Money Matters

Summer Issue #24

Staying In Touch

Welcome to the Summer edition of Money Matters 2010.

In our final newsletter for the year we would like to share with you a true story from a Matrix adviser. This front page article highlights the importance of staying in touch with your adviser and how having insurance in place can change your life. It is one of the many rewarding stories we come across from clients, as we continue to help families protect and grow their wealth.

How do you manage your cash flow? At the heart of any financial plan is this very simple concept, but most individuals do not manage this aspect of their finances very closely. Sure, investments can be sexy and a tax refund is always a good thing, but sometimes simple cash flow management techniques can make a real difference to your financial situation. Read our article, 'Making the most of lifetime cash flow' to see how.

There is never an easy time to consider the possibility of your own death, or the death of the ones we love. Today, almost every adult in the country has some assets to pass on after they die - even if it is only their superannuation balance. Read our article 'Are your financial affairs in order?' to see what you need to consider to get your estate planning in order.

Education is a big part of our culture here at Hunter Financial Planning and we value every opportunity to share this with our clients. We recently held two specifically designed events for a select group of clients. Read more and see the photos 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.

Regards,

Hunter Financial

Corporate Authorised Representative of Matrix Planning Solutions Limited

Contact Details:
Suite 5 Level 1 - 29 Smith Street
Charlestown NSW 2290
PO Box 1057, Charlestown NSW 2290

T: 02 4943 4876 F: 02 4943 8585
E: mail@hunterfinancial.com.au
Website: www.hunterfinancial.com.au

The Importance of Advice

We would like to share a true story from a Matrix adviser to highlight the importance of staying in touch with your adviser and how having insurance in place can change your life.

"One day I received a call from a client, Mrs P, who advised me that she no longer required her term life insurance. Something, maybe my better judgment - forced me to ask why she wanted to cancel the cover and her reply was that she no longer required the cover; also, she was disillusioned, as when her husband passed away the insurance company did not pay the claim.

I did not have a close relationship with these particular clients but did provide advice to upgrade a Prudential policy to a new Prudential Pru Term contract in the mid 1990's and I had subsequently arranged alterations to the policy on behalf of the clients after this date.

...the insurance company admitted liability and paid the full benefit of $250,000.00!

Mrs P explained that her husband had been diagnosed with cancer early in the year and had passed away 6 months after diagnosis. She told me that the insurance company had denied the claim as the policy had lapsed 3 months prior to his death in December.

Mrs P believed that, as her husband was self employed and was not able to work due to his illness, he had missed the premiums and the policy had lapsed in October before his death.

I asked Mrs P's permission to address some concerns and questions that I had on her behalf with the insurance company. I also wanted to find out why I (as their financial adviser) had not been informed of the claim submission or denial. At this point in time I did not suggest that she may be entitled to claim the benefit, only that I believed that further investigation was required.

I was aware that the policy had a terminal illness benefit as a condition. I believed that this area might not have been considered when the claims department denied the claim as the policy had lapsed three months earlier. A terminal illness benefit generally can be applied for upon diagnosis, provided the policy was still in force when that occurred.

The client had submitted the original claim directly to the insurance company with the assistance of her solicitor and the insurance company (rightly) denied the Death claim

After making enquiries with the insurance company claims department, I contacted Mrs P and suggested that we submit a claim for the benefit to be paid under the terminal illness condition as the policy was in force when her husband was diagnosed with cancer in May of that year.

After this new submission of the claim, the insurance company admitted liability and paid the full benefit of $250,000.00!

The application for the claim of the insurance benefit was lost in the administration processes of the insurance company, who took the original claim at face value and knocked it back. However, it is the role of financial advisers to provide assistance in this regard, ensuring all our clients receive their full entitlements.

I personally believe that there is no greater reward than to be acknowledged for the professional service that an adviser provides to a client in these circumstances."

This payment has changed Mrs P's life immensely and this would not have been the case if she did not make contact with her adviser.

We hope that by reading this story you will realise the importance of notifying us when changes happen in your life. Mr P is survived by his wife and two daughters.

Contact our office if your circumstances have changed or to make an appointment to ensure you have the right insurance cover to protect you and your family.

Making the most of lifetime cash flow

At the heart of any financial plan is a very simple concept: managing cash flow. But while businesses pay close attention to things like income and expenses, most individuals don't manage this aspect of their finances very closely.

Sure, investments are sexy and a tax refund is always a good thing, but sometimes simple cash flow management techniques can make a real difference.

Why does cash flow management over a lifetime make a difference? Because it improves your net worth. The concept of net worth is based on exactly this: assets less debt = net worth. Don't let flash cars or lifestyles deceive you – often those who look well off are in fact not so. As a wise man once said, 'be careful about the 'net' in net worth: there are plenty of people with $1 million homes and $800,000 mortgages! '.

How do you determine what to do with surplus cash? Here's an idea of how this happens in an ideal world. Imagine that, across the years of your life, there are 6 financial phases as shown in the diagram below.

Saving phase

You leave school, start work and earn an income. At this stage, cash flow is largely just wages, and any spare cash flow after expenses (assuming you have no debt such as a home or credit card)should ideally be used to save, possibly toward the deposit for a home.

Equity phase

You've purchased a home but have limited equity – at this stage, surplus cash is ideally used to reduce the non-deductible debt on your mortgage, thereby increasing your equity, and to pay any other non deductible debt such as credit cards.

Consolidation phase

Once you have built up some equity in your home, you may wish to use some of the equity to fund investments, such as managed funds or shares. If you have done this, you may now have an income stream coming from dividends. This will increase the surplus cash flow and should still be directed to reducing home loan or other non deductible debt.

Accumulation phase

With home loan debt largely behind you, you may wish to reinvest dividends into your managed funds or shares, for growth. Any other surplus cash flow may now be applied to reducing investment debt (as it is largely tax deductible, this takes lower priority than paying off the home loan, but should still be addressed over time). You should also consider adding more to your super via salary sacrifice once debt is largely under control.

Pre retirement phase

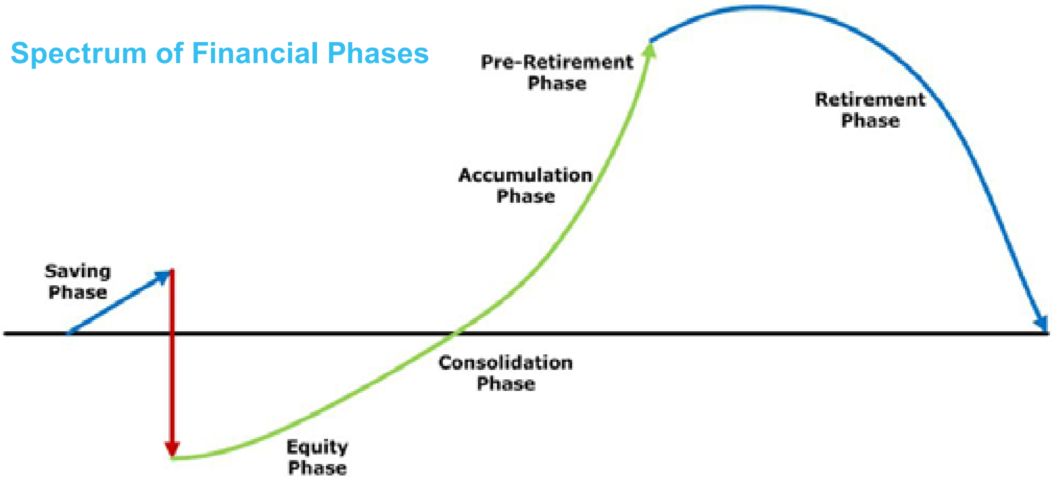
This phase may start at any time but is typically when you turn 50 and can make significant extra contributions to super under law. If you have debt under control and have surplus cash flow, putting it into superannuation can help you build assets in a tax efficient environment, and you also have access to Transition to Retirement planning, in which you may wish to draw a pension to supplement your salary in the lead up to retirement.

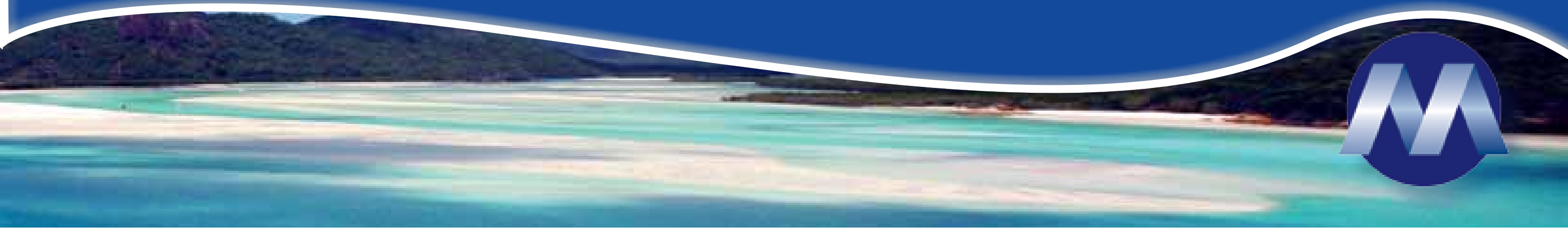
Retirement phase

Once retired, we are living off income from accumulated assets. At this stage, you may wish to direct dividend payments to a bank account rather than reinvest, to create an income stream. The strategy is to leave as much money invested as possible, and only sell down units or shares when necessary to supplement your desired income over and above dividends.

By directing cash flow, you can significantly improve your outcomes in both accumulated investments and reduced debt. As a result, your net worth can be dramatically improved. Combined with growth in investments and super, this can make a real difference to your outcomes.

Spectrum of Financial Phases





Are your financial affairs in order?

There is never an easy time to consider the possibility of your own death, or the death of the ones we love. Today, almost every adult in the country has some assets to pass on after they die – even if it is only the balance in their superannuation account.

Most Australians will have considerable assets when their home, superannuation, insurance and other assets are taken into account. Failure to make appropriate plans is essential for the comfort and wellbeing of surviving relatives.

Taking the following steps will help your family if you die or become incapacitated.

Complete a Will

People often note that since they don't have a lot of money, they don't need a will. This is completely untrue. A will does a lot more than distribute your wealth. It determines important issues like where your assets will go and guardianship for your children. In the unfortunate case that a husband and wife might die simultaneously, the court will need to assign the guardianship of your children. If you have made arrangements via a will, you can be sure the people you select will lovingly raise your children.

In your will you can also put financial stipulations in place for inheritances to your family and children. This includes dictating what they should receive and when they should receive those assets.

Take control of your super benefit

Make sure your super fund trustees are aware of your preferred beneficiaries. Alternatively, give them a binding death benefit nomination which directs them to pay your dependents or your estate. That way your super will be dealt with the way you want it to be.

Consider life insurance

Life insurance policies are important because they provide many options for debt repayment, income replacement and estate planning for your family. Without a life insurance policy, your death could spell financial disaster for your family and could have a large impact on their financial future.

'By taking the time now, you will have peace of mind knowing that you and your family's financial affairs have been taken care of'

Create a financial power of attorney

A financial power of attorney is a legal document that appoints one or more people to make financial and legal decisions for you. Unlike a general power of attorney, it continues to be legal even if you are unable to make these decisions yourself. This means that someone you choose can take control of your financial and legal affairs if you ever lose capacity.

Cover funeral expenses

Funerals can be expensive and no one wants to burden their family with financial worries at such a difficult time. You may want to look into creating a funeral plan, getting funeral insurance or investing in funeral bonds to ensure your family does not suffer from any unnecessary financial burdens.

Protect your business

If you're the sole owner of a business or own a business with others you should have a succession plan or a buy-sell agreement in case something should happen to you or your colleagues.

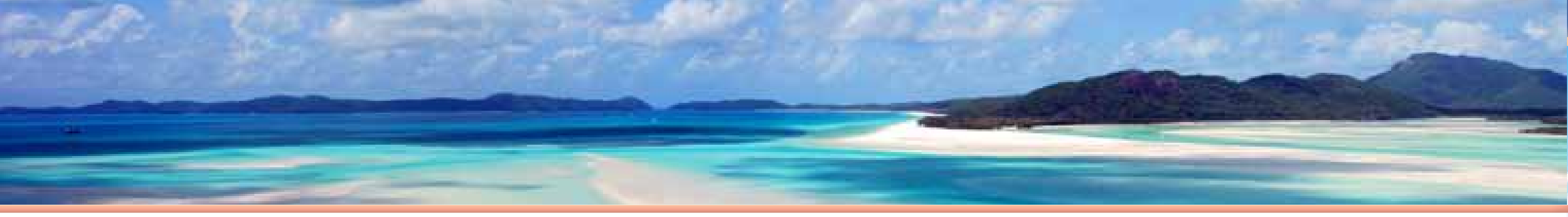
Store your documents.

It's important to store all your important information in a place where your family or financial power of attorney can access it. Ensure all the documentation is up to date and compiled so they can administer your affairs according to your wishes. Make sure you tell someone where this information is kept.

Give consent

If something were to happen to you there may be questions about your care, medical history, your finances or a health insurance claim. Without your consent, your family or caregiver may not be able to get needed information. You can give your permission in advance to Medicare, your credit card company, your bank or your doctor. This is as simple as notifying them in writing or signing a form.

Estate planning is a necessity for all of us. We can assist you to minimise the stress on your family and to make sure your wishes are followed. Call our office to discuss your circumstances today. By taking the time now, you will have peace of mind knowing that you and your family's financial affairs have been taken care of.



Client Seminars at Hunter Financial Planning

Pieter Franzen with clients Don & Glenda Noble

Brian Kennaugh, CEO at Hunter Financial Planning presenting to Clients

Education is a big part of our culture here at Hunter Financial Planning and we value every opportunity to share this with our clients.

We recently held two specifically designed events for a select group of clients.

On 27 October, guest speaker Pieter Franzen, Executive Chairman of Matrix Planning Solutions and a finance industry guru, presented an insightful presentation titled 'A very refreshing update on the Global Economy'.

A week later on 3 November we had Ali Parker from ING give a presentation on 'Common sense insights into Financial Markets'

Feedback following both events was outstanding with everyone taking something away with them.

One of our valued clients Michael Robertson said:

'Congratulations to Phil, Brian & all at HFP on last week's seminar presentation - It was highly informative with a wonderfully engaging speaker who provided truly informed insight into the Global Economy with an obvious wealth of experience & knowledge in the sector'.

If you are interested in attending future client seminars, please contact Emily on phone: 02 49434876 or email: *emily@hunterfinancial.com.au*

Ali Parker from ING presenting to clients

Market Update

International shares:

Our view on international shares is twofold. The developing (or emerging) economies, particular in Asia, will lead the world out of the global recession and therefore we believe that investments focused in these economies are preferred. However with market volatility continuing, this position is most appropriate for clients with higher tolerance to risk and longer investment timeframes. The developed economies of the U.S, Europe and Japan will continue to struggle out of the global recession, and are therefore less favoured.

Australian shares:

Market valuations remain attractive and the general strong state of the economy should be supportive to large corporates. We therefore consider a slight overweight on large capitalised stocks appropriate on a three-year outlook. Also, managers with strong stock picking skills are expected to outperform. Large caps are preferred over small caps, where funding and liquidity issues still remain relevant.

Listed Property Trust:

Property is likely to underperform equities on a three year outlook and we suggest an underweight position. Quality direct property valuations are starting to show signs of recovery although likely to be slow as access to funding remains difficult. LPT's have undergone significant recapitalising and opportunities are likely to emerge, however this is not expected for some time.

Fixed Interest:

With the direction of interest rates in Australia likely to be up in coming months, opportunities for fixed interest may be limited over the coming year. A benchmark weight for the sector is appropriate. The credit market should provide selected opportunities over the coming year as credit spreads contract further and investment grade credit become more attractive. A cautious approach to sovereign debt is required with safe haven sovereigns preferred.

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