. The chart below shows the returns for US and Australian equity markets over a 150-year period from 1841 to 2011, for periods of consecutive negative returns and the bounce back that followed.

What does this chart reveal?

- 1) Up markets (dark red) have risen higher for longer periods than their corresponding down markets (orange areas).
- 2) There have been more robust bull markets than bear markets over the past 150 years. This should discourage any investors from fighting these odds by switching into cash or changing their allocation in response to a temporary downturn.
- 3) One of the best ways to beat the odds over the long term is to invest in a diversified portfolio of domestic equities, bonds, and foreign stocks—and stay invested.

Don't lose your balance

For investors who held their nerve and maintained a well diversified investment approach throughout the recent market turbulence, now is a good time to make sure their portfolios' long term asset mix move did not move out of proportion as a result of the market's gyrations. Rebalancing your portfolio is a sound strategy to help you manage your risk profile and ensure your portfolio remains aligned with your long term investment goals.

Significant deviations in your portfolio's allocation may create additional and avoidable risk. Rebalancing is especially important in volatile periods and is designed to prevent the 'knee jerk' reactions or panic selling that can plague some investors.

Talk to your adviser today

Now is the time to ensure that your portfolio is structured with the right mix of asset classes and weightings to ensure that you will be able to achieve the lifestyle you want in retirement.

Your adviser will be able to assess how the recent market volatility has affected your current investment strategy and whether any adjustments need to be made. You may want to consider the following questions:

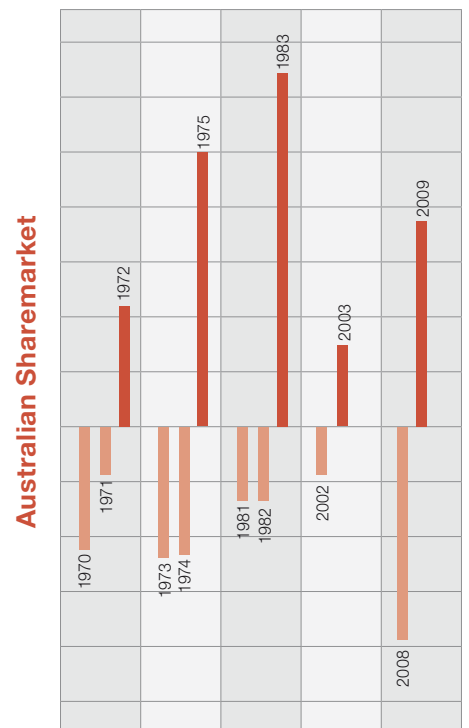
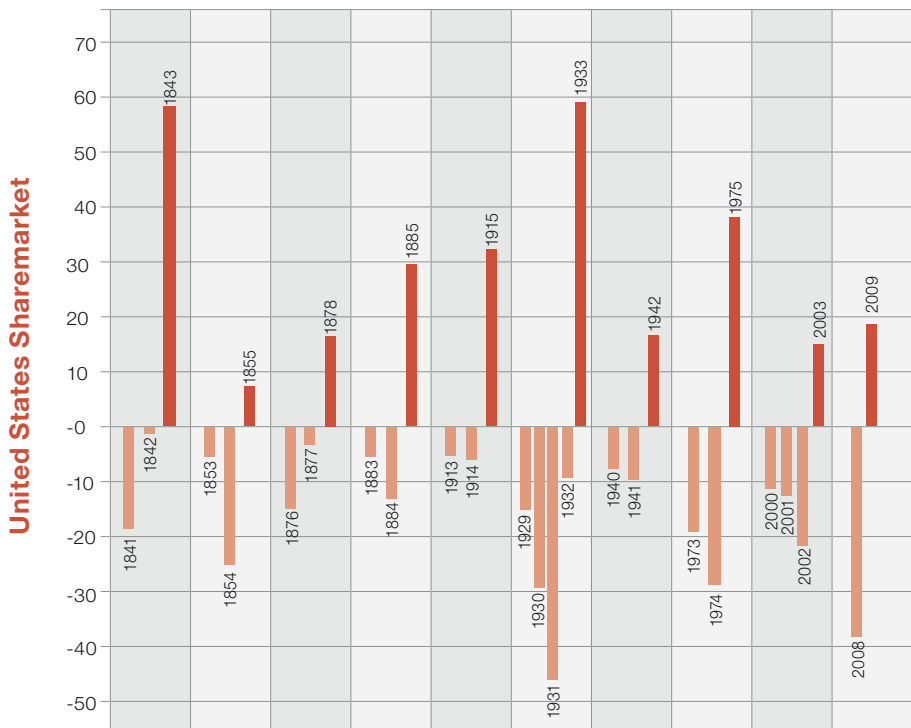
- 1) What's the risk that you'll outlive your savings based on your current lifestyle?
- 2) Do you feel confident that your investments will provide you with the lifestyle you want in retirement?
- 3) Has the downturn in the financial markets materially reduced the value of your portfolio value so that you are worried about sustaining your current level of retirement income?

Based on your answers above, a strategic reallocation to align your portfolio with your current circumstances, risk tolerance and long-term goals may be required.

Contact your financial adviser today to ensure that your portfolio is on track to achieve your investment objectives and you are on the right road to retirement.

Source: Russell Investments, March 2011

Chart 2



Negative Year 1	-17.9%	-5.4%	-14.4%	-5.5%	-5.1%	-14.6%	-7.5%	-18.8%	-11.1%	-38.5
Negative Year 2	-1.4%	-24.3%	-3.3%		-5.9%	-28.4%	-9.5%	-27.9%	-12.1%	
Negative Year 3						-44.4%			-20.9%	
Negative Year 4						-9.3%				
Bounceback	57.6%	7.3%	16.0%	28.9%	31.1%	57.9%	16.1%	37.4%	14.4%	19.7%

	-23.1%	-24.2%	-13.4%	-8.6%	-38.9%
	-9.0%	-23.7%	-13.4%		
	23.4%	51.7%	66.8%	15.1%	37.6%

The growing importance of aged care

Did you know ...?

- Approximately 45% of people over age 70 will use aged care services
- Accommodation bonds in regional areas and capital cities are now around \$300,000
- Planning before you need aged care can improve your financial situation.

All too often we procrastinate over financial decisions and panic when the event occurs. Unfortunately this procrastination can limit the financial planning opportunities.

This is an all too common scenario for aged care. A move into aged care usually happens in a hurry and with emotional turmoil but planning ahead can help to improve your situation and help to avoid family conflict.

You might be thinking about your own future needs, or you may be faced with making decisions for a parent or other elderly relative. Advice is a key element of these decisions. Aged care is a growing issue for many Australians and financial advice is important.

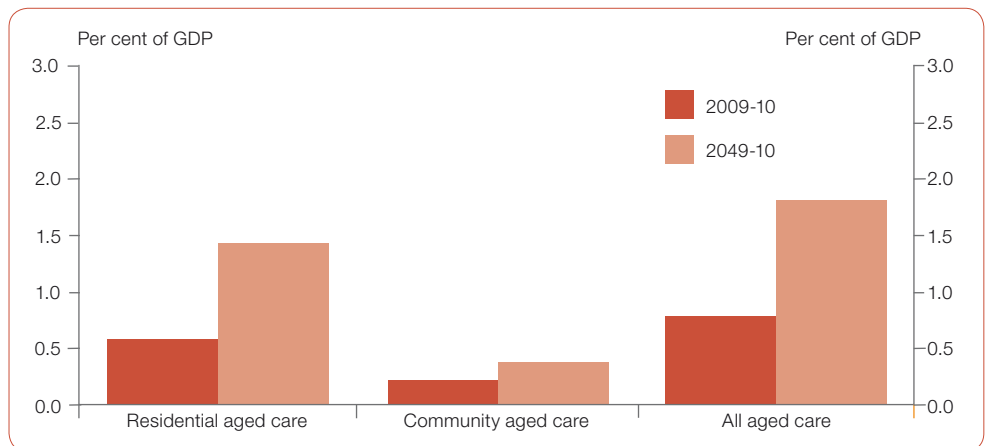
The costs for aged care are increasing and with an ageing population we all need to think more carefully about how we will be affected and how to access the help we need. Currently, more than two million people in Australia are aged 70 and over and approximately 45% of these will use aged care services. The cost for Government is estimated to double by 2049/50 as a percentage of our economy (as measured by our Gross Domestic Product - GDP). This will be more money than the Government's budget for defence or education. The increasing cost of aged care is shown in Chart 1.

How you plan for aged care and the decisions made can have a significant impact on your lifestyle and comfort, your entitlement to the age pension and the fees paid to access aged care facilities.

Planning for aged care should commence early and continue throughout your retirement. The fees to enter an aged care facility tend to be significant and require careful planning ahead of time.



Chart 1



Source: Intergenerational Report, 2010

Thinking ahead can give you or older Australian relatives lifestyle choices including:

- The chance to live in your own home to maintain your independence
- Strategies to reduce ongoing fees
- Options for funding the entry costs
- Strategies to invest other assets, and
- An understanding of the impact of decisions on age pension entitlements.

If planning your retirement or helping a family member deal with the challenges as they age, a financial planner can help you to navigate through the fees for aged care and the strategies to meet your family and estate planning circumstances.

Source: Strategy Steps, November 2010



Sizing up your super

There are changes afoot for your super, so here are five ways to make more of what you have.

There are changes coming with the Federal Government’s review of the superannuation industry, but many of these are gradual ones, such as the move to increase minimum compulsory employer contributions, or Superannuation Guarantee (SG), from 9% to 12% by 2019.

While 2019 may seem a long way off, Pauline Vamos, chief executive of the Association of Superannuation Funds of Australia (ASFA), an industry body for the superannuation sector, recently predicted that a higher SG would make a significant difference to retirement outcomes.

“For a person 30 today, earning \$50,000 a year and with a current super account balance of \$23,000, their lump sum on retirement will increase from \$300,000 to \$385,000 with the move to 12% SG,” says Pauline (ASFA media release 29 June 2010).

Five super saving strategies

Now you can start to think about some strategies to boost your super balance.

To get an idea of how much you’ll have in retirement and how much extra you’ll need to reach your goal, speak with your financial planner.

1) Salary sacrificing can be a good bet

Salary sacrificed super contributions are taxed at a maximum 15%, instead of your

Table 1: Contribution caps for 2010–11

Concessional contributions	Non-concessional contributions
Under age 50 on 30 June 2011: \$25,000	Under age 65 at any time during 2010–11: <ul style="list-style-type: none"> • \$150,000 or • up to \$450,000 over a three-year period under the bring forward rule
Age 50 or over on 30 June 2011: \$50,000	Age 65 or over for all of 2010–11: \$150,000
A financial adviser can help you with the detail on the caps which apply to you, how you’re tracking in relation to the amounts for the financial year, and which future strategies will work best.	

marginal tax rate, which could be as high as 46.5%, which can leave you with more super. But beware of the concessional contribution caps. (See table 1).

2) Give co-contribution a go

This applies to those with an annual income below \$61,920. If you earn less than \$31,920 per annum and you contribute \$1,000 to super during that financial year, the government could potentially match your contribution dollar for dollar. As your annual income increases up to the maximum of \$61,920, the government contribution reduces.

3) Consolidate your super accounts

If you’re one of the many Australians who have multiple super accounts, you could be paying extra in unnecessary fees. Consolidating your accounts could save on fees and time, and as a result may boost returns. Remember to check how the benefits in your various funds may be

affected, such as insurance cover, or whether exit or withdrawal fees apply.

4) Spouse contribution tax rebate

A working person can contribute super on behalf of their spouse in a number of ways which could provide some tax benefits. Some examples include making an after-tax contribution that’s eligible for a tax rebate or splitting or transferring the working person’s salary sacrifice contributions to the spouse.

5) Align your super strategies with your personal circumstances

It is important to revisit your super strategies with your financial planner as your personal circumstances change. For example, have your financial responsibilities decreased and you can consider increasing your salary sacrifice amount? Or, perhaps your income has decreased, making you eligible for a government co contribution.

Source: Colonial First State, October 2010



Life insurance know hows: personal injury and illness

Until you experience a serious injury or illness, it's very easy to think that it'll never happen to you.

However there are a lot of complications involved in suffering an injury or illness, or seeing someone close to you experience this misfortune.

Financial worries should be the last thing on your mind as you concentrate on improving your health, however you will eventually need to make some decisions regarding your finances and here are our tips for coping with injury and illness.

Choosing the right health cover

Some people swear by private health cover as it can provide you with more power of your choice of doctor, access to private hospitals and shorter waiting periods for elective surgery. If you can afford private cover and are considering taking it up, be careful to read the terms and conditions associated with your cover before agreeing to it and ensure you're aware of all of the

exclusions listed under the cover. As an example, if physiotherapy cover is something you think you may require, ensure it is not excluded from your chosen health cover option or choose an alternative health care fund. For more information on health insurance, please speak to your healthcare provider or financial planner.

Rebates

Many Australians paying premiums for private health care cover are eligible for a 30% rebate on the cost of their premiums from the Federal Government. You can claim your rebate by registering with your health fund when applying for cover, make a claim for a one off payment at a Medicare office near you or claim the rebate in your annual tax return.

The Government also offers a rebate for some out of pocket medical expenses, known as the Medical expenses tax offset. You can claim this rebate on your own expenses or the medical expenses you've

incurred on behalf of your spouse, your children and your invalid relatives.

For more information on these rebates, speak with your financial planner, visit www.ato.gov.au or phone the Government's Aged and Community Care InfoLine on 1800 500 853.

Insurance cover

Life insurance can provide you with a degree of security in times of injury and illness and many insurers provide life insurance to people aged up to 75 years. Not only will life insurance give you peace of mind over the control of your assets, but many life insurance policies will provide you with some of your life insurance entitlement if:

- you are injured
- you are diagnosed as terminally ill
- you suffer a trauma such as a stroke, heart attack or are diagnosed with a degenerative disorder such as Parkinson's disease or Multiple Sclerosis.

(Please note, you will need to be covered by a life insurance policy that offers 'trauma insurance' to receive this benefit).

It is important that when you make any application for insurance that your responses to the insurer's questions are very clear and truthful. Expanding on your answers and clarifying your statements will improve your chances of receiving an insurance payout should you ever need to make an insurance claim.

Making an insurance claim

You may need to fill in a number of forms to make an insurance claim and provide a number of documents to your insurer. Don't hesitate to contact your insurer if you have any queries while you're completing these forms – providing the correct information in your initial application is likely to save you and your insurer time while they process your application. If you're facing financial hardship, mention this in your initial claim as your insurer will then know to treat your claim as a priority. Above all, request the help of your financial adviser when making a claim. They have experience in claims management and in dealing with insurance companies.

Once they've received your insurance claim, insurers are required to decide on your claim and notify you of the result of your claim within 10 days of receiving all of the material that they require from you. If your claim is denied, you must be given a reason for the denial and either referred to another insurer or the industry ombudsman.

Accessing your assets

When medical costs start weighing you down, you may want to consider accessing some of the value of your assets. Consider downsizing to a smaller home, drawing on any investments you have and accessing any superannuation or annuity and allocated pension funds available to you.

Once again, seek the assistance of your financial planner for information on the best approach for you. They will be able to advise you on the most appropriate way for you to proceed.

Organise your affairs

There is no time like the present to conduct a few unpleasant, but necessary, tasks such as creating or updating your will and discussing your wishes for your future with your family and friends. A little time committed to these tasks now will be greatly appreciated by your family and friends should you become very seriously ill or injured.

Source: Zurich Financial Services Australia, March 2011

Never too young to start investing



No matter how young you are, you are never too young to start investing. The younger you start, the more you learn and the more comfortable you become with investment markets.

Starting young also lets you start small as over the long term, your investment grows in response to market cycles and the principle of compounding returns.

You don't need lots of money to invest

Young people are often discouraged from investing because they mistakenly believe that investing requires lots of money. In today's investment markets, it is not necessary to have a large lump sum to start investing. Many accounts can be opened with relatively small amounts and there are also regular savings plans available. Savings plans are an affordable option as they enable you to invest a small amount of money on a regular basis, often with as little as \$100 per month or per quarter.

Compounding your way to a larger investment

When you start to invest, you begin to see the powerful way in which compounding enhances returns. Compounding occurs when the return earned in one period is added to the principle (reinvested),

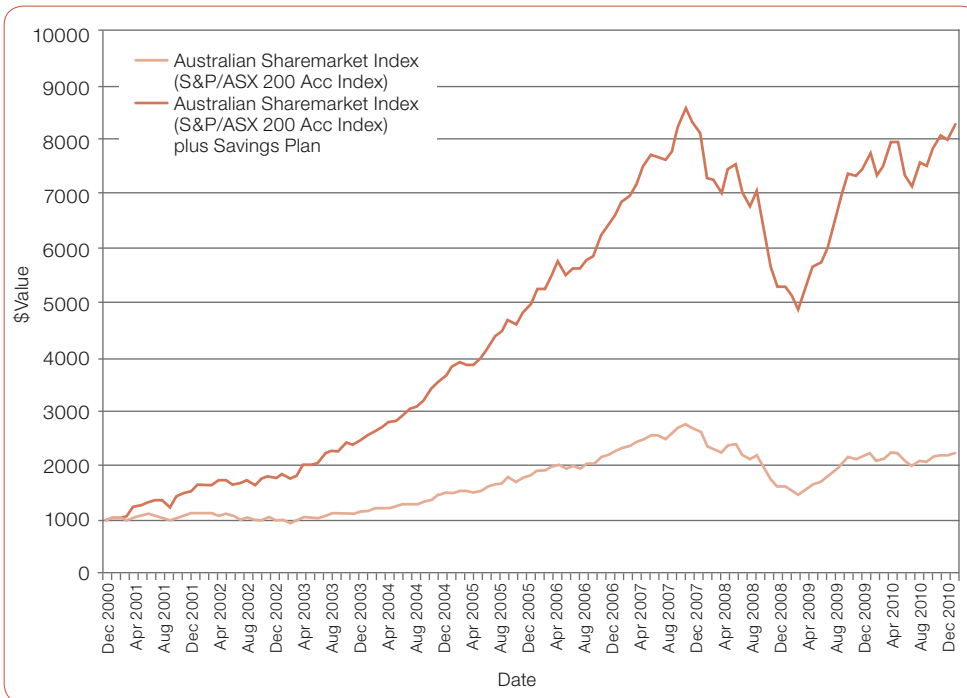
increasing the size of the investment that is available to earn a return in the next period.

A simple example is to take an investment of \$1000 that earns 10% per annum, by the end of the first year it will have accumulated \$100 in interest. So the balance will rise to \$1100. In the second year, at 10% per annum interest it will earn \$110 in interest as the principle is \$100 higher. So the balance will rise to \$1210. With compounding, the dollar amount of interest earned increases every year because reinvestment of previous returns increases the size of the underlying investment.

Regular saving enhances the power of compounding

The chart over page illustrates how a savings plan can grow your investment over the long term. The red line assumes \$1000 was invested in the Australian sharemarket in December 2000 with a regular quarterly saving contribution of \$100. Over the next 10 years the value of this savings plan grows to \$8284. By contrast, the orange line represents a \$1000 investment in the same index with no savings plan. The value of this investment only grows to \$2241 over the same period. Regular small contributions increase the size of your underlying investment and this enables compounding to work harder for you.

Chart 1: The Power of a savings plan



Starting early enhances the power of compounding

The earlier you start to invest, combined with the power of compounding, the greater your long term investment will be. Take two investors who each start with \$1,000 and an annual return of 5% on their investment. The first investor starts investing in year one and invests \$100 per month for the first five years and then stops the regular savings plan and lets the investment grow over time for twenty years. The second investor starts to invest in year ten and starts a savings plan of \$100 per month for the next ten years. By the end of the twenty year time period both investments are roughly equal, but ignoring the impact of inflation, the first investor has invested \$7,000 of their own money, whilst the second investor has invested \$13,000 of their own money. That is almost twice the amount of the first

investor, showing how starting earlier can enhance the longer term rewards.

Keys to successful investing

Three of the most important rules of successful investing are to diversify your portfolio, to invest for the long term and to understand the relationship between risk and return.

Diversification involves spreading your investments across different asset classes, sectors, industries and companies in order to lower your risk. Diversification is necessary because different investments will perform well in different market conditions. If your portfolio contains only one investment and it performs poorly, your entire portfolio will be impacted. By contrast, a portfolio that contains investments in several asset classes or a variety of shares is less risky and is not subject to the fortunes of just one investment. So it should have more stable returns. This occurs because investments in your portfolio that perform poorly will likely be offset by others that perform well.

Having a long term horizon is also important as it enables you to better manage investment cycles. Investment markets tend to follow cycles – periods of strength followed by periods of weakness. These cycles can vary in length but it is the weaker periods that tend to unnerve investors. By taking a long term view of your investments, it is easier to look through periods of weakness and view them as temporary. Taking a short term view and selling your investments when markets fall can often result in you missing out when markets start to recover.

A degree of risk is inherent in all investments. Higher risk investments, such as shares, usually have the potential to generate higher returns, but the risk of loss is also greater over the shorter term. By contrast, low risk investments, such as cash, tend to have lower returns but a much lower chance of loss. Short term volatility is high for shares. Short term volatility can be thought of as an investor’s trade off for higher long term returns. Generally speaking, growth assets like shares will experience greater short term volatility, yet commonly provide higher long term returns than defensive assets, like cash and bonds. It could be expected that an investment in the equity market will provide a negative return once every four years or so, and only once every seven to eight years for fixed interest. When investing, you need to be aware of the risks you are taking and make sure they are within your level of risk tolerance.

So how do you start investing?

Starting small and adding to your investment regularly is a great way for a young person to begin their investment journey. As a parent or grandparent, you can also start an investment plan as a gift for a young person – a gift that teaches them the benefits of regular saving and gives them the opportunity to learn about investment markets.

Source: Aviva Investors, February 2011

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