

# Money Matters

Summer Issue #28

## Staying In Touch

Welcome to the summer edition of Money Matters 2011.

Where do you want to be in five years? Debt free? Living in your own home? Enjoying a 'mini-retirement' volunteering or travelling around the world? It has been proven that people who set goals and make a key plan to achieve them are far more successful than people who do not. So as the year comes to an end and you start to plan that much needed summer holiday, as part of your new year's resolutions why not put together your five year Financial Plan?

Teaching your Children Dollars and Sense - It's a simple calculation, kids and money: From birth until university graduation, children consume dollars like they're chicken nuggets. Yet life as an adult clearly requires knowledge of personal finance. Read our money timeline to help educate and prepare your children from a young age to when they move out of home and 'fly the nest'.

It is interesting that we don't think about shares in the same way that we think about other things that we buy or use. While it may seem strange to compare shares to mangoes, we thought we'd take a stab at it anyway, read our market article - BHP is a mango for more.

And as we are on the topic of food, we thought we'd celebrate the holiday season with a delicious recipe for White Christmas - everyone is guaranteed to love it! Check it out on page 4.

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 if you have any questions or would like to discuss your financial position.

Wishing you and your family a very happy and safe holiday season.



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## BHP is a Mango

**It is interesting that we don't think about shares in the same way that we think about other things that we buy or use. While it may seem strange to compare shares to mangoes, let's take a stab at it anyway.**

Mangoes, just like other fruit and veg, have a pricing cycle. Mangoes are cheaper at some times of the year compared to others. During the cheaper times, they are in season, they usually taste better and we happily buy more of them. When they go out of season, they become more expensive, a bit manky and we don't touch them.

While company share prices are not driven simply by supply, we seem to like them more when they are expensive rather than when they are cheap. Many average investors seem to have this weird habit of buying shares after a few years of rising prices - when they are expensive. These same investors then tend to become fearful of shares and sell them after their price has fallen - when they are cheap.

The companies that make up the bulk of the value of the Australian share market index (the ASX 200) are essentially the same during the expensive times as they are during the cheap times. During the four months to 11 August, 2011 the price of BHP Billiton shares has been as high as \$50 and as low as \$35, but during that period the company itself was largely unchanged. You certainly can't legitimately argue that at one point during the last four months, BHP was worth nearly 40% more than it is now. Part of the problem is that we sometimes equate 'price' to equal 'value'.

**It is clear that share prices move as a result of many other things beyond intrinsic value, but if you are buying shares to hold long term then these short-term elements may lose a lot of relevance.**


One way to look at investing in shares is to treat them like mangoes. Shares are real (even if you can't eat them) in that they represent a piece of a real business doing real things. Once you start to ignore all the hype, then the idea of buying them when they are cheap starts to make more sense. Of course, individual companies can and do go broke. When that happens, the owners

of the shares (owners of the company) lose all the value that they had invested in that company's shares. **To reduce this risk, most superannuation funds invest in a wide range of different companies.** Even if one company does go broke, the overall impact to a well diversified share portfolio should not be too dramatic.

**When we see market volatility like we have seen over the last few weeks, we are looking at events that drive changes in the short term value of the entire market.** In that same four months mentioned above, the ASX 200 went from 4,976 to 3,765 - a movement of over 30%.

The downgrading of the USA from AAA to AA+, on the face of it should not impact the underlying value of the companies that make up the Australian sharemarket. But the market sentiment - call it confidence or lack thereof - does change the price. The price changes because poor market confidence leads to people selling and when there are more sellers than buyers, the price goes down. It doesn't necessarily change the fundamental value of those companies.

The question that we should be asking is: does this new price level reflect a fundamental shift in the value of these companies? The ability of these companies to continue operating, provide services and products, employ people, and generate profits. If the answer is "No" then we have an opportunity - to make a decision on buying, holding or selling based on the reality of the value of those shares rather than market sentiment.

**Please do not hesitate to call us if you have any questions regarding your financial position or would like a review of your portfolio.** 

Source: Russell Investments





# How to Create a Five-Year Financial Plan

**W**hat is your vision for your life by 2017? It has been shown that people who write measurable goals and commit to an action plan have a higher probability of being successful in life.



Will you be debt free? Will you have seen a certain part of the world? Will you have a more relaxed lifestyle? If you are looking for a special goal-setting tool, MiGoalsDiary is a multi-functional daily organiser, goal keeper and motivational resource ([www.migoals.com](http://www.migoals.com)) to remind you to achieve small steps each day.

It has been proven that people who set goals and make a key plan to achieve them are more successful than people who do not. As part of your New Year's resolutions why not put together your five year Financial Plan?

**You might be thinking:** I have no idea where I'll be working or living five years from now. That's okay. You can set financial goals that are independent of your career or lifestyle goals. Whether you plan to earn an MBA and climb the corporate ladder, get married and start a family, retire, or bounce between half a dozen cities and jobs in the next five years, a five-year financial plan will help.

## Why Five Years?

Five years is barely "long-term". If you are younger, we are not talking about paying for your kids' education or planning your retirement just yet. We're talking about setting goals over a period of time that's brief enough to feel tangible but long enough to allow you to accomplish a few things. If you put your mind to it, you can accomplish a lot in five years, such as:

- Save up a deposit for a home
- Eliminate most, if not all, of your debt
- Save an emergency fund of over \$25,000 with just over \$400 a month
- Build excellent credit

Writing your goals points you in the right direction and keeps you focused. If you keep your goal in your head, five years can pass you by and you may find your financial situation unchanged. That's why creating, re-reading, and

occasionally revising your financial plan can make such a difference.

## How to Create Your Plan

There's no right or wrong way to set a long-term goal, although self-help gurus tend to emphasize that the most effective goals are specific, achievable, and in writing.



**Make Goals Specific:** It's impossible to predict exactly what job you'll hold, where you'll live, or what your savings account balance will be in five years. But the more specific you can be about what you'd like your financial situation to look like down the road, the better. Instead of simply saying that you'd like to have an emergency fund in five years, write down the dollar amount of an emergency fund you'd like. Want to purchase your first home in the next five years? Write down how much the house will cost, how much you'll put down, and what your mortgage payment will be.

**Make Goals Achievable:** It is important that you set goals which are realistic and are challenging enough to make you grow. Banking \$1 million is a nice goal, but unless you earn more than

\$200k a year or hope to sell or expand your own business, it's probably out of reach in the next five years. Figure out how much you can save and/or how much more you can earn in the next five years, and set savings goals based upon those realities. By getting a result each day, the cumulative effect will be substantial after five years.

**Put Goals in Writing:** Goals differ from dreams, especially when goals are in writing. Writing your goals reinforces your desire to achieve and gets you out of your comfort zone.

## What to Include

Your five-year financial plan is yours alone. What will it include? Debt reduction and savings goals are obvious starting points, but they're only the starting points. Perhaps you want to have multiple income streams in five years (e.g. your salary, a side business, and rental income). Maybe you want to be your own boss, or be able to work part time. Perhaps you want to go back to school or start retirement. All of these possibilities have financial implications - and require financial resources. Ask yourself what you want to accomplish in life in the next five years (and beyond), and then ask yourself what you need to do in the next five years to be in a position to realize your vision.

**If you would like to discuss how we can help you put your 5 year plan into action, please make an appointment with us today.** 





# Teaching your Children Dollars and Sense



**I**t's a simple calculation, kids and money: From birth until university graduation, children consume dollars like they're chicken nuggets.

Yet life as an adult clearly requires knowledge of personal finance. That doesn't mean your child needs an M.B.A. in security analysis or that you need to hire a financial adviser to tutor your preschooler. But kids obviously need better information to more effectively manage their own financial resources one day. Below are some tips on how you can educate and prepare your children from a young age to when they move out of home and 'fly the nest'.

## The Money Time Line

1. Start talking about money around your children when they are young, it's no secret.
2. Let them use money early so they enjoy the "adult" experience of handling money.
3. Helping around the house is simply the price of family life; consider only giving pocket money if they go beyond their daily chores.
4. Spending money only happens after you earn it.
5. Set limits. Give them enough money to learn important financial principles, but not so much that they think money is unlimited. Let them learn to make choices based on financial limits.
6. Provide structure. Help them establish a consistent saving and spending plan so they will have some type of structure to work within as you let them learn financial principles.
7. As a guide - only 50% of the money put into a piggy bank can be taken out to buy something. At least half must remain as savings.
8. Let your children make financial mistakes so that they learn from them.
9. While 16 is generally the legal age for employment, encourage kids starting around age 13 to think of ways they can earn some pocket money.

**10.** Guide and advise your kids about money, but don't dictate. Let them learn from experience

**11.** In their early 20's, allow your kids to have a little fun – juggle spending money with savings; it's important not to live in a state of deprivation, just ensure they know their priorities.

**12.** Tell them to 'invest in your main asset: You!' Investing in yourself - your skills, your experience, your education - is crucial. Your job and future career is the most important aspect of financial independence and security. So tell them to set themselves up well for the next 40 years by investing in their main asset now!


**13.** Don't Just Save, Plan. Research shows that people who are goal-oriented and have time-specific plans achieve more wealth than those who don't. Saving some of their pay cheque every week is fabulous, but they need to have an action plan for what they are saving for and how to manage these savings.

**14.** Make sure they understand the Short-Term. You can't foresee what is going to happen. And while we can make great decisions, we can't control what is going to happen either. So tell them to control the short-term and manage their spending, keep saving, keep paying off debt. Know what you need to do this week to set yourself up properly for the future, and to achieve your goals. But don't get tethered to a long-term inflexible plan, with no ability to change should things pan out differently.

**15.** Keep retirement at the back of your mind, not the front. They are young, and if they are doing things the right way now, they're on a good track. Suggest they could think about setting up automatic deductions into a retirement fund, advise them to certainly keep an eye on their super, but don't get too paranoid. Good financial actions now pan out into good financial futures.

**16.** Spend Less Than You Earn. It's the simplest way to keep financially secure. It seems obvious, but can often be harder than it looks. Yet it is the only way to have a good financial future. If they do nothing else from this article, tell them to do this one.

**17.** Get Literate. As they are now older, your children might think they already know how to manage their money, but there's always something more to be learned. Keeping up-to-date on financial management skills, talking to experts, continually appraising your own systems, is a great way to ensure long-term financial security.

**18.** It never comes easy. Ensure they learn to live with life's rubs. The older car, the worn jeans, nothing is for free. You need to work hard and save hard to achieve some rewards in life. As we have all heard...money doesn't grow on trees! 





# White Christmas

Try this delicious recipe this holiday season – everyone is guaranteed to love it!



**Ingredients**  
250g copha  
3 cups Kellogg's Rice Bubbles  
1 cup desiccated coconut  
3/4 cup icing sugar, sifted  
1 cup powdered milk  
1 cup packaged dried mixed fruit and glace cherries for topping



## Method

- ★ combine dry ingredients in a mixing bowl.
- ★ melt copha slowly over low heat.
- ★ cool slightly, pour onto dry ingredients. Mix well.
- ★ working quickly, spoon into paper patty cases or press into a lamington tin.
- ★ Once set, cut into small squares.

## Market Update

### International shares:

A high Aust\$ v US\$ provides opportunities for international shares and a benchmark weighting is appropriate for the sector. Asia and emerging markets remain long term growth regions. Stock and country selection is going to be much more important over the coming year as volatility remains high.

### Australian shares:

Valuations have become more compelling as the negative environment impacts the equities market. The strong state of the large corporates should be supportive for the coming year. Investors should continue to focus on quality in this environment. We consider an overweight to benchmark weighting appropriate on a three-year outlook. Also, managers with

strong stock picking skills are expected to out perform. The focus should be on quality companies with strong income streams.

### Listed Property Trusts:

Property securities are likely to under perform equities on a three year outlook and we suggest under weighting the sector. 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 remains subdued and opportunities are likely to be limited.

### Fixed Interest:

With interest rates on hold globally and in Australia, opportunities for fixed interest are likely to be limited over

the coming year. An underweight for the sector is appropriate. A cautious approach to sovereign debt is required with opportunities for corporate bonds preferred.

### Cash:

The risk return profile of Cash and Term Deposits are attractive when compared to cash based funds and those fixed interest funds with an allocation to sovereign debt.

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

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