Totally Integrated
Financial Planning Pty Ltd
Australian Financial Services Licence No 230458
Australian Credit Licence No 230458
ABN 12 062 230 424

TOTAL FOCUS Q3

John Mc Inerney
Certified Financial Planner®
Managing Director

Authorised Representative
Number 237758
Diploma of Financial Planning
Graduate Diploma of Computer Education
Diploma of Education Technology
TACTC, TPTC

Five steps to better financial health in 2015

It's time to take a fresh look at your finances and make sure you're prepared for the year ahead. Here are five items you can cross off your checklist early in 2015.

1. Super health

If you've worked several jobs, chances are you're one of the millions of Australians with more than one super account. Consolidating your super could help you save on fees and get your savings working as hard as possible.

Once you've brought your super together, you're ready to review your super strategy to make sure you're invested in the best option for your situation. And if you can afford to invest a little more, remember that super can be a very tax-effective way of saving for the future.

2. Family health

If you've recently married, divorced or had a baby, then you need a thorough financial health check. A good first step is to update your will, or make a will if you don't have one. Remember, while marriage can invalidate your existing will, only the granting of a Divorce Order from the Family Court will invalidate your will in the case of divorce—so if you're newly divorced, changing your will could be a priority.

Continued page 2

HEAD OFFICE
John McInerney
Suite 2, 277 Centre Road
PO Box 282 Bentleigh Victoria 3204

T: 03 9563 9969
F: 03 9563 9965
johnmcinerney@tifp.com.au

Five steps to better financial health in 2015 (cont)

Continued from page 1 ▶

If you've recently celebrated a new arrival, you might also want to top up your life insurance and health insurance to make sure they're protected. And it's never too early to start saving for school fees and the costs of raising a happy and healthy youngster.

3. Insurance health

Do you have life insurance cover through your super or in a separate policy? If you do, have you checked that your cover has increased to match your lifestyle?

Many people aim to have enough life cover to pay off debts and leave their dependents with a lump sum that will generate an income stream for the future. If that's your objective, you may need to increase your level of cover as your debts and your lifestyle expand. Otherwise you could find yourself facing an insurance gap.

Then there's the risk that an accident or illness could leave you unable to work for an extended period, endangering your family's financial health. Income protection insurance can help you keep bills at bay while you recover, without the stress of worrying about making ends meet. Once again, as your lifestyle becomes more expensive, your cover also needs to increase.

4. Mortgage health

A few minutes invested in finding the best home loan deal could save you thousands of dollars over a lifetime. According to NAB, shaving just half a per cent off your interest rate now could slash $33,000 in interest costs from a typical $300,000 mortgage over 30 years.[1]

Paying a little extra on your loan each month could have an even bigger impact. That's because extra repayments come straight off your loan principal, potentially cutting years off your mortgage. At current rates, an extra $200 a month in repayments on a $300,000 loan could save you around $88,000 and help you pay off your home 6 years earlier.[1]

5. Investment health

If you already have investments outside super, it's time to make sure they're performing as you expect. And if you haven't, this is your chance to make 2015 the year where you embark on a path to building your wealth.

Consider starting a regular investment plan, putting a fixed amount each month into a managed fund or savings account. By establishing an account with $500 and contributing just $100 a week to an investment returning 7% pa, then reinvesting your earnings, you could have around $5,918 by year end. Continue investing for five years, and your investment could grow to over $30,000.[2]

That could help make 2015 truly a year to remember.

1 Based on a $300,000 principal and interest loan with a term of 30 years and an interest rate of 5.8% pa. These are an approximate guide only

2 Based on returns of 7%, with all earnings reinvested. This is a hypothetical example given as an approximate guide only.

Talking about money

Talking to your loved ones about money can be one of the hardest conversations of all, as well as the most important. Here are some tips for those difficult financial conversations.

Talking to your parents

While no-one likes to think about it, chances are that your parents may need some form of aged care service in the near future.

So, it makes sense to talk to your parents about their plans. While this is a sensitive topic, approach it from the position that you want to know what their wishes are so you can help make sure these are taken care of.

Find out if your parents have enough retirement savings to support their needs, and ask them what their wishes are if they can no longer live independently. Ensure they have a plan in place. If they don't, consider an appointment with a financial planner.

Talking to your spouse

Retirement is approaching, perhaps faster than you think. So, it's important for you and your spouse to reassess your own investments to ensure they'll deliver the lifestyle you're looking forward to.

If you haven't already decided when and how you want to retire, start talking about it now. For example, would you like to retire completely? Or would you prefer a gradual transition? Perhaps you would like to consider using a Transition-To-Retirement (TTR) strategy, working part-time while drawing on your super savings?

If there's a gap between your current level of savings and your retirement target, you also need to consider how to boost your super now. Begin by asking where you can save, then consider strategies such as salary sacrifice to build your savings faster.

Talking to your kids

At some point, almost all of us have thought "if only I'd known then what I know now!" While you can't turn back the clock, you can give your children the benefit of your financial experience.

That includes explaining the advantages of investing early in life—ideally with a regular investment plan. Because the earlier they begin, the more time they have to earn returns on their returns.

For instance, if your children invested $1,000 in an investment earning 7% pa, then contributed $100 a week, they could build an investment worth more than $245,000 over 20 years. But if they waited 10 years before starting, they'd have less than $80,000—a third as much.[3]

You can also help them to understand the difference between good debt—used to buy appreciating assets like property and shares—and bad debt—used for consumption, like holidays, general spending and assets that lose value over time, such as cars.

Most importantly, you can help them develop a long-term vision for a financially secure future. That could be the greatest gift you ever give them.

3 Based on returns of 7% with all earnings reinvested. This is a hypothetical example given as an approximate guide only.

The investor's guide to diversification

The term diversification comes up a lot in investment circles and can sound daunting to the novice investor. However, although the process of diversifying a portfolio can be complex and time consuming, the underlying concept is actually quite easy to understand.

Diversification simply means not putting all your eggs in one basket.

Diversifying a portfolio is one of the most effective means of reducing the different types of risk associated with investing.

No one type of security, asset class or investment manager provides the best performance over all time periods. So by selecting a range of investments, you potentially reduce the risk of each of the investments within a portfolio experiencing drops in performance at the same time. This is simply because one asset class or manager may perform well to counter the poor performance of another.

Diversification can be implemented in three distinct ways:

Invest across asset classes

Asset classes perform differently under different market conditions. By investing across a variety of asset classes you may be able to reduce the volatility of your portfolio return.

Invest across markets and regions

Spreading your exposure within each asset class across a wide range of countries, currencies, industries and stocks ensures your investment is not narrowly concentrated in a particular region or industry. This reduces the impact of a region or industry downturn.

Invest across investment management styles

Different investment management styles tend to excel under different economic and market conditions. By combining a range of investment managers with complementary investment styles you may be able to reduce reliance on any one style in each asset class.

Understanding asset allocation

Asset allocation is the proportion of your portfolio spread across a number of asset classes, markets and regions.

The aim is to achieve a return for an acceptable level of risk by combining asset classes in a calculated way. This also helps smooth the ups and downs of each asset class returns.

There are several approaches to asset allocation in common use. They all have their advantages and disadvantages so it is important to understand the basic differences.

Strategic asset allocation (SAA) is the process of setting and maintaining the long term structure of the portfolio.

It reflects expectations about assets over the long term and is designed to reflect your long term objectives and appetite for risk.

Tactical asset allocation (TAA) refers to short term changes to asset allocation to take advantage of short-term views of the markets.

Dynamic asset allocation (DAA) is in between strategic and tactical asset allocation. It's an active approach to altering a portfolio's asset allocation over the medium term. DAA recognises markets will constantly move around from what is considered 'fair value'.

It provides a level of flexibility to alter the asset mix of the portfolio to take opportunities as they arise or to help preserve wealth if markets fall.