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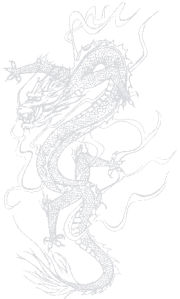
insights

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Summer 2012

Enter the Dragon

financial tips for the year ahead



A number of weeks have now passed since we heralded the start of the New Year. If you're like most people, this is about the time where the tensile strength of those New Year resolutions, made so enthusiastically a few weeks earlier, is tested.

2012 is, after all, the auspicious year of the dragon. It is said to be a year full of promise and change; a great time for business and money-making schemes.

With this in mind, here are a few tips to help you get ahead this year.

Set your goals

One of the most common (and commonly broken) New Year's resolutions is to save more money. But nobody saves money for the love of saving money. To make this resolution stick you need to first know what you're saving for. Set some measurable goals with deadlines and remind yourself regularly of what you're really working towards.

Set your budget

So often people who earn good money complain that they don't know where all their money goes. In order to save money, you need to know what you're spending. Determine how much income is coming in, how much is being spent, where it goes and how frequently. Then work out how much you need to achieve your goals. Break this down to how much you need to save per pay packet. The key is to ensure your budget is both realistic and sustainable. Give yourself a little room to still enjoy life and remember to

reward yourself when your goals have been achieved (without breaking your budget of course).

Get the best deal

One of the simplest ways to make more money is to always get the best deal. Review your mortgage and check the interest rate you're paying. The Reserve Bank has been decreasing rates lately to help reduce any negative effects of the European debt crisis. Are you getting the best deal? Compare interest rates and the mortgage features that are important to you, and don't forget about the exit fees. While you're at it, shop around for the best deal on your electricity, gas, mobile, internet and insurance.

Are you protected?

Speaking of insurance – do you have enough? Life inevitably changes and your level of insurance may no longer be adequate for your circumstances. Income protection is often the most overlooked type of insurance but it covers you if you're sick or injured and temporarily unable to work. It can ensure your living expenses such as rent, mortgage, household and medical bills can still be met and what's more, it's completely tax deductible. Review your insurance today and get the right level of cover.

Check your super

If you have multiple super accounts, you're probably paying multiple fees. Consolidate your super and check that you haven't exceeded the \$25,000 cap on super contributions for people under 50. You don't want to be slapped additional tax after all that super saving!

Get smarter

Make 2012 a year for more education and better advice. Whether it's reading the finance section of the paper, subscribing to one of the consumer finance magazines, doing a short course to increase your financial IQ or coming to see us regularly – the more informed you are, the better your decisions will be.

For more information and specific advice for your needs please contact us. The year of the dragon is your chance to start anew, so make it a good one!

In this issue...

- Enter the Dragon financial tips for the year ahead
- SMSF and SAF showdown
- European debt crisis: what you should know

SMSF and SAF showdown



The Self Managed Super Fund (SMSF) industry is the fastest growing sector of the superannuation market. According to the ATO and APRA, it accounted for 30 per cent of all super assets in June 2011.

That's \$418 billion of the \$1.3 trillion in the super industry¹.

If you've ever thought about going 'DIY' with your super or have already done so, how much do you really know about SMSFs and what about its cousin the Small APRA Fund (SAF)?

In this SMSF and SAF showdown we take you through the key differences between these trust structures and how to decide what's right for you.

Types of super funds²

Before we delve deeper, it's worth getting a holistic view of the super fund options available to you. The main types of super funds are:

- 1 **Retail funds:** a super fund which is usually run by a bank or investment company and offered direct to the public. They often have a large number of investment options, sometimes in the hundreds.
- 2 **Industry funds:** a not-for-profit super fund for employees in a particular industry. They usually have 5 to 15 investment options.
- 3 **Public sector funds:** a not-for-profit super fund for government employees with a modest range of investment options.
- 4 **Corporate funds:** a super fund arranged by an employer for its employees where investment options are selected by a corporate trustee.
- 5 **Small super funds:** have a maximum of four members and can either be a self-managed super fund (SMSF) or a small APRA fund (SAF). Investment options are almost unlimited. Corporate or individual trustees can select investment options for SMSFs while investment options for SAFs are only selected by corporate trustees.

Small super funds might be right for you if...

- you want more choice over your investment options (such as investing in non-traditional super assets like private companies, direct property, unlisted managed funds, term deposits or collectables)
- you want the ability to change your investments as you please (like quickly responding to changes in economic or market conditions)
- you have a balance greater than \$200,000 (small super funds are generally more cost effective at higher balances as you only pay fixed running costs rather than costs based on the percentage of funds under management, which is how many other funds charge).

What are the key differences between an SMSF and a SAF?

SMSF (self managed super fund)	SAF (small APRA fund)
Regulated by the ATO (Australian Taxation Office)	Regulated by APRA (Australian Prudential Regulation Authority)
All members must be a trustee for the super fund. As a trustee you need to: <ul style="list-style-type: none"> • manage fund investments • oversee service providers (eg administrators, accountants and auditors) • keep informed of any changing legislation affecting the fund • ensure the fund complies with the SIS Act (any breaches could result in fines of up to 50% of the fund's assets or even jail time) 	Members outsource the trustee responsibilities to an approved trustee
Comes with more responsibility and requires more time and expertise of its members	Requires less responsibility and time to manage as the compliance issues have been outsourced
Lower supervisory levy – \$180 per year	Higher supervisory levy – can vary but usually around \$500 per year

So which is right for me?

If you're willing to take on trustee responsibilities, want to be actively involved in trustee decisions and will be diligent in ensuring the fund is legally compliant, then you're well equipped to take up an SMSF.

However, if you don't want to be a trustee or don't have the time or skills to become a trustee but want to be involved in the investment decisions of the fund, then a SAF is more suited to you.

And remember, unless you're willing to be actively involved in the ongoing management of your super fund, you might be better off with a retail fund. Many now offer huge investment choice and some even have capped fees so you're not penalised as your balance grows.

As your financial advisers, we can guide you to the right choice – speak to us about your needs.

1 Wealth Insights Adviser Market Trends Report – September 2011

2 www.moneysmart.gov.au

European debt crisis – what you should know

What is the European debt crisis?

The European debt crisis is a result of the region's struggle to pay the debts it has built up in recent decades. Five of the European Union countries – Portugal, Ireland, Italy, Greece and Spain (the PIIGS) – have essentially failed to make enough income to pay back their debt. This has not only impacted other European Union countries but the world as a whole.

What caused it?

The European debt crisis was basically caused by two things:

- 1 uncontrolled expansion in private sector and public sector debt
- 2 a lack of export price competitiveness.

Uncontrolled expansion in private sector and public sector debt

About 20 years ago, a new economic and political union was formed called the European Union (EU). The EU created a 'single currency for a single market' offering its member states better trading where their goods, services, people and capital could move freely across borders using their new currency, the Euro.

However, it also imposed a single exchange rate and interest rate on a number of countries with significantly different economic characteristics. This meant a country like Greece now had the same exchange rate and could borrow money at the same interest rate as a country like Germany, which is far more efficient and competitive.

Both the public sector and the private sector in countries such as Greece amassed huge debts. They used this newly borrowed money to increase pensions, wages and other public spending which did not help to grow their economy.

A lack of export price competitiveness

At the same time the international competitiveness for these countries fell further. Where previously their exports were priced in local currency, they were now priced in Euros which made them more expensive to overseas buyers. And, when exports suffered, they were no longer able to devalue their currency to make them cheaper.

So when the economic crisis hit in 2008, these countries had huge debts and these economies became uncompetitive. Worse still, they had no control over two important tools for managing their economy – interest rates and exchange rates.

How does it impact the rest of the world?

Some of Greece's biggest creditors are German and French banks. In addition, some of Germany's biggest export markets are other European countries. This is a pattern that is repeated across the world and is how most economies are interconnected. So if one country's economy fails, this impacts other countries both directly and indirectly. Each economy is exposed to a range of negative impacts to their currency, exports, shares, interest rates, employment and consumer confidence. This domino effect is often referred to as 'contagion'.



What about Australia?

Even though many oceans separate us from Europe, there are three ways the European debt crisis could impact us; and it's not all doom and gloom¹.

1. Lower commodity prices affecting our exports

Europe's debt crisis is cutting demand in China's biggest export market. This in turn could impact Australia as China is our biggest export market for commodities² such as coal and iron ore.

It's not all bad news though as Chinese demand for our commodities is still healthy. Lower than expected Chinese inflation also means the Chinese government has room to stimulate their economy with lower interest rates or increased spending if needed. This provides a fortunate buffer for Australia.

2. World banking system

There are fears of the European debt crisis could negatively impact the world banking system with banks unable or unwilling to lend, except at highly inflated interest rates due to the perceived risk of ever being repaid.

Australian bank balance sheets however, are in pretty good shape. During the global financial crisis we were forced to pay high interest rates on foreign borrowing. Our banks have since learnt from this and now have more domestic deposits compared with foreign borrowing. This means we are at a lower risk of being impacted by the turmoil in Europe.

If funding costs did increase and our banks had to pass on higher interest rates to mortgage holders, the Reserve Bank is willing to cut its interest rates dramatically to help keep rates paid by borrowers down.

3. Consumer and business confidence

If consumers lose confidence due to the debt crisis, they could postpone their spending, which hurts businesses. Businesses may then decide to delay their investments and stop hiring. This results in a shrinking economy.

In January 2012, Australia's consumer sentiment sat at 97.1 on a seasonally adjusted basis. This is a 2.4 per cent rise from December last year but is still lower than it was four months ago.

This low sentiment indicates Australians remain cautious about spending. Savings it seems is the new black.

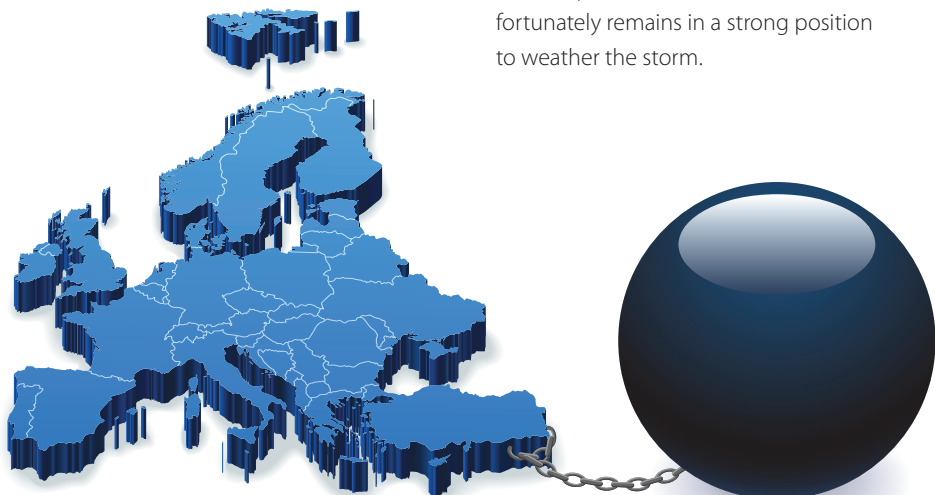
But how's it all going to end?

There are myriad possibilities as to what will happen next but popular views include³:

- 1 **Fiscal union** – euro zone countries agree to a fiscal union with greater European Central Bank (ECB) powers to control national budgets of individual governments. This allows the ECB to reign in wayward government spending with penalties slapped on over spenders.

- 2 **Inflation** – ECB prints more money. This brings down the value of the Euro, prices rise and debts (and savings) wither away. In this scenario the ECB becomes 'lender of last resort' for all European governments (not just banks as it is now) and continues with more aggressive bail outs of risky euro zone countries.
- 3 **Recession** – to manage debt, all governments cut their spending at the same time causing a deep recession. Consumers and businesses lose confidence in the economic outlook and cut back their own spending. Governments have to spend more on unemployment benefits which means they now earn less in income tax, which worsens the recession.
- 4 **Euro zone break up** – economies like Greece, Italy and Spain could be driven to the point where they believe it is in their best interest to exit the euro. This allows them the independence to set their own interest rates and print money, without controls from the ECB.

Whatever the outcome, there won't be any quick fixes and close international cooperation is needed to see the end of the European debt crisis. Australia fortunately remains in a strong position to weather the storm.



1 www.smh.com.au

2 Commodities are products that are basically all the same so it doesn't really matter who you buy them from (e.g. sugar, cotton, steel and iron ore). This means that they can have a common market price.

3 www.bbc.co.uk/news

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