

your money your future

FINANCIAL PLANNING NEWSLETTER



PLANWELL
FINANCIAL GROUP
Solving the Puzzle

Protecting your capital

History tells us that investing for the long term pays off, as markets have invariably rebounded following a downturn.

But with share prices almost halving in the space of a year, this knowledge is understandably offering cold comfort for investors.

You may have heard about capital protected products as a possible solution. Some enable you to insure against market downturns while remaining fully invested in the share market to capture sudden recoveries.

Some capital protected products guarantee that you never lose the investment over the period of the guarantee. After paying an 'insurance' premium that will protect the capital value of your investment, your funds can be invested safely in a diversified portfolio with various mixes of shares, property, fixed income and cash.

The right capital protected product can help in situations where:

- You are sitting in cash, but don't want to miss the market rebound.
- You have accumulated wealth – especially superannuation and pensions – and want to protect it from capital loss.
- You need to be a more aggressive investor to achieve your investment goals, but are wary of increasing your risk tolerance level.
- You have leveraged your existing assets using a gearing strategy and you are looking for capital protection.

Protection at every stage of life

Regardless of your individual circumstances, capital protection is a potentially useful strategy for all investors.

If you're approaching retirement, your priority is to safeguard your future savings. Capital protection allows you to ensure what you have built up remains intact.

And, if you are currently drawing a pension from your superannuation balance, a capital protected product can guarantee a fixed level of income each financial year, even if the underlying account balance declines. The level of fixed income is generally set each financial year based on the underlying account balance.

If retirement is still some time away, capital protection can help to avoid any unpleasant surprises which could delay your retirement plans.

If you are concerned about market volatility and would like to find out more about protecting your investments, please call us today.

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Trauma: the nuts and bolts

Cancer. Stroke. Heart attack. Issues that most of us would prefer not to have to face.

It's tempting to think that 'It couldn't happen to me' and therefore treat insurance against these traumas as an expensive luxury. After all, no one wants to find themselves in a situation where they have to claim on the policy. But the unfortunate reality is we are more likely to be confronted by one of these traumas. Consider the following.

One in three Australians will be affected by cancer. Half the Australian male population and a third of women will be diagnosed with cancer before the age of 85.¹

Over 60 per cent of cancer patients will survive for more than five years after diagnosis, during which time the need for financial protection will be paramount.²

Each year, around 53,000 Australians have a stroke.³ And cardiovascular diseases affect more than 3.5 million Australians.⁴

Overall protection

Trauma insurance shouldn't be treated in isolation. It's an integral component of your wider protection needs, which include life insurance, total and permanent disability (TPD) and income insurance.

A comprehensive trauma product covers a defined list of events, including cancer, coronary artery surgery, heart attack and stroke.

In the event of a claim, the cover will pay out a lump sum to cover expenses such as rehabilitation and recovery, refitting your home, relocating, outstanding debts, ongoing income and professional care.

Determining your optimal level of trauma cover might involve a little more planning than taking out a basic life insurance policy, but we can help you navigate your way through the fine detail.

We will also help you answer the hard questions like these before estimating your required level of cover:

- Do you want an income supplement to allow your spouse to give up work to look after you?
- How will your family earn a regular income?
- How will you pay bills and other expenses?
- Would you like to be able to pay off your mortgage and other loans?
- Will you need to travel to seek out medical advances and treatment?
- Will you need money to refit your home, upgrade your vehicle or modify your car?
- How will you fund retraining for alternative employment?
- How will you fund specialist equipment for post-trauma recovery?

Case study: Alastair and Alison's forward planning

Alastair is 42 years of age and earns \$100,000 as the manager of an electronics store. His wife Alison, aged 39 earns \$35,000 as a part-time kindergarten teacher.

Alastair holds limited insurance via his superannuation fund. He has \$100,000 in life insurance and limited salary continuance cover.

Alastair and Alison have a mortgage of \$500,000 and a car loan of \$25,000.

Alastair's financial adviser compiles a detailed insurance plan, dividing their requirements into necessary and optional. As well as recommending increasing his life and total and permanent disability (TPD) insurance to \$1 million, Alastair's adviser recommends he take out a policy worth \$720,000 in trauma recovery insurance.

Necessary

Additional recovery costs	\$20,000
Income supplement	\$35,000
Annual salary	\$100,000
Contingency funds (bills etc)	\$20,000
Total minimum cover	\$175,000

Optional

Mortgage/investment/personal loans	\$525,000
House modifications	\$20,000
Total extra cover	\$545,000
Total trauma cover estimate	\$720,000

Based on the discussion with their adviser, Alastair and Alison decide to purchase the necessary level of cover, a policy with a sum insured of \$175,000 each. This level of cover would typically cost \$655 per year for a male aged 42, and \$517 per year for a female aged 39*.

* Quote based on stepped premium structure, using PQT version 4.0, October 2008.

The devil is in the detail

There are a few basic ways to work out your trauma insurance requirements. You can estimate your level of cover – common methods include a multiple of your annual income or perhaps an amount that clears a specific proportion of your debt. Or you can devise a detailed plan, dividing your potential expenses in the event of a trauma into necessary and optional requirements.

What's necessary and what's optional will vary depending on your personal circumstances but may include:

- **necessary** – additional recovery costs, income supplement, annual salary, contingency fund for bills and special purchases.
- **optional** – mortgage, investment and personal loans, house modifications, rehabilitation.

If you think trauma insurance is something you should consider then please contact us. We can help you work out how much cover you need to provide for you and your family in the event of a trauma.

Notes:

- 1 www.cancer.org.au/aboutcancer/TAQ.htm
- 2 Cancer in Australia 1998. Australian Institute of Health and Welfare
- 3 www.strokefoundation.com.au/facts-figures-and-stats
- 4 Australia's Health 2006. Australian Institute of Health and Welfare – AIHW cat no AUS 73

Where is your cash stashed?

More than 645,000 Australians have money sitting in unclaimed cash. Are you one of them?

There is currently more than \$564 million in unclaimed money lying lost or forgotten in government coffers, and the Australian Securities and Investments Commission (ASIC) is encouraging all Australians to search the ASIC database.

It's free to search the database and if any of the money is yours, there is no cost involved in claiming it back.

Unclaimed money generally ends up with ASIC and the Commonwealth Government after it has lain dormant for more than seven years in accounts with insurance companies, banks, building societies, credit unions or friendly societies. It also includes money from company takeovers or from companies that have been unable to contact shareholders for six years.

According to ASIC, the pool of lost money comprises amounts ranging from \$1 to as much as \$990,000 – with the latter amount sitting unclaimed in a Commonwealth Bank account in Western Australia. Thousands of Australians are reunited with millions in



lost money each year – including one lucky person who found a massive \$3.1 million in a forgotten deceased estate – but there are still millions more to be claimed.

How to find missing money

Log on to ASIC's online database at www.fido.gov.au and type in your name or call ASIC on 1300 300 630.

If you find money you think may be entitled to, just lodge a claim to prove it's yours or that you're the beneficiary.

No matter how small the sum, it's worth taking a few minutes to see if any of the unclaimed money is yours. For more information or assistance with claiming, please contact our office.

Avoid chasing returns – keep your end goal in sight

You don't drive looking through the rear-view mirror – nor should you invest by looking backwards at past returns.

Investors often fall into the trap of allocating their funds based on the recent outstanding performance of a particular investment.

In the same way objects in the rear-view mirror appear closer than they really are, our perception of recent performance is able to be magnified out of proportion. But in the investment market, past performance is no reliable indicator of future success.

Chasing – hard work for less return

Imagine you had \$10,000 to invest in January 1988. Establishing a well-diversified portfolio would mean that your investment increased in value to \$51,768 by December 2008.¹

Alternatively, you could chase returns by investing in whichever asset class produced the best results the previous year. Your investment would be valued at \$37,074 over the same period, without even taking into account the costs of switching.

The only certainty in investing is change

Changing economic conditions affect the performance of companies. Share price fluctuations affect the performance of managed funds with market-linked investments. And the overall performance of a particular asset class can be affected by local or international financial trends.

Sometimes less obvious events have implications on an investment's value. For example, what if a successful financial team leaves for another investment house, causing the leading fund manager to fall back to the pack?

The past – a roadmap for the future?

While past performance shouldn't be ignored completely, it doesn't give us the complete picture of an investment's future performance. You also need to look at the underlying quality of the investments that make up your portfolio.



Rather than concentrating exclusively on a company's recent share price, look at factors that might affect future performance such as its earnings outlook and overall sector trends.

We can help you take a 360-degree view of the investment landscape and expand your horizons. If you have any queries about your investment strategy, please contact us.

¹ Source: Mercer, Bloomberg, Iress. Data as of 31 December 2008.

Dollar cost averaging – for the smart investor

Dollar cost averaging is a useful investment strategy that can help smooth the ups and downs in a volatile market.



The extreme volatility of share prices over the past year has eroded many investors' faith in the markets. Substantial daily fluctuations have made it very difficult to pick the best time to invest.

One weekend in October 2008 provided a snapshot of the extreme turbulence. On Friday 10 October the All Ordinaries Index suffered its worst daily percentage loss for more than two decades, shedding 8.3 per cent. But the following Monday a market rebound saw the index post its biggest one-day gain for 11 years, jumping 5.5 per cent.

With this degree of unpredictability, investors could be forgiven for being wary of dipping their toes back into the sharemarket.

But playing a waiting game can backfire.

Missing out

During periods of market volatility, some investors try to guess when share prices have reached rock bottom, trying – and usually failing – to time their investment. Other investors can end up paralysed by inaction, only reinvesting when a recovery is obviously underway.

Either way, you can miss out on the bulk of the market recovery by coming in too late when prices have already firmed.

That's exactly what happened during the last market downturn in 2003. Investors moved in large numbers to 'safer' defensive assets such as cash and fixed interest offering low returns exactly at the wrong moment. The market rebounded strongly by more than 20 per cent in the space of a few months, leaving these cautious investors behind.

Staying in the hunt

In uncertain times, it's understandable if you're loath to invest the bulk of your savings all at once. But there is another strategy that could reward you.

It involves making regular contributions into a particular investment – shares or a managed fund – over a set period of time. Your fixed investment buys more shares or units when the price is lower, and fewer when the price is higher.

Dollar cost averaging is a deceptively simple strategy that can reap surprising rewards. It can help reduce risk over a period of market volatility, compared with investing a lump sum. While you won't necessarily obtain shares at a bargain price, you won't pay too much either. And it also saves you worrying about how much to buy or when to buy, giving you peace of mind.

Dollar cost averaging will smooth out the effects of short-term market volatility.

Dollar cost averaging at work

Let's have a look at how dollar cost averaging can work in practice. Imagine you have \$100,000 to invest in a managed fund.

You have two options:

Option 1. Invest the whole amount at once. Your unit price fluctuates to finish at \$1.10 at the end of the period. Your initial investment gains 10 per cent to finish at \$110,000.

Year	Amount invested	Unit price	Units purchased	Value of investment at end of period
1	\$100,000	1.00	100,000	\$100,000
2	\$100,000	0.80	0	\$80,000
3	\$100,000	0.70	0	\$70,000
4	\$100,000	0.90	0	\$90,000
5	\$100,000	1.10	0	\$110,000

Option 2. Stagger the investment in regular payments over a set period of time, for example \$20,000 each month. As the unit price falls, your regular \$20,000 investment buys more units. When the price increases, the investment purchases fewer units. At the end of the period, your initial investment has increased by more than 25 per cent to over \$125,000 – a significant advance on the lump sum investment. Each unit has cost an average of \$0.88.

Year	Amount invested	Unit price	Units purchased	Value of investment at end of period
1	\$20,000	1.00	20,000	\$20,000
2	\$20,000	0.80	25,000	\$36,000
3	\$20,000	0.70	28,571	\$51,500
4	\$20,000	0.90	22,222	\$86,214
5	\$20,000	1.10	18,181	\$125,371

The difference in the initial investment at the end of the period shows that dollar cost averaging has smoothed out the effects of short-term market volatility.

Smooth passage

Dollar cost averaging doesn't guarantee a profit and isn't necessarily the optimal strategy for every investor in every situation. Investing a lump sum can still be advantageous under certain market conditions.

But dollar cost averaging can help smooth out the ups and downs of market volatility and allow you to stay in the market while minimising your risk.

And the regularity of the payments means you can easily incorporate the strategy into your monthly budgeting.

Contact our office for more information on how dollar cost averaging could benefit your financial situation.