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## Count

AUSTRALIA'S LARGEST INDEPENDENTLY OWNED NETWORK OF FINANCIAL PLANNING ACCOUNTANTS AND ADVISERS

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## Your super in the current share market

Our recent annual superannuation statements have generally been the bearer of bad news. Ups and downs are a normal process in the market – it doesn't mean we have to like negative returns, but they will usually come around even for good quality investments.

Here we look at why super has generally been affected, what retirees and pre-retirees can consider after receiving this year's super statement and a long-term view of super returns.

### Why has super been affected?

Market volatility and superannuation returns go hand in hand, and as a result of the recent market downturn, you might have received an annual statement showing low or negative returns for your super.

Shares are quite volatile by nature over the short term, and therefore a negative return does occur from time to time. The reality is that super funds might invest upward of 60% of their portfolios in shares. Additionally, around 80% of Australians have their super invested in a 'balanced' (and default) super portfolio.<sup>1</sup> This might mean a portfolio of 70% shares.

Super funds at least partially invested in local or international equities – that is to say, most of them – have been impacted to some extent. However, as we will see, there is a different point of view when you consider long term outcomes.

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<sup>1</sup> SuperRatings Pty Ltd, June 2008.

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## For retirees: The state of super pensions

If you are a self-funded retiree and set your pension at the beginning of the year as a percentage of the amount you have invested, you have probably found your first pension payment was less after July 1.

Someone in this situation could have the option to take more than the minimum to keep their payments up, but this would undoubtedly leave less available for the rest of retirement.

Nevertheless, there are many opportunities you can review with your adviser.

- **Retirees who receive Centrelink benefits** may qualify for an increase if their super pension has decreased as a result of market volatility.
- **Those with a super pension will pay no tax** at all on earnings made inside a super fund, so savings could grow faster than earnings outside of super.
- **Benefits taken out of super are tax-free for most people** after turning 60, and are not included in assessable income, so super can still be a very tax-effective vehicle.

## For all ages: Your super savings

Whether you're already in retirement, or still have years to go, market volatility should not be the only reason to change your super portfolio. Consider the following points with your adviser.

- **Most people can now keep their savings inside super as long as they want.** Super savings therefore still have time to grow before and during retirement.
- **Super portfolios are designed to last for the long-term,** and they take into account the short-term risk and market volatility that will inevitably arise. A strategy might include diversifying the investments inside the fund, so that market fluctuation doesn't impact all areas to the same extent – some outperform others and vice versa to provide some balance.

- **Franking credits received by your fund** can be refunded to it, continuously improving your after-tax rate of return.
- **A longer average life expectancy** and longer retirement means 20 years or more additional investment time; potentially more than enough time for your super to recoup any losses with better long term returns.

## The good news in the long term: Super return estimates

With all investments it is critical that you consider the long-term results.

The silver lining is that because of good overall long-term returns, super fund members in balanced options have seen returns of about +11% over the past five years.<sup>2</sup>

Hypothetically this means that someone with \$100 in a fund in 2003 might have seen it rise to about \$160 then drop back to \$155 at this reported 2007-08 super statement dip.

Graph 1 shows us how the 10 year growth of some super funds trends upwards. Despite various downturns the overall returns have been positive and it appears that good quality investments will tend to ride out any short term dents in the market.

## Super, your goals, and the future

We are protective of our super, and justifiably so. However, looking after your super should be a sustained commitment rather than based on short term reactions to market volatility.

A good investment suited to your situation will tend to ride out any market wear and tear over the long term. Before making any decisions or if you have any concerns, review your goals with your trusted adviser.

<sup>2</sup> One Year estimates are based on actual median results for the 11 months ended 31 May 2008 together with estimates for the month of June 2008, based on the average underlying asset allocation for each option and estimated returns for the respective asset classes. Five year results are for the period ended 31 May 2008 but are not expected to materially alter for the 5 year period ended 30 June 2008. Returns are net of fees and tax.

GRAPH 1: SUPERANNUATION – BALANCED FUND GROWTH (RETAIL) OVER 10 YEARS



# Your investment building blocks

Your dream lifestyle, debt-free, travel... You know what you want, but how will you get it? Consider these six steps to help you on your investment journey.



## Start small

Few millionaires are born millionaires. Everyone starts somewhere, even from a smaller initial savings amount. This means that anyone can start creating more wealth, at any time, with any amount.

## Start early

Even if you start small, take advantage of the long term and compounding to grow your investment. The more time you have, the more you can take advantage of long term returns, which tend to produce higher returns than the short term.

Regardless of when you decide to start your investment plan, half the battle might just be making sure you start – you can't create savings by doing nothing at all.

## Invest, not obsessed

For many people it can be inefficient and ineffective to check on the price of each investment every day. This is because good quality investments will tend to perform better over the long term, so short term market movements might just become a cause for concern or incentive to react recklessly.

If you focus on the market ups and downs (which aren't unusual) and then you jump in and out of the market to 'fix' your investment, you could end up paying a series of fees and taxes that will erode your savings and returns. As a result, you could miss out on long term gains – gains that other investors would receive with much less effort.

For many people it might be better to only check your investment progress every now and again with your adviser, with more or fewer reviews depending on your goals and timeframe.

## Regular as clockwork

If you invest regularly you may decrease your exposure to market risk. For example, by automatically investing a fixed amount each month, you will buy more assets when prices are low and less assets when prices are high. Therefore, while you would otherwise have to try to 'time' the market, dollar cost averaging aims to reduce overall cost as well as the risk of market guess-work. Speak to your adviser for more information and to see if this is a good strategy for your situation.

## Save for today, and tomorrow, and the next day...

Money is a part of everyday life, and the steps you take in the short term do make a difference to your long term savings and future goals such as a comfortable retirement. Short term savings can also be ideal for emergencies and unplanned expenses, with six months salary a good amount to have easily available, perhaps in a high interest cash account.

Don't forget about goals that fit in between *now* and *retirement*. These 'medium term' goals over the next 5 to 15 years might include a holiday, a new car, renovations, or school expenses. Speak to your adviser about preparing for these goals with investments like managed funds and shares.

## Know what you're doing

If you do not know *why*, *how* or *what* you're investing in, then the best thing you can do for your savings is to get a professional opinion first.

Not only will you benefit from your adviser's training and industry knowledge, you will have the opportunity to invest more successfully in line with your personal goals and budget.

We might want good returns immediately, but the reality is that good investments tend to favour the long term. Fortunately the steps you take now can help you get there faster and more successfully.

Contact your adviser to review or discuss your goals, and to understand the time frame you'll need to reach your goals successfully.

# Margin lending in a volatile market

Depending on the extent of a market downturn, margin calls are a known risk for anyone with a margin loan. Margin calls can hurt financially, and whether you have already experienced one, or if you are worried about your margin loan in light of volatility, a market dip is a good time to review your portfolio and loan with your adviser to check for changes and opportunities.

## Review your margin loan in volatile markets

When volatile markets impact your margin loan it's time to reevaluate the basics of the loan with your adviser, whether or not you receive a margin call.

A review with your adviser will also determine if your portfolio is still organised in the best way to suit your situation and the market. Consider the following options.

### Consider: Reduce your loan

Some margin lenders let you borrow up to 70% of the value of the purchase price of the investment. In that case, a \$100 portfolio might have \$70 of borrowed funds. Borrowing at 70%, the market only needs to fall by 5% for you to experience a margin call, which is likely during market fluctuations.

Alternatively, borrowing 50% or less (\$50 borrowed in a \$100 portfolio) can be a less risky option. If you choose to borrow at 50%, the market would need to fall by more than 30% to trigger a margin call. You may feel more comfortable with this lower level of risk.

### Consider: Diversify your portfolio

If you spread out your portfolio across different asset classes (eg Australian shares, international shares, Australian property, cash) market volatility tends to have less impact on your investment.

Why? Even if the market is rising or falling, one area will inevitably give higher returns than the others and provide some balance to your overall portfolio. Investing in just one area means you are dependent on those results only – think of the 'don't put all your eggs in one basket' idea.

## What are the opportunities of a volatile market?

Good and bad quality investments can suffer the same fate every time a downturn comes around. Nevertheless, good quality investments and their respective underlying companies might decrease in share price but not in quality. This is when excellent opportunities come up as investment 'bargains' and some people use a market downturn to rebalance their portfolio.

Investing more in a volatile market can feel disquieting, but a discussion with your adviser could highlight any potential opportunities.

## Starting a margin loan in volatile markets

If you are interested in taking out a margin loan, but you're worried about the downturn, there are some good options to consider with your adviser first that might buffer some of the risk.

### Margin loans: An overview

#### Margin lending

Borrowing to invest to create more wealth. By combining your own money with borrowed money, you increase the amount you could otherwise invest, with the purpose to increase potential returns.

#### Margin call

During market fluctuations, your existing investments that provide the security for the margin loan can fall in value, so that the value of the loan compared to the portfolio value is too high. A margin call is a lender's request for more funds or assets to bring the loan size back to a set limit.

### Consider: Fixed or variable?

You have the choice to manage the interest on your margin loan in different ways, with fixed or variable interest rates. Depending on the market and your goals, considering one or the other may be a better option for you.

Fixed interest on your loan means that the loan's interest rate is locked in for a time period despite rates going up in the market. Of course, if the interest rate was to go down, you wouldn't receive a refund for any extra interest you pay.

Similarly, speak to your adviser about prepaying off interest before the end of each financial year, which allows you to lock in interest rates applicable at the time that you make the prepayment, without being exposed to interest rate increases that may occur later.

Under the right circumstances and with good advice, margin lending can help you speed up your savings over the long term.

### Consider: Instalment gearing

Instalment gearing works on the basis that you combine your funds and borrowed funds as a small regular amount each month rather than a lump sum margin loan.

Once you have your quality investments in place and are happy with your portfolio, buying small additional amounts regularly means that you don't need to decide to buy more or less when markets fluctuate.

For example, in a downturn share prices might be lower, so your regular investment amount will be able to buy more, conversely, during an upturn your regular investment amount will be able to buy less as prices rise.

### Consider: Protected loan

The difference between a protected loan and a margin loan is that if your portfolio value falls with a protected loan, your portfolio is protected from any loss at maturity.

And you don't need to fund the shortfall. If the portfolio value has risen, you keep the difference between the amount borrowed and the value of the portfolio, plus any dividends received during the loan period.

However for this type of investment option there are higher costs and generally fewer benefits than other options, including higher interest rates which can add up over the long term.

### Is Margin Lending a good option for you?

Margin lending isn't necessarily a good option for everyone. It is important to have assets available to pay for any margin calls, and investment goals should be long term. Additionally, because margin lending can magnify gains as well as losses, anyone considering a margin loan should be able to cope with a higher level of risk.

If you have any concerns or questions, speak to your Count Adviser. Under the right circumstances and with good advice, margin lending can help you speed up your savings over the long term, even despite short term market volatility.



## Representing Australia: An Olympian's experience with insurance

Australian Olympian, Gavin Lackey shares his story, so that you can consider better insurance decisions for yourself and your family as well. His Count Adviser, Jake Reus of Bob Reus & Co, explains.

### Nothing is the same

Olympic Modern Pentathlete, Gavin Lackey took out life insurance to protect his three beautiful children and assets. However, due to the type of policy, the cost increased over the years and the decision was made to let it lapse.

Years later, Gavin experienced a sudden and serious illness and was forced into a series of medical appointments, operations, hospital visits and procedures, with a profound effect on his life and his family. This is his story and experience.

### Far from a statistic

As a 1992 Olympian at Barcelona, and regular at his local cross-country club, Gavin considered himself very healthy. Nevertheless the story of his unremitting struggle against trigeminal neuralgia disorder is extraordinary.

Trigeminal neuralgia is a disorder of the important trigeminal nerve which is located in our skull. The nerve is responsible for sensations such as pressure, temperature, and pain, originating from the face above the jaw line. The disorder can cause episodes of intense pain throughout your face, jaw and scalp. Stabbing, mind-numbing, electric shock-like pain from just a finger's touch of the cheek can occur.

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Gavin says, “You need a lot of persistence and commitment; it takes over your life and changes your outlook completely. Your personal and family goals have to be completely redefined in order for them to survive, and reality sets in quickly and you realise that quality of life for you and your family becomes the priority.”

## The journey

The first round of surgery for Gavin was a success, but the condition returned 15 months later. Then, after further surgery Gavin suffered an allergic reaction to a biological glue used in the procedure and spent even longer in the hospital recovering. Following a third round of surgery, Gavin almost died after two post operative strokes.

Gavin says, “No one likes to talk or think about insurance before they actually need it.”

“I think there is a list of priorities with insurance, and it usually starts with house and car insurance, maybe health insurance and then if they are on the list at all Trauma Cover and Life Insurance are usually at the bottom.”

Perhaps it is easy to take your quality of life for granted. But how would you pay for years of medical treatment, your children’s education, and your mortgage, if you were off work for an extended period. What kind of strain would this put on you and your family?

In a recent meeting with his adviser Jake Reus, Gavin expressed interest in gaining life cover to let his children receive something in the event of his death, and to make sure his mortgage could be paid.

Despite Gavin’s ongoing health concerns Jake found a solution for Gavin, and in June 2008 the cover was in force with a premium of only approximately \$500pa. “It’s good to know that my children will be looked after financially if something does happen to me” says Gavin.

## The next step for you

A range of wealth protection options exist for death, illness and/or disability which could provide you and your family with a crucial financial cushion in case of such an event.

Income Protection is one example. A woman aged 35, in an office role, and earning \$75,000 per year (plus super), could apply for protection of \$5,109 per month at a cost of only \$127 per month (after tax)<sup>4</sup>. The cost of this cover would have little or no increase over time. Most importantly, it is re-usable, so if you had a serious recurring condition that required extended time off work, you could claim on it again.

To review the wealth protection options that are most appropriate to you and your family, speak to your Count Adviser as soon as possible.

*Jake Reus is an Authorised Representative of Count Wealth Accountants, and an adviser at Bob Reus & Co in Engadine, NSW.*

<sup>4</sup> Based on 30 day waiting period / Benefit period to Age 65, Level premiums. Marginal tax rate of 31.5% (incl. Medicare Levy).



# Chairman's Report: The Markets – Down the elevator and up the stairs

Many younger investors will see the recent market downturn as a very serious event because they have never seen their super fund give a negative return. As the chart below shows, markets do have negative returns often after about five or more good years.

The primary reason markets fall as a whole (as opposed to individual businesses which have good and bad times) is because markets become overpriced during Good Times (the greed factor). Unfortunately, we never quite know what will cause the market to fall but when markets do fall, it is often dramatic for those who are overexposed and forced to sell, but who might be better off holding on (the fear factor).

The current downturn has been brought on by the 'sub-prime' crisis in the US and rising interest rates in Australia as a result of a strong economy and rising inflation. Previously it was September 11 and the threat of the Iraq invasion. As sure as day follows night, markets will rise and fall in the future.

It is important to understand, it is very hard to see both the top and bottom of the market. Eventually markets will rise again (unless the world is going to end) and sometimes the best time to invest is when doom and gloom is all about us and you are beginning to think that perhaps you should never invest in the stock market again. Whilst this is a normal feeling, it is from my experience generally the best time to invest.

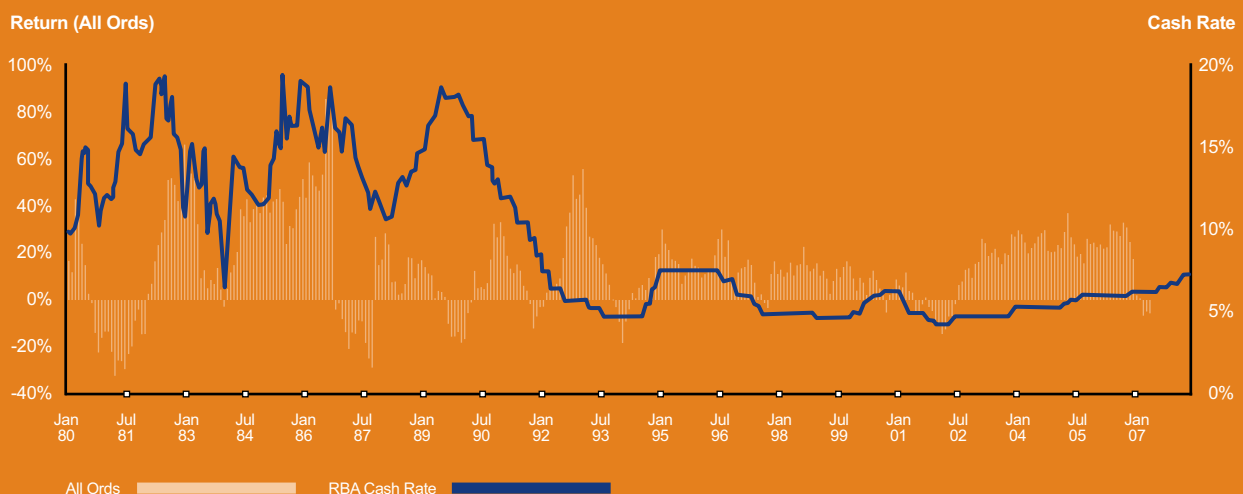
You will note from the graph that when interest rates are high, markets usually fall as Central Banks try to slow the economy but soon thereafter (nothing is guaranteed) the markets pick up as they anticipate a recovery in profits from a growing economy, on the back of falling interest rates.

There is an old saying "markets come down the elevator and go up via the stairs" ie they fall faster than they rise, and that is generally so, but it is even more painful if you take the ride down, jump off at the bottom, and then miss the upturn (whenever this is) because you are still gripped by fear.

For Count shareholders, unfortunately our stock has also been hit by the panic in the market place. However, if you read our ASX announcements, you will have noticed that Count's business has never been in better shape (except for the market impact.) I trust that as long term shareholders of Count you will continue to participate in Count's ongoing success.

**Barry Lambert**  
**Executive Chairman and Founder**  
**Count Financial Limited**

30 YEAR RETURNS ALL ORDS VS CASH RATE



Note: The unofficial call market rate was used in place of the cash rate prior to 1992. Equities return rate has 12 month lag.

# Don't let your tax return disappear

It's that time of year when you may soon find the ATO has given back some of your money. Depending on your goals, this may be a good opportunity to put it to good use rather than wonder where it went later.

## Option 1: Reduce your debt

Any debt that you accumulated with credit cards or personal loans can now be reduced with the help of your tax return. By getting rid of this debt that actually charges you more and more in interest, you could reach your financial goals faster. This could include paying off any loans with an 'interest free term' or paying off more from your mortgage.

## Option 2: Start investing

Here we look at how a tax return can start a long term investment. James is 45, and plans to retire by the time he reaches 65. His latest tax return gave him a refund of \$3,500; he invests \$3,000 of this at an annual return rate of 8%. Without doing anything else, by the time he retires his deposit will have accumulated to \$14,856.

However, if James keeps contributing some of his tax return or savings each year toward the same investment, for example \$1,500 each year – by the time he retires, with compounding and the same 8% interest rate he may have accumulated over \$88,500.

## Option 3: Make it a super tax return

If you invest in super with your tax return, your contribution will live in an interest-accumulating and tax-effective environment, giving your tax return a chance to become something even bigger. If you're approaching retirement within the next 15 years, your super investment could be realised sooner than you think.

Those earning under \$60,342 a year could be eligible for the government's super co-contribution, where the Federal Government pays \$1.50 for every \$1 paid from post-tax income, up to limits. In this case your tax return would build on itself by 150% immediately.

Don't restrict your tax return to just being 'extra' money. Remember, it doesn't matter how much you receive – what matters is what you choose to do with it. Speak with your Count adviser about your next step.

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