

What should my 'portfolio' look like?



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In the previous edition of *IFFP News*, we discussed the question: what type of investor are you?

This is an important issue for all readers to consider. If you look around, it's easy to find a range of opinions about investment and superannuation related issues. Most industry super funds also provide additional information for members.

Trying to make sense of it all can be confusing. The simple answer is that there isn't a "one-size-fits-all" answer to investing. What's right for you is dependent on a range of factors, including your income, resources, timeframe, and tolerance to risk.

So now that you may have a better idea of what type of investor you are, you can move on to working out the right type of portfolio for your investments both inside and outside super. This raises two key issues:

- > How to spread your eggs across different baskets, i.e. what choices you adopt for your super and other investments; and
- > How much to invest in each option whether it is the family home, savings, an investment property or managed fund.

Diversifying effectively

We've all heard the story about not putting all your eggs in one basket. This well-known adage reflects the concept of safety in diversification, spreading around the risks inherent in any investments. This is a great starting point for investing.

But what's also important is working out *which baskets* to place your money into. There are so many investment options and it can be difficult to know how to choose the right ones.

To explore this from another angle, let's say you are setting up a stall for the local school fete. It's a springtime event and your stall is permitted to sell two items. You've narrowed the options down to ice creams, hot dogs, coffee and frozen lemonade.

Which ones would you choose? Whichever way you go, you can probably guess that the weather on the day will have a big impact on how much you can sell.



What should my portfolio look like?... (continued from page 1)

With this in mind, choosing, say, ice creams and coffee, might give you a good chance of having a busy day, regardless of the weather conditions.

If a very hot day is forecast, ice-cream and frozen lemonade may maximise the return from your stall. If a sudden cold snap strikes, hot-dogs and hot coffee would more likely be in demand.

It's the same with investing. Remember that diversification is not just about throwing your money around haphazardly into as many baskets as you can find in order to spread your risk. In the above example, ice creams and hot coffee will do well in different conditions, and different types of investments will likewise do well at different times in the economic cycle.

How much in each basket?

Most investment opportunities can be split broadly into five main areas or "asset classes":

- > Shares or equities (managed funds and direct share holdings)
- > Property (the family home, investment properties or property funds)
- > Fixed interest (bonds)
- > Cash
- > Alternative investments ie. infrastructure (transport, telecommunications and utilities)

When it comes to superannuation, most of us have a combination of each of these asset classes in our individual member account. If you haven't made an active investment choice with your super, you will most likely be in the "Default Option".

This will usually include a pre-mixed combination of differing assets, including local and international shares and property, fixed interest or cash and infrastructure or private equity investments.

This is how your fund trustee diversifies your overall investment portfolio within a fund to reduce risk and maximise your returns. The diversification principles (not keeping all your eggs in one basket) should also apply when you are considering investment options outside of super.

For example, we know that cash is generally a less risky, stable investment when compared with shares. Therefore if you are a conservative investor, or have a short timeframe before you need to draw out your funds, you are likely to prefer a much higher portion of your money in cash through savings accounts or term deposits.

On the other hand, if you are comfortable with higher risk and direct exposure to markets, there are additional options. If you have the investment horizon to wait through the inevitable market cycles, there are options available in a managed fund or other pooled investments. If your tolerance for risk is even higher, then you may consider direct investment in a single company.

Ultimately, your investment portfolio needs to be tailored to your personal circumstances and goals. Speak to your IFFP financial planner for assistance or contact your industry super fund to learn more about the superannuation investment options and develop a comprehensive investment portfolio as part of planning for the future.

Editorial

In this edition of *IFFP News* we follow on from our Spring 2009 edition which looked at identifying what type of investor profile best suits you. We focus on how to use your personal risk profile to determine how and where your financial investments (including superannuation) should be allocated to ensure more money for you in retirement.

With 2010 being identified as a year of prosperity and opportunity by so many financial experts, now is the perfect time to gain a more in depth understanding of how to diversify and allocate your finances or 'investment portfolio'.

With talk of tax reform again on the political agenda for 2010, we look at showing you ways in which you can beat the tax man at his own game with a list of handy tax-effective savings and investment strategies that you can use and take advantage of under the current rules.

Finally, with the New Year being a daunting time for many when their post Christmas credit card bill arrives, we also offer you some useful tips to help ease the squeeze on your hip pocket during the festive season, and ways to make paying off the debt in the New Year easier and faster.

Kay Thawley
Chief Executive Officer
Industry Fund Services



What is an Investment Portfolio?

Your Investment Portfolio simply refers to where your total financial wealth is situated.

On what assets does your future financial wellbeing depend?

For many people, the main aspects of a portfolio will be their home (property), their superannuation benefits and maybe some cash savings or a small parcel of shares.

It's important to know how much you rely on each of these investments, and how well they are spread around in order to meet your future needs effectively.

Top Tax Tips for 2010

With talk of tax reform again on the political agenda for the New Year, it's a good time to look at tax effective savings and investment strategies that are available under the current rules. There are a range of options that can help boost your super or other investments.

Of course, every opportunity needs to make sense on its merits and needs to be suitable to your situation. In this respect, tax benefits are the icing on the cake – but they can be sweet icing indeed!

Some of the most common tax-effective strategies, and how they work, are perhaps best explained with an example.

Joe and Jane: making the most of their investments

Joe is in his early 50s and earns a good salary as a senior teacher at the local high school. His wife, Jane, is in her late 40s and as the kids are now older she works part-time in reception at a nearby clinic.

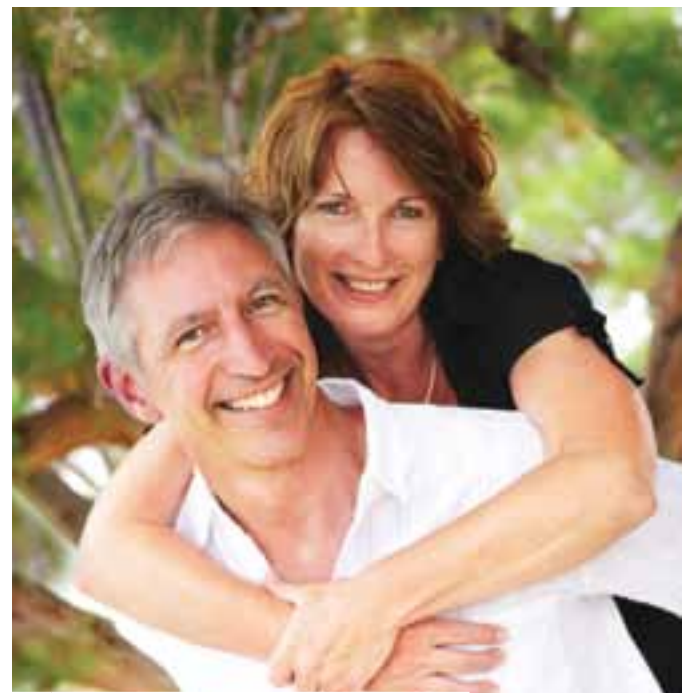
Joe and Jane are relieved that they finished paying off their mortgage last year and their youngest daughter is now in her final year of university.

They each have superannuation that has been funded only by compulsory employer contributions until now and Joe owns a few shares he has picked up through various public floats over the years. Joe and Jane also have a cash reserve that has been building up since they made their final mortgage repayment.

To help Joe and Jane plan for retirement or other future goals, what are the strategies that would reduce the drag that tax can have on their wealth-building plans?

The table below provides a snapshot of a few areas they (or you) may wish to consider. Remember that the information below is a very brief summary of some of the options available.

It is vital that your own personal circumstances are considered before commencing these strategies, and good advice can be well worth it in planning your next move.



Strategy	Who should use it?	Why it works	Other considerations
Salary sacrifice to superannuation	Joe (especially) Jane (maybe)	Super contributions come out of pre-tax salary, thereby avoiding marginal income tax rates (up to 46.5%)	<ul style="list-style-type: none"> • Restricted access to super • Need to choose suitable investments inside the fund
Invest in low-income earner's name	Jane or the children	Dividends from shares and interest from cash is taxed at a lower marginal rate	<ul style="list-style-type: none"> • Possible Capital Gains Tax and other costs when transferring ownership
Superannuation Government Co-Contribution	Jane	Tax-free lump sum helps boost Jane's super	<ul style="list-style-type: none"> • Requires voluntary contribution to super to trigger Co-Contribution • Sliding scale according to income
Margin loan to invest in managed funds	Joe (especially)	Loan interest is tax deductible against other income	<ul style="list-style-type: none"> • Appropriate for investors with high tolerance for risk • Borrowing to invest means losses (and gains) are multiplied • Income to service the loan should be reliable
Transition-to-Retirement (TTR) income stream	Joe	Super fund tax rate reduces from 15% to 0%, and may allow extra salary sacrifice	<ul style="list-style-type: none"> • Can only commence from age 55



How to avoid the post-Christmas debt hangover

Would you hand over three crisp \$20 notes in order to get your dad a \$50 gift voucher for Christmas?

Of course you wouldn't. But if you leave your gift shopping on the credit card for too long, then that is what you are doing.

Christmas is indeed the time for giving, and for many of us this means spending up on presents for family, friends, neighbours, work colleagues, or maybe even strangers. It's no surprise that retailers love this time of year.

But just like the extra food and beverages we tend to consume over the festive season, spending more than we had planned can happen before you know it.

And if credit cards are your preferred way to pay, then it might just be that a bumper monthly statement is heading your way right about now.

Tips to keep things under control

Christmas 2009 may be gone, but if you are suffering the financial hangover then there are some useful ways to limit the damage.

For starters, take a look at how you paid for last year's gifts. If it was credit cards or other personal loans, make sure you focus on paying them off as soon as possible. If you've drawn funds out of an account that was set aside for some other purpose, you might start rebuilding your savings towards those desired goals.

And as far as next Christmas is concerned, now is a great time to plan if you want to do things differently – while the pain is still raw.

There are various savings accounts and schemes around that help you pay for Christmas gifts gradually each week or month. However if you have the discipline to keep to your task, all you might need is a piggy bank or drawer in the spare room to hold your loose change or presents that you pick up during the year.

And keep an eye out for store sales that take place at key times during the year. Not only might you pick things up for a cheaper price, but you'll also probably choose more suitable gifts than when you are rushing around on Christmas Eve.

Can you imagine getting to the 1st of December this year knowing that all your gifts have been chosen and paid for? Wouldn't that be a wonderful feeling?!



Top 5 credit card tips

- 1 Consolidate your cards into one.** Why pay annual fees on three or four cards when you only have to pay one? Having just one card also helps you to keep better track of how much you owe.
- 2 Don't be fooled by the "minimum payment".** It's only a small percentage of your balance, so it won't help you get rid of the debt in a hurry. Plus interest-free periods usually only apply if you pay off the whole balance each month.
- 3 Ask for discounts or fee waivers.** The worst thing that can happen is they say "no". Depending on who you do your other banking with and how much you spend, you might qualify for a loyalty rate discount or reduced fees.
- 4 Use a debit card.** If you can't live without the convenience of plastic, think about adding your own money to the card before you spend, to help keep your balance under control.
- 5 Be secure when using the internet.** The rules might seem basic, but don't forget them. Logout completely before you leave your computer. Don't reply to unsolicited emails and check your statements regularly to see if anything looks out of place.

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