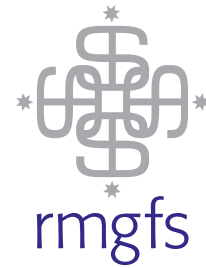


Intouch



Welcome to the autumn edition of *intouch*

The last year has been tough but we know that well laid plans in tough times result in excellent outcomes in the longer term.

It's this type of discipline that resulted in **rmg financial services** being awarded 'Independent Financial Adviser' magazine's No. 1 advisory practice in WA for the 3rd year running.

Whilst we are proud of this achievement we're also determined keep providing the best services to you. These include a mortgage referral service to take advantage of lower interest rates and a new estate planning service where we can do your wills 'on the spot'.

We will be discussing these opportunities at your regular planning meeting, however if you would like to address any pressing issues please contact your **rmgfs** adviser.

Likewise, if you have any friends or family that require help with their affairs, we are also happy to assist. We've recently recruited Peter Davies, CFP to the team, so we have capacity to help through these challenging times.

Weathering the storm

by Paul Clitheroe

First came the credit crunch. Then the sharemarket crash. Now, we're left weathering the fallout of the global recession. It's challenging stuff. But the trick is to stay calm and chart a careful course, using the opportunities provided by a slowdown to set yourself up for the next boom.



You'd be hard pressed to find good news on the economic front at present. Headlines of recession, rising unemployment and corporate profit crunches don't inspire confidence. Frankly, things could get worse before they get better despite the best efforts of the Reserve Bank in lowering interest rates, and the quick response of the Rudd government's stimulus plans.

The news isn't all bad

But let's not overlook the positives. Interest rates have come crashing down since last September, with the official cash rate at its lowest level since the 1960s. It's manna from heaven for anyone with a variable rate home loan.

The extra cash provided by rate cuts is worth a lot more to mortgage holders than government handouts, tax cuts or even a pay rise (and I doubt there'll be many of those this year). On a variable loan of say \$400,000, you're better off by around \$16,000 each year, real money for extra loan repayments or to build an investment portfolio.

Inflation – once a spectre to be feared, has slunk into the background, with falling fuel prices also putting extra money back in our wallets.

Making good use of the opportunities

Despite the pluses, the threat of job losses is weighing on many workers' minds. I don't have a crystal ball to pinpoint how far unemployment will rise but if your job's looking a bit shaky it makes sense to start squirrelling cash away and trim back your personal debt.

Having a nest egg behind you will provide a lifeline if you get slugged with redundancy, and looking at your household budget now will help identify areas where you can cut back to build a pool of emergency savings.

In fact the current climate calls for a back-to-basics approach for all of us. Anyone who came into this slowdown debt free and with money in the bank has a good opportunity to build their wealth ahead of the next boom.

Shares may have tanked by over 40 per cent last calendar year, the worse single year in history, and property has also performed sluggishly. But that doesn't mean these are poor investments. Far from it.

When we're caught in the middle of a boom it's easy to overlook warnings that assets offering high returns also come with high risk. Investors are a little wiser today, and it's time to follow the strategy of successful investors – buy when values are cheap - rather than when they're overpriced.

Shares and property could have further to fall, but markets have already taken a flogging and priced in lots of bad news. Just as markets collapsed when we least expected it, history tells me they are likely to jump back, equally dramatically, when we least expect it. The only way to profit from this turnaround is to be in the market when it takes off.

Paul Clitheroe is a founding director of financial planning firm ipac, Chairman of the Federal Government's Financial Literacy Foundation and chief commentator for Money Magazine.

Investment outlook

what now for markets?

After making waves in 2007, the global financial crisis hit our shores with the force of a tidal wave last year. It translated rapidly into the slump in the real economy that we are seeing now – job losses, drying up of credit and company closures. It even picked up its own acronym – GFC.

The questions everyone is asking are: Can it get any worse? And what should I do with my investments?

Neither is easy to answer. But while there may still be dark days ahead, there are also glimmers of light at the end of a long tunnel.

investment markets – where to from here?

The current crisis has seen an unprecedented response from governments around the world. Eager to avoid the mistakes of the past, particularly the 1930s and 1970s, economic policies have been introduced to restore confidence and spending and stabilise markets.

In Australia these measures have included huge injections of cash to buoy the retail sector and save and create jobs. It will take time for these measures to work – you don't spend \$42 billion overnight – and there is a long way to go before business and investor confidence is restored. But it's a start.

The outlook for 2009 is for continued slowing in economic growth, and rising unemployment in most economies with major industrialised countries pushed into recession.

Beyond 2009, our long-range view is for signs of recovery in the global economy to emerge in 2010 under the influence of the massive stimulus described above. Investor confidence should begin to re-emerge and investors, who are currently showing a preference for bonds and cash over shares, will return to equity markets. Volatility will eventually subside. More resilient financial companies and banks will survive the current crisis and emerge stronger than before.

If the global recession becomes more protracted, however, recovery will take

longer and it will be harder for companies to make a profit and deliver good returns to shareholders for a longer period.

cash or shares?

Given the scale of the crisis, it's tempting to think share markets will never come good – and thus to consider switching all investments to cash. This is where your timeframe for investment is most important.

What we do know is that over the majority of long periods in the past, a broadly diversified global share portfolio has done better than cash – in many cases significantly better. However the timing and sequence of returns from both shares and cash is unpredictable.

Eighteen months ago, for example, it seemed that half of Australia was struggling to fix their mortgage interest rate at around 8 – 9 per cent. Now some are looking into the break fees (how much they need to pay) to move back to much lower variable rates.

There is no doubt that 2008 was an extraordinary year, and over the short-term share markets are likely to remain volatile. However, this short-term relief may come at a high price over the long term. By settling for a certain, but very low, return investors risk:

- ~ turning a paper loss into an actual loss when shares are cashed in.
- ~ being out of the market when the share market recovers. It's important to note that history shows recovery can come without warning.
- ~ missing out on dividend income. Even when share prices fall, many good quality companies still pay meaningful dividends. In Australia, falling share prices have pushed historic dividend yields on the All Ordinaries Index to more than 6 per cent. At the same time, the cash return is now 3.25 per cent, and likely to go lower. Shares potentially provide a better income return and potential for capital growth.
- ~ failing to achieve investment objectives over the long term. Even if it takes the Australian share market as long as 10 years to recover to its 2008 high, this still equates to an average annual return of 6.3 per cent. Add dividend reinvestments to this, and the return is likely to be much higher, and a much healthier figure than the current cash rate.

how are ipac portfolios positioned to recover?

ipac will be constantly monitoring conditions to look for opportunities

a tale of two investors

ipac compared two investors. Both have seen the value of their \$100,000 investment in Australian shares fall to \$75,000 following the market downturn. Investor A chooses to move to cash while Investor B stays invested in Australian shares. The table below uses ipac's medium-term return forecasts for cash and Australian shares to estimate the time frame for each investor to recoup their losses in real terms after taking inflation and tax into account. The investor has a tax rate of 31.5 per cent (including Medicare) and inflation is estimated at 2.5 per cent per annum.

	investor A (invests in cash)	investor B (invests in Aust. Shares)
real value after 5 yrs (A\$)	77,412	100,878
real value after 20 yrs (A\$)	85,124	245,475

assumptions: Cash return is 4.6 per cent (all income), Australian shares return is 8 per cent per annum (income component is 3.5 per cent), franking level on income from shares is 70 per cent, inflation is 2.5 per cent. source: IMF. Data as of January 2009.



and ways to protect portfolios. Based on current indicators our outlook for the major asset classes is:

- ~ **bonds** – ipac managers acted early to take advantage of mis-pricing opportunities in corporate bonds. Market distortions have caused extraordinarily low prices to be set for good quality corporate bonds.
- ~ **shares** – we expect Australian shares to show solid returns in the medium term. We are invested in companies with strong, fundamental qualities and which are likely to benefit from industry consolidation. Within Australian shares the bulk of money is in assets with strong fundamental qualities. Woolworths, for example, is one of the major holdings.
- ~ **listed property trusts** – returns from listed property were severely dented during 2008, however we believe that property values are reasonably well balanced with a fairly good outlook over the medium to long term. ipac's property securities portfolios hold high-quality companies that should recover and we believe our securities managers will capitalise on opportunities in the current market.

bottom line

History shows that the recovery can come without warning and only those invested will benefit. Before you make any investment decisions that may have long-term implications on your financial situation, we are available to discuss your personal financial circumstances, offer advice and help you stay focused on achieving your long-term investment objectives.

While ipac securities limited ABN 30 008 587 595 (ipac) AFS Licence No. 234656 (ipac) has released this information for guidance purposes only and is of a general nature only and does not take into account the particular needs, objectives and circumstances of any individual. Investors should seek independent financial advice before making an investment (or before implementing this strategy). ipac believes the information contained herein is correct, no warranty of accuracy, reliability or completeness is given and, except for liability under statute which cannot be excluded, no liability for errors or omissions is accepted.

Federal Government's Economic Stimulus Package

In February 2009 the Federal Government announced an Economic Stimulus Package which includes lump sum cash payments to low and middle income Australian families. Some people will be eligible for more than one type of payment. None of the payments will be taxable or be assessed as income for Centrelink benefits.

Tax Bonus for Working Australians

Up to \$900 will be paid to Australian residents who paid tax in the 2007-08 tax year and who had income within the following bands:

- ~ Taxable income up to \$80,000 - Bonus \$900
- ~ Taxable income \$80,000 to \$90,000 - Bonus \$600
- ~ Taxable income \$90,000 to \$100,000 - Bonus \$250

There is no requirement that the taxpayer was employed, except for those under age 18. The Tax Bonus for Working Australians is also potentially available to pensioners, retirees, investors, and students.

Payments are expected to be made commencing in April 2009. Taxpayers must lodge their tax return for 2007-08 by 30 June 2009 to be eligible.

Back to School Bonus

\$950 per school age child (age 4 - 18 years) will be paid to families who are eligible for Family Tax Benefit Part A (FTB-A).

This bonus is in addition to the Education Tax Refund announced

in the 2008 Budget. The Education Tax Refund provides a capped refund of up to 50 per cent of eligible expenses per school child.

Single-Income Family Bonus

\$900 will be paid to families who are eligible for Family Tax Benefit Part B (FTB-B).

Payment of both FTB related Bonuses is expected in the fortnight commencing 11 March 2009 for those who receive FTB in fortnightly instalments.

Farmer's Hardship Bonus and Training and Learning Bonus

\$950 is available to farmers receiving specified income support payments. A Training and Learning Bonus of \$950 is available to students receiving specified Centrelink benefits, or to those commencing approved education courses who have been receiving specified Centrelink benefits.

Further information – speak to us and also see the following websites:

www.ato.gov.au - for information about the Tax Bonus for Working Australians and Education Tax Refund

www.centrelink.gov.au - for information about the other payments.



Retire, who me?

Retirement used to represent a winding down at the end part of life. But for the boomers, the first generation in history that will reach age 80 in great numbers, it represents an opportunity to explore new directions.

The definition of retirement is changing and means many things to different people.

For a start, many people don't actually plan to retire. Research conducted for Citibank in 2007¹ found that only 26 per cent of the over-55s surveyed intended to quit the workforce altogether when they reached retirement age.

money and happiness

The subject of money tends to hog the limelight when it comes to retirement – how much is enough and how we are going make it. Although few would argue in favour of financial hardship, a growing body of research shows that once our creature comfort needs are met, money takes a back seat.

Purposeful activity, good health and connectedness with family and friends it seems are the key ingredients for happiness in retirement.

preparing for the good life

Work – love it or hate it – gives structure and purpose to our lives. For many, it gives a sense of identity and self worth, not to mention regular income.

So how well prepared are you for life when you leave fulltime employment? Do you have a good idea about how you'll be spending your days?

Here's a short list of some of your options:

- ~ Don't retire. Keep on working until the time feels right to wind down or like Rupert Murdoch just keep on going

- ~ Scale down to part time for a balance between work and leisure, and ease into retirement. Various financial strategies can help you to do this
- ~ Start your own small business
- ~ Write a book
- ~ Volunteer for a charity that supports a cause important to you
- ~ Support projects in your local community or run for the local council
- ~ Pursue all the interests you've never had time for, or discover new interests
- ~ Get involved in a sports club – as a player or coach
- ~ Travel
- ~ Live overseas for an extended period
- ~ Get more involved with grandchildren, family and friends
- ~ If you have a young family get more involved in their school and other activities

You'll have a happier retirement if you plan for it now. This could be as simple as gathering information and keeping it in a file, or seeing a lifestyle coach specialising in retirement.

Talk to your adviser about how you see your life headed. For more opportunities and how to get involved in some of these activities visit www.ipac.com.au/lifedirections.

Source 1: Citibank 2007 Retirement Index

Get control of your cash flow

It's time to get back to basics and managing your cash flow is one essential money management technique.

When you use our 'smart money guide' – you'll start to get a clear picture of where you are now and where you could be headed.

The smart money guide:

- is a cash flow management tool accessed online
- quick and easy to use
- allows you to save your progress and refer back any time
- lets you export to Excel to share with your financial adviser

Start getting your finances under control now by visiting www.rmg.smartmoneyguide.com.au and don't forget to tell your family and friends about it too!

For more information, call us on 08 9380 9599.



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