RPI News

Frankston Office

Richard Lindley

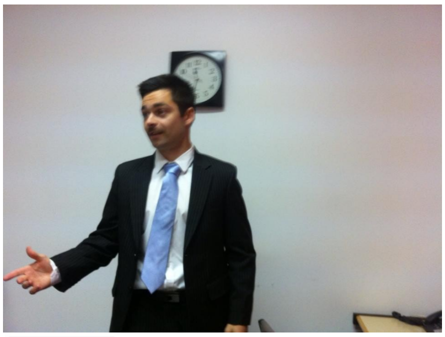
THE IMPORTANCE OF TRAVEL INSURANCE

I thought I would finish off the story about my partner , Christine, who unfortunately had to claim on travel insurance due to a burst appendix whilst on a holiday to Phuket in Thailand.

I'd like to thank all those that asked about her and to confirm that she has now fully recovered although it did take quite some time!
The travel insurance did pay for all the expenses overseas including amended flights and wheel chair and medical support on the return trip, however, the travel insurance did not cover phone calls (even from Thailand to the insurance company) nor did it cover ongoing treatment back in Australia.

(Please note that RPI Financial Services is not authorised to give advice or provide service on Travel Insurance)

Michael, who is my administrator in the RPI office in Frankston, (and also my son), completed his first group presentation to one of my Corporate clients recently and, as you can see also became involved in Movember, raising over $1,200 for charity. Well Done!



RPI FINANCIAL SERVICES

Market Performance

July 2013

WOW—It's great to see the share markets perform so well this financial year, particularly in Australia and USA.
The following is an Economic Update from MLC's Investment Strategist Brian Parker.

While we've had a disappointing end to the financial year for investors, its important to remember that the past twelve months have produced very strong returns from share markets. All the major asset classes produced positive returns for the year, but it was share markets that really delivered.

Why have share markets been so strong this year?

I've talked a lot in previous updates about how share markets have been supported for some years by the extraordinary monetary policy measures, or "quantitative easing" implemented by the US Federal Reserve (the Fed) and the Bank of Japan, among others.
The fact that the world economy continues to grow, despite much of Europe either remaining in recession or teetering on the brink of one, has also been positive for share markets. But I think it's difficult to argue that share market returns would have been as strong without that central bank support.
In June, investors became increasingly concerned that the Fed would start to wind back some of its monetary stimulus earlier than previously thought. This caused the sell-off on share markets and the rise in bond yields.
Despite the improvement in the US economy over the past few years, many people have wondered just how markets would react if the Fed did begin unwinding some of that extraordinary support. Could the economy continue to grow if the Fed started to turn off the tap? That's going to remain a big source of uncertainty.

What about the local share market?

In June, Australian share prices fell broadly in line with prices around the world. However, if you look at the return from Australian shares over the last year, it's been close to 23%, which was a terrific result—certainly the best financial year result since before the GFC.

How is the Global economy faring?

The economic data released around the world during June has been pretty mixed. Some of the more recent data from Europe have improved a little, and we've also seen some better numbers out of Japan. On the other hand, some US data have fallen short of expectations, and China's economic data remains worrying—signs of weaker growth are still coming though. However, the world economy is growing at a reasonable pace.

What about Australia?

There are signs that lower interest rates are beginning to have an impact. For example, the leading indicators of housing activity are improving.
The weaker Australian dollar will probably take some pressure off some sectors of the economy, like tourism, education and manufacturing.
However, the key question remains: will a recovery in the non-mining sectors of the economy, and in mining exports, make up for weaker mining investment as the huge amount of spending in the resources sector comes to an end? That's still a big source of uncertainty both for financial markets and for policy makers.

What's the outlook for investment returns?

As share markets climbed over the last year, MLC became increasingly concerned that share prices were running too far ahead of the fundamentals (in other words, corporate earnings). This was even though future returns from shares still looked favourable against those from cash and fixed income.
The recent weakness in share prices probably means future returns from shares have improved a little.
As for bond markets, higher government bond yields have improved the future returns from fixed income. But its important to remember that yields remain historically quite low.
We still believe this is a highly uncertain environment for investors and being well diversified and managing risk carefully are the most important things to focus on.

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What else is happening to Super?

- Increased Super Contributions—Superannuation guarantee contributions are increasing from 9% to 9.25%p.a. from 1 July 2013. They will also gradually increase to 12% by 1 July 2019.
- Low Income Super Contribution—If you earn under $37,000 pa you will also receive a further contribution by the Government of up to $500.00 pa . This will automatically be placed into your super if you are eligible and is effective from 1 July 2012.
- Super past age 70—The upper limit for Super Guarantee Contributions only has been removed for those working past age 70.
- Higher Concessional Contribution Cap– The Concessional Contribution Cap (CC) will increase to $35,000 pa from:
  30 June 2013 for people aged 59 and over, and
  30 June 2014 for people aged 49 and over.
- Individuals with incomes above $300,000 pa will pay an additional 15% tax on their concessional super Contributions,

The Government has also proposed that:

- Earnings above $100,000 in super pensions will be taxed at 15%.

Note: This is a proposal only and may or may not become law.

Investment Ideas—Put Yourself First

One reason property has been such an impressive wealth-creator for so many Australians is that it forces us to invest regularly, almost without thinking. But property isn't the only way to benefit from a disciplined investment plan. Here are three simple ideas on how you can pay yourself first.

Salary Sacrifice

When it comes to saving for retirement, super is the ultimate regular investment plan, so it makes sense to maximise it's advantages before going in search for non-super investments. Using salary sacrifice, you can make extra super contributions from your pre-tax salary, giving you an upfront tax break as much as 31.5%. That can make a huge difference to your investment earnings over time.

But be sure to do your sums carefully and avoid going over the annual concessional contributions cap.

Regular savings

Of course, even the best savings account will only take you so far. For investors seeking a higher rate of return over the medium term, plus the potential for capital growth, a regular investment into managed funds could be the answer.

Using a solution like the MLC Masterkey Investment Service, you can start with an upfront investment of as little as $1,000, then build your holdings over time with a set and forget monthly investment plan.

That allows you to tap into the growth potential of a wide range of investment options, including Australian and International shares, listed and unlisted property, and fixed interest investments. So you can create a diversified portfolio through a single, regular investment, while leaving day-to-day investment selection and management to the professionals.

The power of regular investing

A regular plan can help you build wealth surprisingly quickly and painlessly, since you don't miss cash that you don't see. And the sooner you start, the more wealth you can create, putting the magic of compounding to work.

Let's look at a simplified example to see just how powerful this approach can be.

Suppose you were to automatically put $100 a week into an investment earning 7% a year, always reinvesting your returns. For this example, we'll also assume you're on around the average wage, paying a tax rate of 34%, including the Medicare Levy.

After one year you would have $5,328. In five years, your investment would grow to almost $30,000 in today's dollars.

The more you accumulate, the higher your investment returns would become. By the twelfth year, something magical would happen—your return would outpace your monthly contributions. After that, things would really start to move.

If you keep investing for 15 years, you'd have more than $241,000. All for around the price of a weekly takeaway and a tank of petrol.

Before making a decision to acquire a financial product, you should obtain and read the Product Disclosure Statement (PDS) relating to that product.

Inflation is taxation without legislation

Milton Friedman (American Economist)