Partner FINANCIAL GROUP

Update

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Maybe it's time to go on holidays

With threats from the Federal Government of higher taxes and higher interest rates if certain budget measures are <u>not</u> passed, and cries of "disaster" by others if they are ... it might just be time to consider going on holidays. Or, for those already up north escaping the southern winter, maybe consider staying there.

*And to quote from a recent Business Spectator article titled "**Budget must be passed: Abbott"*** ...... Prime Minister Tony Abbott says the budget must be passed and the government will "carefully, courteously, patiently" negotiate what remains of it through parliament.

Not all news out of Canberra was difficult and vexed, Mr Abbott told the South Australian Liberal Party's annual meeting on Saturday, with about half the budget measures already passed.

The largest saving of about $7 billion from reducing the growth of the foreign aid budget, had already passed as part of the appropriation bills, he said.

The Prime Minister said a stronger budget was necessary for the economy to be stronger. "Like other governments before us, we will carefully, courteously, patiently negotiate the rest of our budget through the parliament," he said. "....because the failure to take decisions today just means we will have to take even tougher decisions tomorrow."

Government ministers have been travelling the country talking to crossbench senators in a bid to convince them to support key savings measures.

Finance Minister Mathias Cormann warned on Saturday that Australia was still facing a budget emergency.

"We are facing a very challenging fiscal situation but the government is dealing with it ... through the normal processes of the parliament," he told *Sky News*

It comes after senior ministers appeared to have distanced themselves from the government's previous insistence the budget is in crisis, after Treasury figures earlier this week showed 99 per cent of the government's budget measures have been legislated for, including $25 billion in savings.

Shadow Parliamentary Secretary Michelle Rowland questioned why, if there really was a budget emergency, the government had doubled the debt since coming to office.

"Why is it the case that they are intent on pursuing a rolled gold paid parental leave scheme which even their own side considers is unaffordable," she told *Sky*.

Businessspectator.com.au
8/2014

JARGON BUSTER

LIC — Listed Investment Company
As the name suggests, a company listed on the share market that invests in a spread of other listed companies providing investors with a low-cost way of accessing a diversified portfolio through the purchase of just one stock.

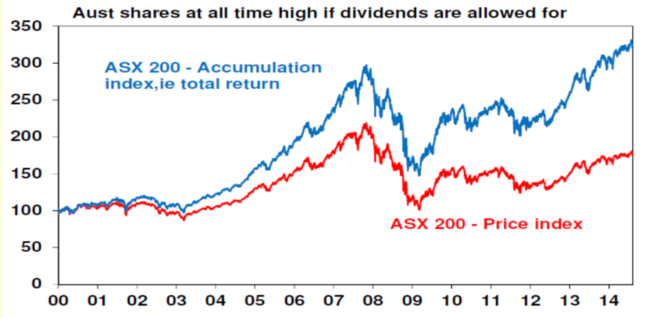
Regressive tax — where people on higher incomes spend a smaller proportion of their income on the tax than do people on lower incomes. *(eg petrol tax, for the benefit of certain politicians)*

Shares for Income? <u>YES</u>

We are mostly taught that shares are "long term assets" — good for "**growth**". Whilst this is true, it *can* ignore the importance of dividends; the half-yearly income paid to investors out of a company's after-tax earnings.

In Australia, the proportion of earnings paid out to shareholders as dividends averages at around 75%, with the remaining 25% retained by the company to grow the business. By contrast, in Japan and the US, the payout ratio is around 30% and in the UK it's closer to 50%.

After adding back the credit for tax already paid by the company, known as "franking" the average dividend income on Australian shares currently stands at around 5.7%. That means $5,700 a year income on an investment of $100,000 in shares, compared with maybe $3,500 in the bank, assuming an interest rate of 3.5%.



Source: Bloomberg, AMP Capital

As further proof of the value of dividends take a look at the above graph. The **red** line shows the "growth" in the <u>price</u> of shares since 2000, based on the top 200 Australian Shares, (ASX200) with today's value of 5,634 still <u>below</u> the 6,828 peak of November2007. Now look at the **blue** line and you can see it's a very different story. Here we see the **EXTRA** return once dividend income is taken into account. From a common base of "100" in 2000 (refer to the left axis) the share Price Index is shown to grow to 175 over fourteen years, whereas the total return (ie Accumulation Index) - including dividends lifts the figure to 325.

In summary, that's two thirds of the return coming from dividends and one third from share price growth.

So rather than think of shares as a growth investment, it's more accurate to view them as **INCOME** investments.

Source: Based on Oliver's Insight EDITION 26, 13/8/2014

Footy FINAL results

So ends another epic year of Footy Tipping, with congratulations going to **FJH22** in **First Place** with a score of **145**; an improvement on last year's 2nd place and 3rd the year before. An incredible round 21, saw FJH 22 gain two more tips than his closest rivals and edge out to a one tip lead which was never surpassed. Hot on his heels, however, with a valiant score of 144 to finish in **Second** & **Third Places** respectively, were **Eugene McConville** & **Catastrophy19**.
Thank you to all who participated and as they say down at St Kilda, *"...there's always next year"*

Q: How many politicians does it take to change a light bulb?

A: Two: one to change it and another one to change it back again.

Prospect Theory?

Ever heard of "Prospect theory"? It's an explanation of human decision-making under conditions where the outcome is uncertain. It was first defined 35 years ago by psychologists Daniel Kahneman and Amos Tversky, who were subsequently awarded the 2002 Nobel Prize in Economics for their research in the field of behavioural economics.

Also known as 'loss aversion theory', prospect theory suggests that humans are **non**-rational decision-makers, and that losses carry a greater emotional impact than gains, even where there is no difference in the end result.

For example, research indicates that the emotional impact associated with a loss is around twice that associated with a gain, meaning that a $200 prize would be required to entice the average person to enter into a 50:50 wager of losing $100.

When it comes to investing, one way to avoid the common pitfalls associated with prospect theory is to invest in a professionally-managed investment fund. Experienced fund managers typically have a disciplined investment process and so are less susceptible to emotional decisions than investors who hold shares directly.

Although Prospect Theory was defined relatively recently, psychologists believe that the risk aversion associated with the behaviour was developed as an evolutionary survival mechanism. Longevity was maximised by adopting a cautious approach, for example when deciding whether to challenge a neighbouring tribe by expanding into unfamiliar territory.

There's also the human tendency to distort probability-based decision-making. For example, we tend to overweight the likelihood of small probabilities (hence the popularity of lotteries) and don't place enough value on medium to high probability events.

Awareness of Prospect Theory and its influence on decision making is the first step in avoiding an investment approach clouded by an emotional aversion to losses.

However, even armed with knowledge of risk-aversion prejudices, investors can still struggle to override these ingrained behavioural biases.

Source: Behavioural Invest. Series 5, CFS

"SIT...stay...stay ...STAY !!!"

Avoiding the Retirement Funding Gap

As the table below shows, a child born today is expected to live between 80-85 years, depending on whether they are male or female. Look back fifty years to 1960 and life expectancy back then was more like 68-74 years. And fifty years before that it was 55-59 years. There's no doubt, Australians at least, are living longer.

Table 1: Life Expectancy (expected age at death in years)

Age (years)	Males 1901–10	Males 1960–62	Males 2010–12	Females 1901–10	Females 1960–62	Females 2010–12
0 (birth)	55.2	67.9	79.9	58.8	74.2	84.3
1	61.0	69.5	80.3	63.9	75.5	84.5
15	64.0	70.1	80.4	66.9	76.0	84.7
25	65.6	70.8	80.7	68.4	76.3	84.8
45	69.8	72.4	81.7	72.6	77.4	85.4
65	76.3	77.5	84.1	77.9	80.7	87.0
85	88.7	89.1	91.1	89.2	89.8	92.2

Sources: ABS 2008; ABS 2013a

Whilst this is good news from a quality of life perspective, when is comes to money, for many people it's likely to be a case of the dollars running out before they do.

According to a 2011 report 'Developments in the Level and Distribution of Retirement Savings' issued by ASFA, the average super fund balance for males and females in 2010 was $198,325 and $112,632 respectively. So just how far will these balances take someone upon entering retirement? Of course the answer will depend on a range of factors, such as ... lifestyle, living expenses, ability to work part time, health, longevity, access to Centrelink pensions, homeownership, family support etc.

Planning to **avoid** a possible Retirement Funding Gap is of course, best done a few years in advance, with the following tips worth considering:

- Maximise all available superannuation tax concessions
- Invest for "growth" appropriate to your time frame and "attitude to risk"
- Consider "transition to retirement" pension & contribution strategy from age 55
- Continue working part time where possible
- Pay off debts before retirement
- Maintain a "balanced budget", leading up to, and in, retirement

Source: Based on article by Peter Cahill, "Will You Live Too Long?". www.fsadvice.com.au

Aged Care Assistance

Recent changes in this area, designed to provide more choice and flexibility, can appear confusing to the uninitiated.

For assistance, go to ... www.myagedcare.gov.au or give us a call on (03) 9814 9333.

1/1/2015 Changes

As reported in the June edition of Update, the introduction of "Deeming" on income streams (eg allocated pensions) from 1st January 2015 will affect those people who have **not yet**:

1. Commenced an income stream from their super ***and are...***
2. Receiving a Government pension or benefits card.

If you have already jumped these two hurdles, then you can rest easy. If not, and you think it's a possibility, then it's time to catch up for a chat.

Replacing the car?

How much have you spent on cars — over your lifetime?

Of course there are cars ... and then there are **CARS**. And as someone who owns a boat, it's really not for me to defend the notion of "rational spending", but maybe take a minute to consider my recent (budget) car-replacement exercise:

Situation: My 16 year old Nissan Maxima (yes, that's right, sixteen year old) had just clocked over 235,000km. I realised it was time for a change.

Dilemma: Do I buy a new car for $50,000+, or do I consider a second hand car.

Solution: After checking out virtually all the "pre-owned" Nissan Maximas in Melbourne, I ended up at Blackburn Nissan where I found a 2004 (top-of-the-range, Ti) model, with just 59,000km on the clock, at a changeover cost of $12,000.

Savings: With the money saved there's now cash left over for more important things ... like boats.

If doctors owned the pharmacy ...

We go to the doctor for a check-up, or when we get crook, right? And once there, we then expect the doctor to:

1. Assess our current health
2. Diagnose any problem
3. Make a referral if necessary
4. *And then*, prescribe appropriate treatment

But what if the doctor also owned the pharmacy? Do you think there's a chance that some doctors might prescribe **MORE** drugs than is necessary?

This might just be a hypothetical scenario, but it's a sad fact that some elements of the **Financial Planning** industry operate much like this—the more "drugs" prescribed, the more profit that's made. And of course, not every patient needs drugs!

So it should come as no surprise when big organisations like the **CBA** are forced to concede ... *"the quality of advice provided by some of our licensed advisers in past years has caused financial loss and distress for some of our customers"*.

It's at this point we are very pleased to remind the clients (and prospective clients) of Partner Financial Group that neither we, nor our or license holder Dover Financial Advisers, are institutionally owned.

Our advice is fee-based, tailored to the strategic needs of each client and in no way bound to the requirements of a fund manager or institution.

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