
# November 2014

Welcome to the latest edition of our client newsletter!

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

Reflecting on the importance of financial security, now might be a good time to speak with those close to you about the importance of being financially literate – no matter what stage of life they're at. Transferring your knowledge and ideas can really help improve the financial literacy of those you care about.

If you have any questions or enquiries about any of the articles in our newsletter, or any other financial planning topic, don't hesitate to contact us on 1800 004977.

We hope you enjoy reading this edition.

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# Let's talk about money

When it comes to analysing the state of Australian relationships, you can forget the bedroom. The really revealing behaviour takes place behind closed bank accounts.

It is no secret that money is often at the heart of divorce and family disputes. Money has certainly not bought love for Australia's richest person, Gina Rinehart who is locked in a bitter court battle with her children for control of a $5 billion family trust[i].

But you don't have to be a billionaire to get embroiled in conflicts about money.

Research by Relationships Australia found that 37 per cent of women and 30 per cent of men rate financial woes as the main cause of divorce[ii]. The gender difference may be explained by the fact that women tend to manage the household finances and are first to feel the pressure when budgets are stretched.

Perhaps this helps explain why some couples are secretive about their money. In a recent study of married and de facto couples, 3 per cent of respondents admitted to having an account they kept secret from their partner as a 'safety net' in case something happened[iii].

So how can couples, and families more broadly, bring money issues out of the shadows, reduce conflict and create financial trust in their relationships?

## Discuss your money philosophy

In the early stages of a relationship couples may discuss attitudes towards children and their dreams for the future, but attitudes towards money are just as important if they are to live happily ever after.

For example, one partner may believe money is for enjoying while the other wants to budget and save for a home deposit. It is important to discuss philosophical differences to see if you are able to work together before it is too late.

## Be open and honest

Trust is one of the most important ingredients in a successful relationships and money has a role to play in developing and maintaining trust.

Having separate bank accounts alongside a joint account for household bills can give couples a sense of control over their money and help avoid conflict. However, in order to maintain trust it is important to be open about all your personal finances and spending.

## Agree on a budget

While budgeting may sound very last century, it is a powerful money management tool.

By sitting down with your partner to draw up a budget and track your progress you will not only identify savings but also start a conversation about your spending habits and money goals.

## Be an equal partner

Many couples find it easiest to divide household roles between. But if one person takes charge of the big money issues it is important that their partner understands their joint financial position and is included in all decision-making.

If you find it difficult discussing more complex money matters with your partner, make a point of sitting down together with your financial and legal advisers so you both understand your financial position. And it goes without saying you should never sign a document you don't understand.

## Educate your children

The sooner you teach children good money habits the better. When they are young, help them open a bank account and set savings goals. When they are older, consider including them in family budget meetings and encourage them to get a part-time job to help pay for major purchases or a gap year trip.

By establishing good money relationships with your children early in life it should be easier to discuss difficult issues such as your estate plan and perhaps their inheritance. With a bit of luck, by setting a good example you may help them successfully negotiate their own financial journey.


i. ABC News, 24 June 2014, http://www.abc.net.au/news/2014-06-24/gina-rinehart-family-feud-over-billion-hancock-mining-trust/5544760

ii. 'Financial stress main cause of divorce' by Marissa Calligaros, Brisbanetimes, 12 Oct. 2008, http://www.brisbanetimes.com.au/news/queensland/financial-stress-main-cause-of-divorce-for-women/2008/10/14/1223749983243.html

iii. Smart Company, January 2014, http://www.smartcompany.com.au/finance/wealth-management/35083-secret-bank-accounts-see-people-stash-over-100-000-from-their-partner.html#

# Planning to avoid financial mistakes

Selling shares when prices have tumbled or buying a house at the height of a property boom only to dispose of it when the market falls are among the financial set-backs that can happen to anyone on the road to retirement.

Everyone makes mistakes during their investment lifetime; the trick is to avoid them when you can and learn from the ones you can't.

## Have a plan

Failing to plan for retirement and build up savings is one of the most common mistakes. Having adequate retirement funds can be undermined by unrealistic expectations about future lifestyle and the savings needed to fund it.

Many retirees are unable to access the age pension because they are asset rich despite being income poor. Putting well thought out investment plans in place to boost your retirement income well before you reach retirement age is the best strategy to overcome such a problem.

It's probably no surprise you are more likely to achieve your financial goals if you have a plan. In the construction of a financial plan you should take account of your risk tolerance, your financial commitments and financial and lifestyle goals. This will give you the confidence to know you can get to your desired destination. A comprehensive plan should also take account of tax, cash flow, superannuation, insurance needs and estate planning issues.

## Stay calm

Impulsive decision-making at the first sign of trouble can undermine your investment goals. If a quality share investment or rental property suddenly falls in price due to a market correction, it is often not the best time to offload. As one wit put it, "Don't just do something, sit there".

Staying the course and letting time work its magic will often leave you in a stronger position.

Equally, investment inertia can be problematic. Strong or poor performance can lead to your investment portfolio moving outside your required risk tolerance over time. Regular reviews to rebalance investments back to your target asset allocation will more likely bear fruit in the long term.

## Spend less than you earn

Drawing up a budget is vital if you want to discipline yourself to spend less than you earn. Failing to budget makes it difficult to keep track of spending and set aside regular savings to fund a comfortable retirement.

Bank transaction accounts are ideal for daily spending money but not investment money. In order to beat inflation and produce the returns you need to fund your financial goals over time, you need to build a diversified investment portfolio to match your capital requirements.

Spreading money across the major asset classes of cash, fixed interest, shares and property helps minimise risk. It also helps produce consistent returns from a combination of income and capital growth over the long run. The precise combination of assets is dependent on your risk profile. Your adviser should undertake comprehensive research and implement proven portfolio construction principles.

## It's never too late

It's never too late to start planning for retirement. Paying off the mortgage is often considered the first step to wealth creation so increase repayments where possible to speed up the process. Once you have built up equity in your home other investment options can be investigated concurrently.

Topping up your super through salary sacrifice is one such option, provided you stay within your annual contribution limits. Your employer pays a proportion of your pre-tax salary into your super fund, reducing tax and boosting your savings at the same time.

## Review regularly

Financial planning is a dynamic process. Regularly reviewing your investments, refraining from knee-jerk reactions, understanding market volatility and staying the course can lay the foundations for a prosperous retirement.


'The five biggest money mistakes', Sydney Morning Herald, 29 January, 2012, viewed 31 March, 2014

'The ten worst retirement planning mistakes', Your life choices, 13 April, 2012, viewed 31 March 2014

'The 10 worst retirement planning mistakes', Count website, first published in Your Life, Your Retirement magazine, viewed 31 March, 2014


# Are we becoming a cashless society?

Australians are edging towards a cashless future, as consumers use debit cards or other electronic payment methods in preference to cash at the checkout and online. But whether we will entirely shun notes and coins in the future is not certain.

For one thing, cash has its benefits. It's easier for small transactions such as buying a coffee or tipping a waiter. However, the rise of contactless, credit and debit cards is outstripping ATM withdrawals, suggesting that cash is on its way out. And when we do get money, it is often debited straight into our accounts.

According to research by the Australian Centre for Financial Studies, the combined value of debit card purchases (including cash-outs) was $16 billion in June 2013, overshadowing the value of ATM withdrawals at $11.4 billion.[i]

## Need for cash declining

A surge in contactless cards and EFTPOS terminals that accept tap-and-go payments is reducing the need for cash even further. As retailers shift to contactless payments, EFTPOS terminal numbers have soared – up by 15,000 in the year to June 2013 alone to 780,000.[ii]

If there was any doubt that the cashless future is already upon us, figures from Reserve Bank of Australia provide solid evidence. Cash withdrawals slipped from a total of 64.4 million in January 2012 down to 61.6 million in January 2014.[iii]

There is no doubt that the convenience of flashing your plastic has fuelled a reluctance to carry cash around, promoting contactless payments that make transactions all too easy. But there is a downside.

While cashless transactions provide security from theft, they increase the potential for credit card fraud which is on the rise.

## Fraud an issue

According to the Australian Payments Clearing Association, the rate of fraud on Australian-issued payment cards reached 48.7c in every $1,000 transacted last year. As Australians take to online shopping, so-called 'card-not-present' fraud increased from $183 million to $220 million.[iv]

Credit card providers are working to reduce fraud by replacing signatures on chip credit cards with more secure PINS. From August 2014, signatures will no longer be accepted.

But just as one opening for fraudsters is closed down, another is opening. Mobile phones are being used increasingly for online shopping and financial transactions and this has provided an opportunity for fraudsters.

To avoid this trap, check the security of a website while paying online. It is also important to examine monthly bank statements for small and suspicious deductions and refrain from sending credit card information via email.

Using a second, low-risk payment card for online shopping may also help minimise the fallout from fraud. For example, a reloadable prepaid card provides the benefits of a credit card with less risk.[v]

## Budgeting crucial

The shift to a virtual wallet is moving so quickly, many parents worry that their children have little understanding of where money comes from or how to manage it.

Certainly budgeting can be challenging without physical money in your wallet or paper receipts to keep track of spending.

One way to counter this is to check your balance regularly online or on your mobile phone. It is also a good idea to set aside time each month to go through your bank statements to understand where money is going and make necessary adjustments.

By treading cautiously and diligently tracking spending, you can enjoy the benefits and convenience of a cashless society without busting the budget or opening your wallet to fraud.


i. Australia Centre for Financial Studies, Monash University, Worthington S., Regulatory Interventions and their consequences

ii. The Conversation, **Are we moving towards a cashless society – or simply less cash?** Visited July 4 <http://theconversation.com/are-we-moving-towards-a-cashless-society-or-simply-less-cash-20493>

iii. Reserve Bank of Australia. Payments data. Visited July 4. <http://www.rba.gov.au/payments-system/resources/statistics/>

iv. Australian Payments Clearing Association media release. June 2014. Visited July 10 <http://apca.com.au/docs/2014-media-releases/new-payments-fraud-report.pdf>

v. Creditcards.com Australia, **Paying with plastic: managing your invisible money** Visited July 11<http://australia.creditcards.com/credit-card-news/managing-invisible-money-622.php>