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Planning Partners

Prosperitas

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Prosperitas: Latin for **prosperity & good fortune**

The scoreboard ticks over

As we near the end of the cricket season which was surprisingly successful, we also have the opportunity to review a reporting season for businesses in Australia. As with the cricket season, the reporting season has been a fruitful one with a majority of companies exceeding expectations.

The reporting season surprised many and reinforced the view at Planning Partners that while things are varied, the 'big end of town' is still managing to record strong profits. As usual this was most notable for the banks and supermarkets but some businesses surprised elsewhere which is a good sign that things are improving.

With the US economy continuing to improve for a number of different reasons, the media reporting has largely been focused on the Dow Jones and rightfully so, given the space it occupies in global terms. The Federal Reserve is reducing its asset purchases (or 'tapering' for those in the headline business), suggesting that the central bank is increasingly confident the economy is better placed to stand on its own two feet.

This has perhaps taken the focus off other countries and particularly Japan which is going through significant changes in order to get the economy on an upward trajectory. The impact of an improvement in Japanese wealth would be a major factor for Australia, given our trade relationship with them.

Domestically, it certainly appears that our Reserve Bank is comfortable with interest rates at the current level as we enjoy some house price growth which of course filters through to other sectors of the economy. The Reserve Bank has made it quite clear in recent times that it is comfortable with a rising housing market due to those benefits; but it continues to warn of over exuberance in this sector given the role that debt will typically play.

As our economy adjusts from one that is heavily reliant on the mining sector to a more diversified economy, the improved confidence should lead to increased investment spending outside the mining sector. The expectation is that there will be a lag on employment as this spending increases and is deployed.

In this edition we have some information for you on Insurance in superannuation and in particular self-managed funds. We have also had a look at yield and why it pays to consider this when making your investment decisions. Mortgage Interest rates are reviewed also with some commentary on whether fixing is the right strategy for you.

There is an introduction to Planning Partners' Bookeeper and a recipe for a warming Beef Bourguignon as we enter the cooler Autumn months.

Thanks for taking the time to read *Prosperitas* and we hope you enjoy it.

Martin R McIntosh
Managing Partner

Inside this issue >

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Super Insurance

Insurance in Self-Managed Superannuation Funds

As part of the recent 'Stronger Super Review' there were several measures introduced for the Trustees of Self-Managed Super Funds to be aware.

One of the measures relates to the inclusion of Insurance reviews as part of the Investment Strategy of the fund. This inclusion states that the trustees of the fund should consider whether the fund should hold insurance cover for one or more members of the fund.

Accordingly, as the Investment Strategy is reviewed by the trustees of the fund, it will be prudent to include the Insurance cover of the fund and where no Insurance is required this should be noted. Regular reviews will ensure that the Insurance cover remains relevant to the members and indeed as new members are added to a fund, they may need to be reviewed from an Insurance perspective.

Of course, many SMSF's won't be required to hold Insurance cover or they may have Insurance outside of the superannuation fund. This should be reviewed and included in the Investment Strategy

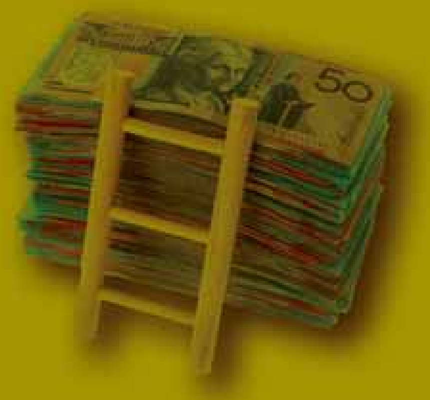
Insurance in Industry Superannuation Funds

Recently, it has emerged that Australian Super member have been notified last year that their Life and TPD Insurance premiums are increasing by almost 40% and Income Protection Insurance premiums by around 25%. This is due to the contract negotiations with the Insurer that they use (currently Tower Australia) coming up for renewal.

This is one of the limitations that come with going indirectly to an insurer as is the case with the majority of Industry Super Funds. Our preference at Planning Partners is to compare and contrast Insurance policies directly with the Insurers themselves. From there, if Superannuation is the most efficient vehicle to pay the premiums, we will align the fund with the best fit for the Insurance requirements.

The importance of yield

One of the critical issues when deciding to buy an investment using borrowed money is to estimate the income that the asset will produce so it can fully or partly offset the interest cost on the loan.



With an investment property, you want reliable tenants paying rent on time. If you lose a tenant, you want to be able to able to replace them quickly. And you want rents to increase over time.

It's the same with shares. Dividends are the way a company distributes its profits and are a signal of the underlying commercial strength of the business. Income-generating shares can be attractive in a "set and forget" strategy, allowing time for the capital values to increase with limited need for extra cash flow to meet the interest payments.

Past dividend history is one benchmark of corporate strength but you need to consider whether the income will be maintained or increased in the future. For instance, many Australian companies operate in mature markets and seek expansion through domestic growth and acquisition – and the more risky offshore strategies. The key is to evaluate whether this yield can be maintained in the future.

Whilst yield is a critical issue, ease of management must not be forgotten. Property requires you to ensure the suitability of your tenants and find new ones when they leave. Direct shares require you to select, manage and handle the tax consequences, but with a share fund, the manager organises all of that for you.

Interest rates affect everyone differently

Interest rates remain at historically low levels in many parts of the world, and in Australia they have returned to the record lows we witnessed during the Global Financial Crisis in 2009. This has meant thousands of Australians have enjoyed lower mortgage repayments; but interest rate movements mean different things to different people.

Aside from mortgages, low interest rates have a much broader application—they also flow through into personal and investment loans, credit cards and various types of business financing. On the flip side, investors have seen returns on interest-bearing bank accounts and term deposits follow suit and understandably do not celebrate with every rate cut.

Across the economy generally, a low interest rate environment often goes hand-in-hand with slower economic growth, uncertain job prospects and lower asset prices.

So, depending on which category you fit into, here are a few implications worth considering in your approach to dealing with interest rates:

- **Homeowners**: With variable rates still low do you use this as an opportunity to build a buffer against rates when they eventually turn around? Or are there other more pressing items that your spare cash could be directed towards, such as credit cards or a car loan?
- **Investors**: Whether your preference is shares, property or another asset class, this may be a good time to consider starting a long-term growth strategy.
- **Business owners**: Overdrafts, car leasing and other business loans may need a good review. In particular, any strategy to reduce your debt should be revisited.
- **Deposit holders**: Dwindling returns on cash may make you feel like there would be little difference if you put it under the mattress.

Interest rates will not stay low forever – and this will be good for some and not others. Now is a great time to think about how you can use the current situation to your advantage. The rates that we are currently accessing for our clients are as follows:

Bank	Variable Rate	Fixed Rate	
		Term	Rate
ANZ	4.98%	2 Years	4.69%
Bank of Melb	5.50%	2 Years	4.79%
Bankwest	4.84%	2 Years	4.84%
CBA	5.00%	1 Year	4.79%
Connective	5.07%	1 Year	4.79%
Homeside (NAB)	4.92%	1 Year	4.79%
ING	4.83%	1 Year	4.69%
Macquarie	4.89%	1 Year	4.79%
NAB	5.03%	1 Year	4.89%
Westpac	5.12%	1 Year	4.79%

Pierre Guillon

An interview with Pierre

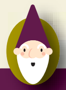
One of the lesser known members of the team but also one of the longest serving; Pierre has been with Planning Partners since 2001 in the capacity of Le Bookkeeper.

Pierre first arrived in Australia as a 12 year old in June 1982 where he stayed at the Carnegie Motor Inn. The first thing he did was to go to Macca's and order his first Royale with Cheese. Despite the fact that the Hawthorn Football Club was about to play off in 8 of the next 9 grand finals in a row and win 5, Pierre chose to support Collingwood (under intense pressure from his Grade 6 peers).

Of course, Pierre wasn't always Le Bookkeeper. He worked in the hospitality industry but decided to make the switch upon the introduction of the GST. The GST was a very exciting revelation for the Bookkeeping industry and Pierre even described it as their Woodstock – if you can remember it, then you weren't Bookkeeping at the time.

Despite an uncanny resemblance, Pierre has never been stopped in the street and asked for Roger Federer's autograph. He does have an athletic side though, having recently completed 'Tough Mudder', the Paris Marathon and about to take on the Great Ocean Road marathon. His other interest include a love of film and Le Bookkeeper's favourite actor is, unsurprisingly, Heath Ledger.

He is Husband to Leanne and the proud father of Annabelle who turns 13 this year. She is occasionally seen gracing the Planning Partners office with her presence when the homework schedule allows.



An apology from the Garden Gnome, who is taking a holiday following some particularly hot weather in January.

Beef bourguignon á la grand-mére

A lovely dish with tender beef cooked to perfection. The speck adds a delicious smoky pork flavour and the carrot puree stirred through towards the end adds colour and sweetness. Serve with fresh sourdough.

Ingredients

- 125 ml extra-virgin olive oil
- 1 kg beef (any braising beef such as rump, topside or chuck steak), cut into large chunks
- 2 carrots, halved lengthwise and sliced
- 2 celery stalks with leaves, halved lengthwise and sliced
- 1 leek, halved lengthwise and sliced
- 1 onion, chopped
- 5 shallots, halved
- 10 thyme sprigs
- 7 bay leaves
- 300 g speck, diced
- 500 ml red wine, boiled briefly to reduce acidity
- salt and pepper
- 300 g button mushrooms
- 1 bunch flat-leaf parsley, chopped

Preparation

Heat the oil in a large heavy-based saucepan over medium–high heat. Brown the beef in batches. Remove the final batch of beef from the pan, leaving the oil, and add the carrot, celery, leek, onion and shallots. Sauté for 5–8 minutes.

Place the beef and vegetables in a large casserole pot. Stir in the thyme, bay leaves and speck. Pour over the red wine, season with salt and pepper and cover with a lid. Bring to the boil then reduce the heat to very low and cook for 40 minutes.

Add the mushrooms to the bourguignon and cook for a further 10 minutes. Sprinkle with the parsley.

Serve the bourguignon with the mashed potatoes and with sourdough.

PROFESSIONAL PRACTICE

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