

'the benefits of sound advice'

# Money Matters

Issue 18 | Winter 2009



## Staying In touch

Welcome to the Winter edition of Money Matters!

Matrix Planning Solutions is celebrating its 10th anniversary this year as an independently owned dealer group.

With our continued focus and commitment to providing quality strategic advice we have grown immensely over the past 10 years. In this edition we look at how Matrix has developed and grown and how much the financial world has changed since we began in 1999.

The Global Financial Crisis has understandably caused a great deal of concern amongst many investors. In these challenging times it's important to keep yourself up to date with financial events and in our article titled 'Back to Basics' we explain some basic investing terms to assist you in your understanding.

Tax Attack! Are you organised for your income tax return? The end of the financial year is fast approaching and there is some important information you should consider before you lodge your claim. In this edition we have included some tax strategies that will help you with your tax planning for this financial year and for years to come.

Have you ever questioned if your personal insurance is worth the money? Have you been tempted to cancel your cover as you think you will never need it? Life insurance is a very important part of any financial plan. A real life example of a Matrix client highlights just how important cover can be and why, even when we may not see the long term benefits now, it's important to have sufficient cover in place.

If there are any issues raised in this newsletter that you need help with or which require further clarification, please contact our office.

We hope you enjoy this edition of Money Matters and please consider meeting with us soon if you would like to discuss your financial position, review your insurance cover or want to discuss new investment strategies.

Regards,



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## Matrix: Celebrating 10 Years of Quality Advice in Australia

We'd like all Matrix clients to join us in celebrating as we launch into our 10th anniversary year.

Founded in 1999, Matrix opened its doors as a dealer group in early 2000, offering our services via a network of advisers around Australia. Today, Matrix is ranked as one of the 50 largest dealer groups in Australia, and in the top 10 independently owned groups.

### Some things have changed...

Some of you will remember when we changed our name from Matrix Financial Group to Matrix Planning Solutions in 2000. Some of you will remember when your adviser first spoke with you about Prospera, our 'financial freedom system' in 2004...and, somewhere among you, are the first clients who invested in our badged products in 2001 - the Matrix Superannuation Master Trust and Matrix Portfolio Service, which today hold close to \$1 billion in funds under management.

### And some things remain the same...

For one, we remain committed to providing clients with quality advice based on their needs and objectives. We also remain committed to focusing on a select number of high quality advisers whom we can support, rather than having hundreds or thousands of advisers on board. We see our role as the dealer group being to support your adviser in the provision of quality advice.

From the beginning, we have sought to develop products and services that offer clients leading edge solutions. A lot of what we do is behind the scenes, supporting your adviser with leading edge product research, investment information and professional development.

It is interesting to be celebrating our 10th anniversary in the time of the GFC (the Global Financial Crisis, which now gets its own acronym, complete with capital letters). But, while we are concerned about the savageness of market adjustments and the impact on clients, we remain positive about long term investing and the prospects for our clients.

### What changes have we noticed in our clients?

Over the last 10 years, we have definitely noticed that clients are more interested in

strategic advice on how we can help them reach their lifetime goals, rather than just placing a rollover or insurance for them. For example, just a few of the things Matrix advisers are now helping clients with are:

- ♦ putting a plan in place to restructure debt and pay off the mortgage quicker
- ♦ planning transition to retirement by making greater salary sacrifice contributions to improve income in retirement
- ♦ cash flow management and budgeting strategies for clients ranging from first job seekers through to retirees
- ♦ self managed superannuation funds
- ♦ complex advice around company share plan benefits, capital gains tax and financial structures
- ♦ ongoing monitoring to help clients stay on track with their expenses

As you will see in other articles in this newsletter, we are also finding clients need increasingly sophisticated life insurance advice to combat rising levels of stress related illness and other issues.

### What do we see in the next 10 years?

At Matrix, we are excited about the future. Having reached our 10th anniversary and established ourselves as a solid, successful business based on a model of quality advice, we are confident that the future is bright.

### To make a few predictions, we think:

- ♦ the world of the future will benefit from the long term improvements in corporate and banking regulation as well as government infrastructure spending brought about by the GFC
- ♦ markets will return to rational behaviour (although we can't predict just when)
- ♦ fund managers will become more transparent in their processes and will offer their skills under different investment structures
- ♦ clients will increasingly benefit from ongoing strategic advice from their financial adviser
- ♦ dealer groups that focus on quality of advice rather than quantity of advisers will prosper.

We look forward to sharing our 10th year celebrations with you, our clients.



# Money Matters

back to basics...

## Investing

The Global Financial Crisis has, understandably, caused a great deal of concern amongst many investors. With our superannuation balances falling, many of us are questioning whether we will have enough money to retire on. Some of us may have to rely on a government pension or work a few more years to enjoy the lifestyle we have worked all our lives to achieve.

In these challenging times it's important to keep yourself informed of financial events and to contact your adviser if you feel you need to discuss any issues regarding your financial plan. To assist in your understanding, let's revisit some of the main terms and concepts of investing.

### Why are you investing?

It may sound like an obvious question, but the importance of being clear on what you are attempting to achieve financially cannot be underestimated. Why? Because it will assist your financial adviser in structuring an investment portfolio that will give you the best opportunity to achieve your goals. It is important to be specific. You may have short term goals (purchasing a new car) which differ from your longer term goals (financing your child's education or your retirement).

It is very easy to question investment decisions in times of market volatility. However, for most of us, the real question is how else (other than investing) can I reach my goals?

### Dollar Cost Averaging vs. Timing the Market.

Dollar Cost Averaging simply refers to the practice of investing a fixed dollar amount at regular intervals in a particular investment or portfolio. By investing a set amount regularly, more units of an investment are purchased when prices are low and fewer units are bought when prices are high. Dollar cost averaging can also be

an effective way of establishing an investment portfolio for those investors who do not have a lump sum to invest, or who are just starting to build an investment portfolio. This is also considered a wise investment approach given the volatility in financial markets in recent months.

### Asset Allocation

Asset allocation refers to how an investor distributes his or her investments amongst the various asset classes. The main asset classes include cash, fixed income, property, and shares. Each of these asset classes have distinct characteristics in the income and capital growth they generate, and their tax effectiveness. How do you decide which asset allocation is best for you? By asking you a number of questions, your adviser can establish an investment profile that reflects your financial goals and tolerance to market volatility. Armed with this information, your adviser can recommend an asset allocation that will give you the best opportunity to achieve your financial goals.

### The Power of Compound Interest

Compounding interest simply refers to the fact that the interest you receive will be calculated not only on the principal amount that you invested, but also on prior interest amounts added to your investment.

It may appear a simple concept but it can have a powerful impact on the amount of funds you can accumulate. So powerful in fact that Albert Einstein described compound interest as the 'eighth wonder of the world'.

### The best way of illustrating the power of compound interest is by example:

If you invest \$100,000 in a cash based investment for 4 years with an annual interest rate of 6%, at the end of the 4th year you will have earned a total of \$26,247 on your compounding investment. Alternatively, if you were to withdraw the interest each year, you would have earned a total of only \$24,000 after 4 years.

By compounding your interest, the effective rate of return would have been 6.56% pa compared to the original interest rate of 6%pa. An example of this is shown in table 1.1 below.

### Don't Chase Returns

Why not, you may ask? Isn't obtaining the highest possible return the best way to achieve your financial goals earlier? Well yes it is, but chasing returns will only lead to disappointment, and potentially reduce your ability to achieve your goals.


You may have heard the saying that past investment performance is no guarantee of future performance. This is true; it is rare to see the same investment fund leading the performance results each and every year. If, over time, the fund provides the returns you need to reach your goals, it is better to stick with it rather than guess which fund will be this year's leader.

Furthermore, each time you switch investments you incur transactional costs, which diminish any additional return you may achieve.

### Review of Your Portfolio

You have met with your financial adviser and after detailed discussions, your adviser has prepared and implemented a financial plan to assist you in meeting your financial goals. No more to do, right? Wrong...

Establishing your financial plan is only the first step in the financial planning process. This is because over time circumstances may change. You may find that your financial situation changes (you change jobs, have kids, or receive an unexpected inheritance) or you feel that you should reassess your asset allocation as you get older. Whatever these changes are it is important to discuss them with your financial adviser. Your adviser is in the best position to determine whether an amendment is required to your financial plan to ensure that it continues to meet your financial goals.

If you have any questions on your investment strategy speak with your financial adviser today. 

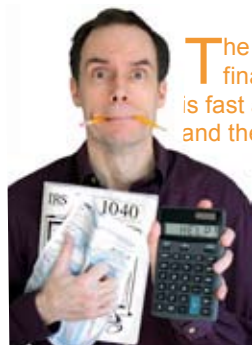
\$100,000 invested at 6%	Interest earned in 4 years	Effective Interest Rate pa
If you Withdraw the interest	\$24,000	6%pa
If you Compound the interest yearly	\$26,247	6.56%pa
Difference	\$2,247	0.56% pa

Table 1.1





# Tax Attack



The end of the financial year is fast approaching and there is some important information you should consider before you lodge your tax return.

The best approach is to work with your adviser and accountant to manage your tax all year round. However, if you haven't started yet, some basic tax preparation tips can help you to get the most out of your return.

## Before You Lodge Your Tax Return

The most effective tax strategies are often the simplest and can be applied before 30 June this year whilst others should be considered for next year. Below are both lists to consider:

### Pre June 30 2009

- Defer any income (where possible) until the new financial year.
- Review your investment portfolio prior to 30 June to determine whether investments should be sold to offset any capital gains or losses made throughout the year. (Note: ensure you get capital gains tax concessions by holding assets for more than 12 months).
- Maximise tax deductions through your superannuation contributions.
- Consider the government's co-contributions scheme. Ask your adviser if you are eligible. You could also make a contribution into your spouse's superannuation account – this could provide you with a tax offset.
- If you have borrowed to invest through home equity loans, margin lending or protected equity loans, consider pre-paying the interest.
- Ensure you review income distributions from family trusts. You can lose franking credits in some circumstances if a family trust election is not made.

### Next Year (Post June 30 2009)

- Make sure you hold assets in the most appropriate tax structure. Individuals, companies, trusts and super funds are all taxed differently on their capital gains and income.
- Use franking credits to reduce tax. Remember that excess franking

credits are refundable.

- Income split wherever possible to take advantage of the progressive tax system.

## 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.

## What Should I Do With My Tax Refund?

Once you have lodged your claim and received your refund, it is important to make sure you are wise with your money. Without forward planning, it is too easy to fritter spare cash away on day to day items or indulgences. You could consider using the money to reduce your mortgage or invest it by making a contribution to your superannuation account. Some helpful tips to guide your decision are below.

### Reduce Your Mortgage

By putting \$200 per month extra into your mortgage, you are acquiring more equity in your home and reducing the interest. Having more equity in your home also means that you can re-borrow that money again for investment gearing or to purchase

other assets. Another point to remember is that if you sell your home, you will not generally have to pay capital gains tax.

## Regular Investment Plan

Consider using your lump sum to anchor a regular savings investment plan. This will help you meet future objectives such as a new home, family education or retirement. While a certain amount of money in the bank is helpful for emergencies, now is the time to consider a longer-term plan with assets such as property or shares. By using managed funds, you can access these investment types with modest contributions as low as \$200 a month. While such investments are subject to fluctuations in value, you will see them grow over the longer term. There are also likely to be tax benefits from franking credits on dividends.

## Superannuation Contributions

Your superannuation fund will surpass most other investment vehicles simply due to the tax structure... after all, while it is growing it is only taxed at a maximum of 15%. Super is also a great form of forced savings, as once your money is contributed it is usually not accessible until you retire. If you are sure you won't need to access your tax refund money until you retire, it is an excellent place to invest it.

## New Investments

If you are looking into a new investment make sure you invest for the right reasons. Take care with so-called 'tax-effective' investments. The golden rule when considering any investment is to focus on the quality and prospects of the assets and treat any tax advantage as a bonus. Remember that over time a good investment will be much more valuable than a tax break for next year.

Make an appointment with your adviser to help you maximise your investment-related income tax deductions (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)).



## Client Corner

Life Insurance is very important in any financial plan. A real life example from a Matrix client highlights just how important this insurance cover can be and why, even when we may not always see the long term benefits, it is important that sufficient cover is in place.

### The Cover

In November 1996, Matrix clients John and Mary purchased a combined life insurance policy for \$200,000 and a trauma policy for \$50,000. This resulted in a (combined) monthly premium of \$58.00. At the time John was a Forestry Machine Operator and Mary, a Social Worker. This policy was taken out to cover their mortgage and other financial commitments in case the unthinkable happened and they were unable to meet their commitments.

Through regular reviews and communications with their Matrix adviser, John and Mary's policy was maintained. Even when John was off work for a period of up to six weeks.

In April 2008 (twelve years later), Mary rang her adviser regarding their

joint policy. She was thinking about cancelling it as 'it was a lot of money to pay each month', the monthly premium at that stage was \$196.00 and cover indexed to \$263,135 for their life insurance and \$65,789 for their trauma insurance. Mary advised that she was going to contact the insurer directly and ask them about the cover and then ring her adviser again to discuss the outcome. Mary had not spoken to John about her decision.

### The Claim

When John and Mary's adviser had not heard back from his clients he contacted the insurer who confirmed the policy was still in force. This was very fortunate as just two months later Mary contacted them to say John had been diagnosed with prostate cancer and John would require surgery in the very near future. She advised they identified prostate cancer through a blood test and John had to have an operation with the possibility of radiotherapy.

She was seeking advice for what she needed to do and whether their policy for critical illness would cover this sort of thing? Her Matrix adviser said it would depend on the degree of

invasiveness of the cancer but they should apply to the insurer to send the necessary documentation and claim forms.

### The Compensation

With the assistance of their adviser John and Mary completed the forms to start the claim process. After the completion of all requirements and medical reports obtained from specialists, the claim was approved and a benefit of \$65,789 was payable. John also has a buy-back option which means he can buy back the life cover reduced as a result of the benefit paid - without medical evidence or loadings.

John and Mary used the funds to cater for John being unable to work for a 12 month period.

Having this cover in place allowed John and Mary to focus on John's recovery and not have the additional stress of worrying about how they were going to meet their financial commitments.

**Please make the time to consider your own insurance cover and how you would cope if the unthinkable happened to you or your family. Contact your financial adviser to assess your level of cover today.**

## Market Update

### International shares

Global share markets are starting to digest the worst of the economic news and markets are rallying from the lows. As volatility remains high opportunities should present in the coming year, stock and country selection will be key also in the coming year. With all regions suffering uncertainty, on a three-year outlook the favoured areas are Asia and emerging markets. Investors should look to take a three-year view when investing at this time.

### Australian shares

Underlying market fundamentals are starting to improve. Quality large cap stocks are preferred in

this environment. We consider an overweight position appropriate on a three-year outlook for the large cap sector. Managers that are positioned defensively and have strong stock picking skills are expected to out perform. Small caps are likely to under perform while funding and liquidity remain an issue.

### Property

Property is likely to under perform equities on a three year outlook and we suggest under weighting the sector. Stapled and highly geared stocks have been discounted and are likely to remain subdued until the credit environment improves. Direct property valuations are likely to continue to come under downward pressure in this

environment. With a large inventory of properties for sale, negative growth across the unlisted sector is anticipated over the coming year. The property sector requires greater certainty around access to funding before it is likely to recover.

### Fixed Interest

On a three-year outlook a benchmark weighting is appropriate for this sector. With a trend to lower interest rates worldwide, limited opportunities exist in this sector. The credit market fallout should provide selected opportunities over the coming one to three years.

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

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