Successful Investing

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Economic Update

The sideways performance of many of the world's major sharemarkets during the first few months of this year brought to an end the strong rebound in world sharemarkets of 2009.

Each time sharemarkets stumble it takes time for investors to regather confidence and climb the so-called "wall of worry". Some remain bearish, while others are over-optimistic. Uncertainty, prompted by concerns about Greece or some other market event, makes investors stop and consider where the market will head next.

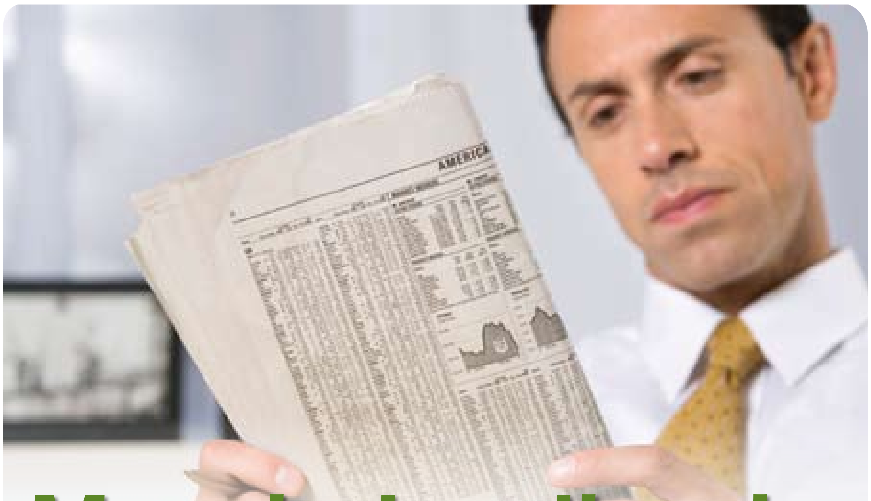
Looking through the current noise to the latest facts, we see that the world's largest economy is improving somewhat. While the US recently reported good corporate earnings, a steady improvement in industrial production and business investment as well as increasing retail sales, this has been countered by continuing high levels of unemployment, house sales at record lows and still high levels of foreclosures. Despite a rise in some sentiment indices during April, these latter negatives have continued to dampen longer-term US consumer confidence - and if consumers don't spend, the American economy will remain subdued.

It is a different situation in Australia, where the Reserve Bank of Australia (RBA) has raised interest rates several times, encouraged by strong consumer and business confidence.

Despite the RBA's confidence, the latest earnings reports show that many companies remain hesitant to hire full-time staff until the strength of the local economy and impacts of the world markets become clearer.

As a result, investors have one eye on the local market and another on the US, while determining which local companies will do well in this environment.

Source | Fidelity International



Margin lending in a time of volatility

Share price volatility is a surprisingly tricky concept. Basically, volatility is a measurement of share or share market price changes. Higher volatility can be good and bad for investors with a margin loan depending on their investment horizon, view of the price trend and ability to respond to price falls.

Many margin loan products offer a regular saving plan feature. In the Leveraged Equities' margin loan this feature is called Instalment Plus. Each month the investor contributes a set amount and borrows a set amount. The total amount is used to purchase a portfolio of shares or managed funds preselected by the investor. For example, you make an initial contribution of $1,000 and borrow $2,000 giving you a total of $3,000 invested in your preselected portfolio. Each month you contribute $250 for example and borrow $350 giving you a total of $600 to invest. After the first month your loan balance increases to $2,350 and you have $3,600 invested which includes $1,250 of your own money.

First time investors often use this saving feature to gradually build a portfolio. It can be useful for more established investors who are looking to re-enter the market. The regular savings plan becomes a tool to stagger the entry into the market (often called dollar cost averaging) and volatility can benefit these strategies. Dollar cost averaging will generally result in a lower average entry price compared to buying all at once.

More importantly, dollar cost averaging can be effective during times when prices are trending sideways or slightly rising. There is an element of luck in picking the bottom of the market. In times of volatility, instead of sheer luck, regular buy transactions have some chance of hitting the price on a down point.

The main downside of volatility for a leveraged portfolio is of course the increased possibility of a margin call. Margin loan providers often give a table showing the percentage fall a portfolio can withstand before a margin call occurs. This percentage is a factor of the gearing level in the portfolio relative to the maximum amount that can be lent against the portfolio and the dollar buffer.

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Margin lending in a time of volatility Continued

For example, an investor has a portfolio worth $100,000. The margin loan provider sets a loan to value ratio (LVR) of 75% and buffer of 10% on this portfolio. The investor borrows $75,000 against their portfolio, in other words they borrow up to the maximum LVR. The value of the portfolio value would have to fall to $88,235 for a margin call to be triggered ($75,000 / (75% + 10% buffer) = $88,235). A change in value of the portfolio from $100,000 to $88,235 represents a decline of 12%. If the investor had borrowed only $50,000, the portfolio value can fall by 41% before a margin call occurs.

While this information can be useful for people thinking about using a margin loan, these percentage changes are static and give no information about the probability of a margin call. For example, if the portfolio's value typically moves within a narrow band around an overall upward trend then borrowing at the 75% LVR might represent an acceptable risk of margin call even though the portfolio can incur only a 12% decline before a margin call. If however the portfolio value can vary by a large amount in any given day, for example a portfolio of small cap stocks, then borrowing at even the 50% LVR might still represent an unacceptable probability of a margin call for some investors.

The length of time a portfolio is held can also affect the probability of a margin call because of appreciation in portfolio value. Many investors don't actively re-adjust their gearing levels as portfolio values change. For example, an investor may start with a gearing ratio of 75%. Their gearing ratio, the ratio of the amount borrowed to portfolio value, will progressively reduce as the portfolio value appreciates over time.

A passive investor who has held a portfolio over the medium-term can usually withstand periods of higher volatility due to this appreciation in portfolio value. The opposite is true for investors who have just acquired a geared portfolio. In this case the portfolio is unlikely to have had sufficient time to develop a cushion against increased volatility. This suggests that investors may want to start at a lower gearing level initially and gradually build this up to their target level as the portfolio develops a cushion against volatility.

Medium to long-term investors need to consider their gearing ratio relative to their return objectives, their tolerance for and ability to respond to a margin call and the likelihood of a margin call. This means considering two factors that are not constant; the ratio of amount borrowed to portfolio value and the volatility of the portfolio's value. Together this can give investors an intuitive sense of the likelihood of a margin call.

Investors using a margin loan need to have a view of both the overall price trend and volatility. They may be able to use volatility to their advantage by staggering their entry into the market. They can also better assess and adjust their gearing level given their return objectives and risk tolerance. A financial adviser is best suited to provide personal advice on the suitability and use of margin loans.

Source | Leveraged Equities

There are plenty of good reasons to quit smoking

When you took out life insurance, you were assessed on a number of factors that can impact your health. No doubt one of the questions you were asked was whether you smoke.

Each year in Australia, it's estimated that around 19,000 deaths are related to smoking.†

According to the Australian Institute of Health and Welfare,* smoking increases the risk of coronary heart disease, stroke, heart failure, peripheral vascular disease, lung cancer, cervical cancer and osteoporosis.

The added risks of smoking are also reflected in what you pay in insurance premiums each year – with smokers generally required to pay more for cover than non-smokers, all other things being equal.

But that's not to say that can't change. If you quit smoking, and stay that way, you can ask for a re-assessment of your insurance premiums.

Former smokers may be eligible for a premium reduction if:

- You haven't smoked tobacco or any other substance in the past 12 months

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- You have no intention of resuming smoking of tobacco or any other substance in the future
- You haven't been advised that you have a medical condition associated with your history of smoking
- You have not been advised to quit smoking on specific medical grounds

Not only could you be doing something that's good for your health, you could also save yourself a considerable amount of money.

For a 45 year old male with Life, Total and Permanent Disablement and Trauma Premier Covers, you could save over $3,000 per annum by not smoking.^

If you'd like to arrange a re-assessment of your life insurance, speak to your financial adviser.

†10 Facts about smoking – www.nicorette.com.au/quitting-for-good/facts-about-smoking
**'Common risk factors for the NHPA diseases and conditions' – Australian Institute of Health and Welfare website www.aihw.gov.au*
^Based on an amount insured of $400,000 paid annually.

Source | ING

Which super fund is best for me?

Hardly a day seems to go by without superannuation being featured in the popular media.

We are constantly bombarded with advertising that bestows the advantages of one fund over another, with much of the focus being given to short-term investment performance. Of course, the question of fees charged by super funds is never far from the front page.

But you may well ask, which is the best super fund for me?

With the level of complexity of superannuation and super fund offerings constantly growing, the task of selecting a suitable fund can be very taxing for the lay person.

For many Australians, engagement with the superannuation system is quite low and the idea of following the crowd and having employer superannuation contributions made to the employer's "default fund" is an easy option. But, is the default fund the most appropriate fund?

Many superannuation funds open to members of the public offer an extensive array of features and investment choices. Generally the more "bells and whistles" a fund offers, the higher the fees. On the other hand, more basic offerings may result in lower fees.

A person with fairly simple superannuation needs may be adequately served by a fund that can accept employer and personal contributions, provides some basic life insurance cover,and offers a limited number of investment options. For someone with more sophisticated needs, a fund that offers an extensive range of investment options, the ability to not only accumulate retirement savings but also pay a pension, provide binding death benefit nominations, and tax the fund at the individual member level, may be the ideal solution.

Selecting an appropriate fund can be complex. Having a qualified financial adviser review your present superannuation situation and arranging to consolidate multiple superannuation accounts will go a long way towards ensuring your super is best matched to your circumstances.

Source | Professional Investment Group of Companies.

Understanding how your super is taxed

Taxation of super

Compared to personal income tax rates which can be as high as 46.5% (including the Medicare Levy), your super contributions made for you by your employer are taxed at just 15%. Super investment earnings are also taxed at a maximum rate of 15%.

For average income earners there may be significant tax benefits in making pre-tax or salary sacrifice contributions rather than post-tax contributions. Tax deductions and offsets are also available to certain individuals, so it's worthwhile learning about the different tax rules to ensure you take advantage of all the perks available.

What tax rates are applied to your super?

Your super is taxed at concessional rates when:

- money comes into your account
- your super savings earn a return
- you take your money out of the super fund

Money that comes into your super account

Employer contributions (including salary sacrifice contributions) are usually taxed at 15%. Voluntary contributions that you make from your after-tax earnings are not subject to any additional tax when contributed to super.

Investment earnings on your super savings

Earnings (including capital gains) on your super savings are taxed at a maximum rate of 15%. This tax-rate can be much lower than investment earnings and capital gains outside of super where tax is calculated on your personal income tax rates (as high as 46.5%).

Money leaving your super fund

The amount of tax you pay when you retire and/ or apply to get your super benefit will depend on a number of factors, including how much super you have and how and when you take your super.

If you are aged over 60 years, you will pay no tax when withdrawing from a taxed scheme such as your super account with Aviva.

Tax deductions and offsets self-employed or unemployed

If you are self-employed, substantially self -employed (less than 10% of your assessable income is from eligible employment) or not working for an income, you can claim a full personal income tax deduction for personal contributions to super. Such contributions, up to a certain level, are concessionally taxed. You should discuss this with your financial adviser to ensure your taxable contribution does not exceed these thresholds.

Pension payments

An alternative to taking your super as a lump sum is to commence a retirement income stream. There may be tax advantages for you. When you receive payments from an income stream any payments you receive after age 60 are tax free. Investment earnings on your money used to buy the pension are also tax-free.

Prior to age 60, your pension payments become part of your assessable income and are subject to normal income tax rates. However, you also have access to a 15% income tax offset. If you have also made after-tax contributions to your super, you may also be entitled to a tax-free portion. All of which means you pay less tax.

Source | AVIVA

Did you know?

If you yelled for 8 years, 7 months and 6 days, you would have produced enough sound energy to heat one cup of coffee.

Banging your head against a wall uses 150 calories an hour.

On average people fear spiders more than they do death.

The strongest muscle in the body is the TONGUE.

It's impossible to sneeze with your eyes open.

You can't kill yourself by holding your breath.

Americans, on average, eat 18 acres of pizza every day.

Every time you lick a stamp, you're consuming 1/10 of a calorie.

Did you know that you are more likely to be killed by a champagne cork than by a poisonous spider?

Right-handed people live, on average, nine years longer than left-handed people do.

The ant can lift 50 times its own weight, can pull 30 times its own weight and always falls over on its right side when intoxicated.

Polar bears are left-handed.

Source | http://www.webwombat.com.au

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