

Now's not the time for a holiday from planning



TALKING STRATEGIES
JOHN OLIVER

WITH most of us enjoying a well-earned Christmas break, we will no doubt reflect on the past year and how much of a wild ride 2009 was.

It is also a great time of year to undergo a review of your financial situation, analyse the most important areas and improve your position in the future with some good old-fashioned strategy planning.

Past surveys have shown most people spend more time planning for their annual holidays than they do planning for retirement. Maybe now is the time to change that.

Here are some areas you might like to review.

- **Re-assess your yearly budget (if you have one)**
Look at what your expenses were for the past year and see if there are any areas that were excessive and could be scaled back. It also helps you to identify what months have higher expenses than others, so you can try to even them out, if possible.
- **Look to the most effective ways to reduce debt**
Clear credit cards first as they charge the highest interest rates. Then reduce personal loans and the mortgage. If you have several loans, have a talk to your financial institution about combining them.
- **Review your insurance needs**
Is your life insurance adequate? Do you have income protection? Is your home and contents insurance cover up to date?
- **Have a close look at your superannuation arrangements**
Are you taking advantage of salary sacrifice through your work? It's also worth seeing where you are positioned with respect to retirement goals.

The global financial crisis has impacted on everyone. There are some good retirement calculators that can provide you with a snapshot of your likely projected benefits at retirement.

Also look at the asset allocation of your fund. If you are being too conservative it could mean you are missing out on hundreds of thousands of dollars over 20-30 years.

- **Make sure your will is up to date**
More importantly, make sure you have a will and if not organise it as soon as possible.
- **Set some short, medium and long-term savings goals and document them**
The incentive to save is more with defined goals.

If you have not looked at any of these aspects of a financial plan then your New Year's resolution should be to get help to set goals.

You might spend several thousand dollars getting a complete financial plan but you could make that up 100-fold or more over your life.

John Oliver is a director and adviser at Goldsborough Financial Services.

Stars spoil kids' wealthy desires



Movie stars Brad Pitt and Angelina Jolie have given millions of dollars to charity from selling photos of their children. Picture: AP



ESTATE PLANNING
ANDREW McLACHLAN

MOST parents want to leave their children some kind of safety net and for some celebrities this could be in the millions of dollars.

Over the years, this trend has changed, with rich and famous parents afraid that inherited wealth could spoil their children.

This influence has trickled down to everyday wealthy families, with parents wanting children to earn, learn and respect the value of money.

Many families are also choosing to donate most of their wealth to charity or set

up their own charitable foundations instead of leaving everything to their children.

So what exactly are the rich and famous doing with their money?

Bill Gates (right) has promised to give away most of his Microsoft billions. He and his wife, Melinda, established a charitable foundation in 1994. In October 2008, Gates told CNN he thought inherited wealth created a distorted view of "how you measure yourself, how your friends think about you and how they do things with you".

"And it's also bad for society," he says. "We're picking the grandchildren of the people whose skill and luck accumulated the money and saying to them that they should have this vast control of society's resources."

This year, celebrity chef Nigella Lawson said she had no plan to leave her two children from her first

husband with much of her cookbook and TV show fortune. She told Britain's *My Weekly* that she was "determined that my children should have no financial security".

"It ruins people not having to earn money."

After the ensuing outcry, she added: "I have no intention of leaving my children destitute, but I believe you have to work in order to learn the value of money."

When actors Angelina Jolie and Brad Pitt were paid \$14 million for pictures of their twins, they placed the money into their Jolie-Pitt Foundation. When their first biological child was born, they were paid more than \$7 million, which also went to charity organisations.

Leaving your children your fortune while making sure they grow up respecting hard work and the value of

money is a balancing act. This becomes even harder when you are preparing your will.

Andrew McLachlan is CEO, private clients and estate planning, at Australian Executor Trustees.



Signs point to a better year

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5 INVESTING IS A RISKY BUSINESS
Risk is necessary if you want good investment returns, but Kayser says investors should only take on a level of risk that they need to – not too much.

"Ensure you have a fall-back position – whether that is a cash reserve or insurance to protect you if the worst happens," he says.

6 TOO MUCH DEBT CAN BE DANGEROUS
Investment debt is good debt – compared with the bad debt of personal loans and credit cards – but too much of it can lead to disaster, as many investors discovered in 2008 when hit with margin calls.

Kayser says it is important not to take on too much debt, particularly with rising interest rates.

"Stick to what you know and understand," he says.

7 HUNT FOR A PROPERTY BARGAIN
The chief executive of Adelaide-based property and finance group Investa Solutions, Ian Lloyd, says 2010 will be a good time to buy for property investors ahead of an expected growth period in the market in 2011.

"There's a lot of choice around now," he says.

"There's a lot more negotiation available because major banks have tightened up so much, so developers are ready to crack a deal."

8 RESOURCE-RICH REGIONAL AREAS SHOULD PROSPER
Lloyd says the strength of Australia's mining sector will translate to good gains for property investors in areas near major resources projects.

Think about places like Mackay in Queensland, Geraldton in Western Australia and Port Lincoln in South Australia, he says.

Lloyd says as well as capital growth, high rents paid by mining workers can help with cash flow.

"We have seen it in centres like Karratha in WA."

9 IGNORE SUPER AT YOUR PERIL
People may be nervous about pumping money into superannuation while there are reviews of the system under way, but Kayser says super has many benefits, particularly on the tax front.

"You can invest in virtually any asset you like through super but you are paying a lower tax rate than you would if you held it in your own name," he says. The catch is you can't get it out until you are 60, but this is not a big problem for most people.

10 DON'T CHASE LAST YEAR'S WINNERS
D'Amato says investors should not blindly buy the investments that performed best in 2009.

"Usually if the horse has bolted, it has done its race," he says. "Don't be lured by the lights."

Will away fears of who ends up with your estate

Anthony Keane

CHANGES to inheritance laws mean now is a good time to ensure your will is in order.

Lawyer Dr John de Groot, of de Groot's Wills & Estates, says new laws are expected to take effect in New South Wales this year and other states are adopting similar arrangements.

The laws introduce the concept of multiple spouses –

where a person may be separated from their husband or wife while living with a new defacto partner – and complement federal laws enacted last year that gave more rights to de facto couples and same-sex partners in the event of a relationship breakdown, de Groot says.

He says the changes are driven by changes to our society. "Families today are more complex, often as a

result of a higher percentage of divorces, second marriages and defacto relationships.

"These new laws hold more of a risk that your estate may not be distributed in accordance with your wishes," he says.

The different laws in each state about the distribution of people's estates upon death when they have no will has led to legal battles.

It is estimated that 60 per cent of Australians die

without a will, de Groot says.

"Failure to clarify how you want your wealth distributed in the event of your death can leave your loved ones to deal with the financial and emotional drain of the court system," he says, adding do-it-yourself will kits can cause problems. "They make the task look very simple, but we see so many people who underestimate the complexities of our tax and legal systems," he says.

Mortgage fatigue can prove costly

Anthony Keane

IT WAS a confusing year for homeowners, with interest rates falling, then rising, and there is likely to be more increases in the months ahead.

Mortgage rates offered by banks and other lenders have started to vary widely, which means now is not a time to leave your home loan in the too-hard basket.

Smartline Personal Mortgage Advisers managing director Chris Acret says "mortgage fatigue" is common among borrowers at this time of the year.

"Many people do a lot of homework when initially working out what is the best home loan for them, but then tend to very much set and forget," he says.

"Often people see their home loan as a 30-year proposition. Once the loan is in place, they really don't think too much more about their home loan other than making the regular repayments or whenever changes in interest rates are announced."

But the market continues

to change dramatically, Acret says, with new loan products and structures being introduced regularly, plus changes in borrowers' personal circumstances.

"For example, it may be that you've had a pay increase since taking out your home loan, which means you could afford to pay an extra \$20 a week, which could reduce your loan term by about four years and save about \$54,000 in interest on a \$250,000, 30-year loan at a variable rate of 6.61 per cent," he says.

Oracle Lending Solutions director Angelo Benedetti says most people leave their mortgage in the too-hard basket "because it's something they don't want to think about and, sadly, they only think about it when it's too late".

"Because you have a home loan for such a long time, and the interest can kill, you have to review what you have got and see what other alternatives there are."

"Also determine what you are trying to achieve. Kids changes, lifestyles change, needs change."

Mixed outlook for property

Nick Gardner

HOUSE prices are heading for a mixed year, with some capital cities set for healthy growth while others will struggle to see median values rise at all.

Many experts say the removal of the first-home owner grant last month and rising interest rates are likely to have an adverse impact on properties at the lower end, while those at the middle and upper end will continue to be supported by buyers trading up, strong immigration and population growth, and a resilient economy.

However, states and capital cities will vary according to how property prices have performed already and the local economies.

"Areas where the first-home owner grant was most popular should see some of the biggest price rises because of the domino-effect of their activity rolling up the market," says John Edwards of property research company Residex.

"Properties at the bottom end of the market enjoyed growth of around 15 per cent

in 2009 and owners will use that equity to trade up, providing a fillip to the mid-sector of the market."

Australian Property Monitors economist Matthew Bell thinks average property prices nationally will rise 7 to 10 per cent, despite rising interest rates.

"I don't think interest rates will become a negative factor until mortgage rates hit 7.5 to 8 per cent," he says.

"We have looked at the past three rate-rising cycles and prices rose in two of them and were broadly flat in the third. The only time prices fell was from March 2008 to March 2009 and that was because of the global financial crisis."

Other economists are more sceptical. AMP Capital Investors chief economist Shane Oliver says prices will rise zero to 5 per cent, constrained by rising rates, no first-home buyer stimulus and poor affordability.

"Prices are already high and have had a good run in the past 6 to 9 months... Because of rising rates, it's going to be difficult for prices to rise much," he says.



Thinking of getting married?

Have you thought about your Will?

Getting married can be one of the most important decisions of your life. Equally important is the preparation of your Will! And even if you have an existing Will, it normally becomes invalid when you marry.

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