Diamond Financial Solutions

The Financial Edge

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The end is a great place **to Start**

When it comes to financial planning, it's not so much a case of 'why', 'what' or 'when', but usually just a matter of 'how'.

Truthfully, most Australians know the answers to their financial goals. It's just the crucial step of how to go about achieving them that provides the big hurdle.

Why?
The most important reason to plan for your financial future is so you can ensure you are able to live comfortably now and into retirement.

What?
Financial planning aims to provide you with a lifestyle free from money worries and the ability to live in a manner to which you have become accustomed or desire.

When?
Timelines will depend on your personal circumstances. But financial advisers are united on one thing – the sooner you start, the sooner your goals can be achieved.

How?
The 'how' is the area of financial planning that often proves the most difficult. Knowledge of investment, budgeting, superannuation and experience in wealth management is the key to realising your financial lifestyle goals.

The good news is that you don't have to do it by yourself. Your financial adviser can assist you to get started by creating and maintaining a personal financial plan tailored to your lifestyle objectives.

Dear Valued Clients,

Just a short note to wish you the compliments of the season.

From a business perspective 2007 is shaping up to be an exciting and rewarding one for us. There are a number of projects and seminars which are in the pipeline that we are working towards implementing over the next 12 months and as always we appreciate your continual input and feedback.

We are looking forward to a successful, rewarding and prosperous New Year. Not to mention continuing a long and successful financial relationship.

As usual we also wish to reasure you of our commitment to ensure that you receive quality and professional advice in order to achieve your lifestyle goals.

Kind Regards,

Melissa Gilbert

Melissa Gilbert
Authorised Representative

Want to grow you **Super Faster**

Did you know that if you earn less than $58,000 and make personal contributions to your super, you could be eligible toreceive an extra super contribution from the Government of up to $1,500 a year?

This Federal Government initiative, known as the super co-contribution scheme, is designed to help lower and middle income earners grow their super.

To be eligible, you need to:

- make personal contributions to your super from your after-tax income
- have assessable income and reportable fringe benefits of less than $58,000 before tax
- be an employee, or more specifically, receive 10 per cent or more of your income as an employee
- be less than 71 years of age
- lodge an income tax return for the relevant year.

The following table shows the co-contribution you can receive, depending on the amount you earn and how much you contribute to your super.

Super co-contribution table

	From 1 July 2006 to 30 June 2007, if your personal super contribution is:			
	$1,000	**$800**	**$500**	
And your income is:	The Government will contribute:			
$28,000 or less	$1,500	$1,200	$750	$300
$30,000	$1,400	$1,200	$750	$300
$32,000	$1,300	$1,200	$750	$300
$34,000	$1,200	$1,200	$750	$300
$36,000	$1,100	$1,100	$750	$300
$38,000	$1,000	$1,000	$750	$300
$40,000	$900	$900	$750	$300
$42,000	$800	$800	$750	$300
$44,000	$700	$700	$700	$300
$46,000	$600	$600	$600	$300
$48,000	$500	$500	$500	$300
$50,000	$400	$400	$400	$300
$52,000	$300	$300	$300	$300
$54,000	$200	$200	$200	$200
$56,000	$100	$100	$100	$100
$58,000	$0	$0	$0	$0

You don't need to apply for the super co-contribution. If you are eligible, all you need to do is make a personal super contribution and lodge your tax return.

The Australian Taxation Office (ATO) will use your tax return and contribution information from your super fund to work out whether you are eligible. If you are, the ATO will automatically calculate the appropriate amount and deposit this into your fund.

To fi nd out how you can boost your super savings, speak to your financial adviser.

Case study

Michelle has a total employment income of $58,000 in 2006/07, and is not entitled to a co-contribution due to her income.

Consider the result if she was to reduce her total income to $45,000 by salary sacrificing and she makes a personal undeducted contribution of $1,000.

In this example, Michelle's overall savings are increased by $2,795 (ie $47,175 – $44,380).

This is partly due to the tax saved through the salary sacrifi ce arrangement and partly because she has received a co-contribution.

	Option 1 - receive total amount as salary $	**Option 2 - salary sacrifice $13,000 to reduce total income $**
Salary	58,000	45,000
Tax on salary (inc. Medicare levy)	(13,620)	(9,525)
Net income	44,380	35,475
Co-contribution	0	650
Salary sacrifice to super (after contributions tax)	0	11,050
Net benefit (superannuation and after-tax income)	44,380	47,175

Women lag behind men **in the Super Stakes**

Many women, particularly single women, will struggle to make ends meet when they retire, according to a recent report by the Melbourne Institute of Applied Economic and Social Research.

The report - Aspects of Retirement for Older Women - found that less than two per cent of single women will be able to afford a comfortable retirement and most will have to rely on the age pension. A comfortable retirement is defined as having a yearly income of $32,800 and not paying rent or a mortgage.

It also found men's super balances are on average at least double those of women.

In the 25-44 age group, the median super balance for men was $20,000, compared to $10,000 for women. And for people aged from 55-59 the discrepancy was even starker - men's median super balance was around $86,000 while women's was only $30,000.

Why are women so far behind men when it comes to super? According to the report, which was based on data gathered from about 14,000 people between 2001 and 2003, there are a number of reasons:

- Women often have breaks in paid employment due to maternity leave and child-care responsibilities, periods where employer contributions are generally not made to their super.
- Gender-based pay rates, which existed until equal pay for equal work was introduced in the early 1970s, often meant women earned less than men for doing the same job at the same level.
- Average wages are generally lower for women than for men, often because men are in more senior, better paid jobs.
- Before the introduction of compulsory super in 1992, women were more likely to be in jobs where their employer did not contribute to a super fund on their behalf.

And what can women do to improve their chances of being able to live comfortably in retirement? A good start for most women would be to make personal contributions to their super.

Making these contributions through salary sacrifice is an option worth considering, as it can provide significant tax advantages. In simple terms it involves agreeing with your employer to give up part of your before-tax salary, and in return the employer pays the salary sacrificed amount as an employer contribution into your superannuation fund.

For more information about how to boost your super, contact your financial adviser.

Get emotional about **your Investments**

It can be difficult to draw a line between facts and emotion - especially in regard to your hard-earned money. It's the big investment question: how can you spot the opportunity for profit and avoid the likelihood of a loss?

Consider the recent volatility in the Australian and global stock markets. Is this a temporary hiccup in an overall trend towards growth? Or does it forewarn the possibility of a dramatic market crash?

A view of the past

Over the past three years the Australian market has achieved record highs on a regular basis allowing investors to reap the cumulative rewards. As the market rose, volatility was low. This is now changing.

Volatility helps the markets function, but also increases the risk that investors will make bad decisions. Volatility can sweep logic aside and cause investors to make emotional decisions. It's important then, to understand why the market has become more volatile.

Mark Dutton, AXA's Chief Investment Officer, prefers to take emotion out of the equation, "The last three years have produced some extraordinary returns and the reasons for this include record low interest rates in 2003/04 which provided the ground for major economic growth."

"Part of the reason for the record highs was that individuals and companies could borrow money cheaply. This created more demand and helped companies grow their profits."

"That said, we're now witnessing the consequences of the progressive unwinding of this monetary policy, in the wake of the US Federal Reserve raising interest rates. In Australia too, there have been incremental rises in interest rates."

Looking to the future

But Mark remains positive about the outlook for the Australian market, although he does expect some normalisation of investment returns. In his words, "I would expect a return to more normalised earnings growth (around 10 per cent per annum) rather than the double digit returns experienced over the last three years." Market volatility has been unusually low over the past three years, and will probably increase.

When it comes to making investment decisions, Mark urges a rational rather than emotional approach, "For my investment team, every decision forms part of a rational strategy and is designed to capture returns for our investors.

"Ultimately, the goal is to identify investment opportunities offering genuine returns without being swayed by the emotion of the day."

For more information on identifying investment opportunities, speak with your financial adviser.

Do you own things, or **do they own you?**

In their recent book, Affluenza[1], economists Clive Hamilton and Richard Denniss observe something strange in the way Australians are spending their money.

According to Hamilton and Denniss, Australians are earning and spending more than ever, yet we still don't seem to be any happier now than before we increased our spending.

London economist, Richard Layard, published a study in 2003 that showed that despite the huge surge in material prosperity in the last 50 years, happiness levels in developed countries have not increased.[2] This unhappiness, Layard says, is reflected in rising rates of crime, depression, suicide and drug abuse.

This is not to say that money can't help us be happier if spent in the right way.

Another Economist, Robert H. Frank[3], argues that while using our income to buy bigger houses and more expensive cars won't make us happier, using it to buy certain types of intangible goods - freedom from a long commute or a stressful job - will.

According to Frank, spending less on conspicuous goods has an important trade off; it helps us alleviate the congestion consumer goods have on our lives and increases the time and money we can devote to family and friends, to exercise, sleep, travel and enjoy other restorative activities.

On the best available evidence, Frank says, reallocating our time and money into these other areas can result in healthier, longer and happier lives.

While not new, the idea that happiness is less about what we earn and more about how we live seems to be gaining favour with Australians.

A 2002 nationwide survey revealed that in the previous 10 years nearly one-quarter of Australian adults between 30 and 60 made a conscious decision to accept a lower income and a lower level of consumption, to pursue other life goals.[4]

These people were motivated by a desire for more balance in their lives, more personal fulfilment and more time with their families. They decided to sacrifice income and reduce a fixation on consumer goods to make their lives happier.

Every day we make choices about how to spend our money. Like a government that decides how best to spend its budget to improve the lives of citizens, we need to think carefully about how to spend our incomes in ways that make us happy.

But how can we do this?

According to Hamilton and Denniss, one solution is to cultivate an awareness of why we buy things and understand what needs we are trying to meet, when we do so. We need to teach ourselves to distinguish between needs and wants.

Hamilton and Denniss also argue that we need to recognise that we are under great pressure to spend money daily on things that don't make us happy.

Marketing is a sophisticated art that can cloud our decisions. While most of us are aware of overt marketing tactics, subtle marketing strategies that imbue products with the promise of status, power and beauty can often get past our defences. 'Status', that almost inherent desire to keep up with the Joneses, can be a tough monkey to throw off our backs.

But these defences may still not be enough. Some will continue to struggle with the temptation to buy more flashy cars, ipods, plasma TVs, larger houses and sleeker white goods, and may need a more powerful antidote.

It's in this context that many people are now finding financial plans a very powerful tool. Financial planning is about consciously exploring what your lifestyle goals are, and building a working structure around those goals. By its mere existence, a financial plan brings clarity, direction and focus to purchasing behaviour. A plan helps you to visualise a financial destination that is likely to make you happy and can help you avoid the distractions along the way.

So do you own things, or do they own you? Perhaps it's time to re-acquaint yourself with your financial adviser and discuss where you're going and what you can do to get there.

[1] Affluenza, Clive Hamilton and Richard Denniss, 2005
[2] Happiness: has social science a clue? Richard Layard, Lionel Robbins Memorial Lectures 2002/3, London School of Economics March 2003, p 15
[3] How not to buy happiness, Robert H. Frank, Daedalus Spring 2004
[4] Affluenza, Clive Hamilton and Richard Denniss, 2005, p 154