

'the benefits of sound advice'

# Money Matters

Issue 22 | Winter 2010



## Staying In Touch

Welcome to the Winter edition of Hunter Financial Planning - Money Matters for 2010.

Buying and owning your own home has long been the Australian dream. With property prices increasing, it's becoming a lot harder for young adults to obtain finance and a mortgage. Many parents would like to assist their children in realising their dreams, but is going guarantor on their mortgage the answer? Read our cover article to find out more.

The end of the tax year is edging closer. If you haven't planned how you will maximise your income and save some tax, take note of our article 'Smart end of financial year strategies'. The most effective strategies are often the simplest and can be applied before 30 June this year!

Are you interested in the share market but still a little nervous about investing your money? Some investors enter the market looking for 'riches' with no real plan and let the psychological levers of fear and greed dictate their investment decisions. Without some guidelines around how to invest in the market, the odds are firmly stacked against you. Read our article titled 'Tips and traps to share investing' to gain a better understanding of investing in the share market.

Keeping it green this winter – with the possibility of energy bill rises of 44-62% over the next three years (due to pending climate change legislation), the importance of cutting down our energy bills and protecting our environment by 'thinking green' has never been more important. In this article we share with you some power saving suggestions to warm you up and help you get through this winter and beyond.

With our continued focus and commitment to providing quality strategic advice to you, we want to make sure we are helping you in every way possible. Please contact us on (02) 4943 4876 if you have any questions or would like to discuss your financial position.

We hope you enjoy this edition of Money Matters.

Regards,



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## Is going guarantor the answer?

**B**uying and owning your own home has long been the Australian dream. It's become somewhat of a rite of passage, ventured into as early as possible in your working life. It's a dream however, that for today's youth seems increasingly unattainable.

With property prices increasing and the average mortgage increasing in value (the NSW average is quoted as \$407,000\* and other states are not far behind), young adults are struggling to get their foot onto that property ladder. At the same time, many parents are finding their own homes have greatly increased in value.

These factors have helped contribute to an increase in loans involving parents agreeing to act as guarantor. Getting parents to guarantee a mortgage can provide big savings for their kids, often enabling first homebuyers to avoid substantial extra costs like mortgage insurance.

**What is it that parents are guaranteeing?** Essentially, there are two main types of guarantee – a **supported guarantee** where the guarantor's home or investment property is provided as security for the borrower's home loan; and an **unsupported guarantee**, where the guarantor services the loan if the borrower is unable to meet the repayment schedule.

In today's environment though, parents - in particular those who are older - need to be very careful about going guarantor. When the time comes for adult children to look at buying their first home, many parents are still in the accumulation phase of building their own wealth for retirement. Having to pay their children's mortgage could greatly interfere with their carefully laid retirement plans – at worst, it could even put their own home on the line.

It's worth sitting down with your kids and doing the maths to check that they can handle the loan now and into the future. Remember, it only takes a slight rise in rates to cause some first homebuyers difficulty in servicing their mortgage. They should also be wary of any personal and lifestyle changes which could arise including starting a family, or becoming ill




or injured, which would also impact on their ability to re-pay the loan. Above all, it's important to ensure your children have realistic expectations of the type of home they can afford, even with your assistance, and the standard of living this will allow – living beyond their means will be the first step towards disaster.

Many banks and mortgage providers now offer products that present guarantors with only limited exposure should their children default on the loan. There are also other, less risky ways that parents can assist - maybe lend your children some funds for the deposit, consider a joint investment with them or perhaps allow them to live longer at home in order to save for a larger deposit.

In addition, some of the possible risks can be mitigated by appropriate insurance. Increasingly, parents are funding income protection and life insurance premiums for their children as a means of ensuring the parents don't end up having to bail them out if disability or death means the mortgage isn't paid. Premiums for younger people are relatively cheap and can help with peace of mind for all parties, including the banks.

Before signing on the dotted line as a guarantor, make sure you get some professional financial advice. As parents, we want to help our children achieve their own great Australian property dream. However, it is important to know where you stand and what your legal obligations are if you go guarantor. It's too big a decision to leave to chance.

If you are considering going guarantor for a member of your family, please consider legal advice as well as making an appointment with your adviser to discuss the potential impact it may have on your financial plan. 

\* Source - [www.lendingcentral.com.au](http://www.lendingcentral.com.au) - The average size of a new mortgage in Australia reaches record high (August 9, 2009).

## Smart end-of-financial-year strategies

The end of the tax year is edging closer. If you haven't planned how you will maximise your income and save some tax, take note! The most effective strategies are often the simplest and can be applied before 30 June this year, whilst others should be considered for next year.

### Some general tax strategies are outlined below:

Before the end of this financial year, perhaps you should review your investment portfolio to determine whether investments should be sold to offset any capital gains or losses made throughout the year. By doing this, you will also be able to ensure that you get any available capital gains concessions by holding assets for more than 12 months.

Is there any non-essential income you could defer to the new financial year? This could include arranging a fixed deposit or other income so that the income from the investment is paid after the end of this tax period.

What about bringing forward expenses that won't accrue until the next tax year, by paying them this tax year. This option is most often achieved by paying loan interest in advance.

Also look at maximising tax deductions through super contributions – can you salary sacrifice some of your income into super? This has the added advantage of building a valuable asset and an income for your retirement. In addition, don't forget the tax benefits for making a contribution toward a superannuation fund in your spouse's name.

Another method commonly used is gearing. This allows you to borrow funds to increase your asset base and obtain tax relief on the costs of doing so.

Looking forward to next year – make sure you hold assets in the most appropriate tax structure. Remember, individuals, companies, trusts and super funds are all taxed differently on their capital gains and income.

Use franking credits to reduce tax on lower taxed entities like super funds and lower income earners. Remember that excess franking credits are refundable.

And finally, income split where possible to take advantage of the progressive tax system.



These strategies are in no way exhaustive. It all depends upon your personal situation and needs, but one thing that's common to everyone is the longer you leave these plans, the less benefit you receive.

Please note this information is of a general nature only and does not take into account your individual circumstances or needs. If you would like to know more information on any of the above strategies, make an appointment with your adviser today.

Remember, only a registered tax agent can give you overall tax advice – your adviser's office can recommend someone if you don't already have one.

If you require further information on lodging your tax return this year refer to the Australian Taxation office website ([www.ato.gov.au](http://www.ato.gov.au)).

### Documentation Check List:

Below is a list of the important documentation you should have ready for tax time -

- Details of each bank account and interest received
- Salary, commissions and other income
- Each investment held and dividends or distributions received
- Distributions from Partnerships or Family Trusts
- Expenses of investments – eg, investment property improvements, interest costs
- Deductible employment expenses – car, travel, special clothing
- Professional expenses – financial adviser, accountant, lawyer
- Tax deductible gifts or donations
- Tax deductible investment projects
- Disability insurance policies – premiums and claims
- Personal superannuation contributions
- Superannuation payment or rollover documents if you have changed funds
- Superannuation or other pensions you have received
- Medical, dental and pharmacy expenses
- Private Health Insurance – policy and premium details including your end of year tax statement
- Your Tax Return from last year.





## Tips and traps to share investing



Despite the fact that share markets generally rise over the long term, many investors fail to either match its return, or worse, still actually lose money. Some investors enter the market looking for 'riches' with no real plan and let the psychological levers of fear and greed dictate their investment decisions. In doing this, they ignore the fact that when you buy a share you are buying part of the ownership of a company.

Some investors treat stocks like lottery tickets, buying and selling based on predictions of whether the price will go up or down in the short term, rather than understanding what it is they are buying. Without some guidelines around how to invest in the market, the odds are firmly stacked against you.

The best way to invest in the share market is to work with a professional adviser who has experience and knowledge in share investing. The tips and traps below highlight many of the aspects that professionals consider in making investment decisions and give you an insight into where many plans go awry.

By studying the traits of successful investors we can identify a number of tips that can be utilised to enhance returns while at the same time avoiding the pitfalls.

### Tips

#### Have a plan

This is the foundation of a successful investment in shares. Identify your long term goals but be flexible enough to profit from dynamic investment environments and your own changing objectives. Determine how much risk you are willing and able to take.

#### Buy low, sell high

This seems almost too simplistic, yet the vast majority of investors do the exact opposite. The error many investors make is to take this too literally. Buying low is a relative concept - it doesn't mean simply waiting until a stock price is low. Your rate of return is fully determined by when you enter a position. Decide what you think is good value for a share and look for opportunities rather than following the crowd.

#### Understand your investment

There is no substitute for hard work. Without taking the time to understand the investment or the market you are investing into, then you are no longer investing but gambling or speculating. Companies are required to provide a great deal of information to shareholders – learn how to read company data or spend time talking with your adviser about what they look for in an investment.

#### Time does matter

The longer you can stay in the market, the more chance you have of making money by avoiding the short term volatility and benefiting from the longer term trend. You need to be discerning and invest in stocks you identify as having the best chance of success long term.

### Traps

#### Emotion

Becoming emotionally attached to a stock and not selling a losing position may lead to greater losses. By selling a position where the investment criteria no longer stacks up for a small loss, and by letting winning positions run, you can stack the odds in your favour.

#### Over confidence


After a string of successful trades, euphoria overcomes sense and progressively larger trades are entered into. Stick to your original plan and don't take on more risk than you originally thought you could accept.

#### It's a 'sure thing'

Investors are always looking for the quick dollar and will often follow a tip from a friend or colleague. The 'sure thing' normally isn't so. Don't be tempted unless you have done your own due diligence and the stock fits your investment plan.

#### Forgetting costs

Investors often over-trade, leading to unnecessary transaction costs that can eat away at returns. This also means that they don't take advantage of the Government's gift of a 50% reduction in Capital Gains Tax if the stock is held for greater than 12 months, or the return of tax already paid by the company in the form of franking credits if the stock is held for more than 45 days.

Professional investor Warren Buffett neatly encapsulated all of this when he said "I never attempt to make money on the stock market. I buy on the assumption that they could close the market the next day and not reopen it for five years". 

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# Money Matters

## Clients Corner

Our practice has grown significantly over the past few years and we are happy to be servicing families in the community and helping them with their finances. We believe in strategic advice and providing the best service to each individual's situation.

Our business is based on referrals, if you know someone you think could benefit from our services we would appreciate the opportunity to speak with them.

Below is a testimonial from valued clients who are happy to share their appreciation with you.



Hi Phil,

Just a short note of appreciation and a thank you for the effort you have put in looking after our financial investments. When we started a family, we realised we had no financial plan for ourselves or our children.

You and your team opened our eyes to the world of investment and wealth creation, using easy to understand terms. We left our first meeting excited and eager to begin.

You didn't just sign us up then forget all about us, you keep us up to date with what is happening within financial realms. You're an ethical, honest and caring person. We wouldn't hesitate in recommending you, and your business to anyone.

We feel at ease knowing that our financial future is being looked after by Hunter Financial Planning.

Kind regards,  
Josh & Chanelle Y.



## MARKET UPDATE



### INTERNATIONAL SHARES

Global share markets have digested the worst of the economic news. While volatility continues, opportunities should present over the coming year in this sector. Looking forward on a three-year outlook, the favoured areas are Asia and emerging markets. Stock and country selection will be much more important over the coming year as volatility remains high.

### AUSTRALIAN SHARES

Underlying market fundamentals have improved markedly. Investors should focus on quality in this environment. We consider being overweight


appropriate on a three-year outlook for larger companies. Also, managers with strong stock picking skills are expected to out-perform. Smaller companies have rallied strongly but the focus should be on quality companies with strong income streams.

### PROPERTY

Listed Property is likely to underperform Australian shares on a three year outlook. Quality direct property valuations are starting to show signs of recovery although likely to be slow as access to funding remains difficult. The listed property sector underwent significant restructuring during 2009 and opportunities are likely to emerge over the coming year.

### FIXED INTEREST

With the direction of interest rates in Australia likely to be up, opportunities for fixed interest are likely to be limited over the coming year. With a high \$A, opportunities for fully hedged international fixed interest investments are also likely to be limited over the coming year. Opportunities should present themselves in higher yielding investment grade securities over the coming one to three years as this sector becomes more attractive.

**Please contact our office to discuss any queries you may have on your investment portfolio.** 

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