

# The Key

Issue 25 of the latest market insight  
from Financial Services Partners



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## Think twice before cancelling your insurance

The state of the economy has forced many people to review their budgets to find ways of cutting back on expenses. However if you are thinking that one way to do this is by cutting back on insurance you should consider the consequences of this very carefully first, especially when it comes to your personal insurances.

Recent statistics show that the payout on personal insurance policies increased from \$2.1 billion in 2007 to over \$3 billion in 2008. More people than ever before in Australia are benefiting from their wealth protection strategy.

Personal insurances will pay you or your dependants a lump sum payment or replacement income in the event of your death, disability, long-term sickness or injury. Without enough insurance cover in place, you and anyone who depends on you is exposed to a greater risk of financial hardship.

An independent study, commissioned by ING Australia, recently highlighted that for 65% of respondents affordability was the key reason for cancelling their life insurance policy.

If affordability is an issue and you are considering cancelling your life insurance cover, ask yourself the following questions first:

1. How would my family deal with the cost of us not having the correct insurance in place if something happened to me, or my partner?

2. Have I reviewed my level of cover to check if I still need the same amount of cover I originally took out?

3. Will I be able to get cover easily again if I cancel - am I much older, or have I had a medical condition since I first took out the policy?

4. Does my policy have features or options that I can use to my advantage, such as the ability to freeze premiums, reduce the amount of cover or take a premium break?

5. Have I checked what life insurance I have through my super?

6. Could I buy extra, cheaper, life insurance through another insurance provider?

7. If I am between jobs, what are my options to keep my cover going?

8. Have I spoken to my Financial Services Partners adviser to assess my current life insurance needs and to discuss my options first?

Personal insurance products have many different options and conditions. It's really important to make sure you know what you need before buying or cancelling any policy. If you need assistance in understanding your life insurance options contact your Financial Services Partners adviser.





## Making plans for retirement

When clients first start talking to their financial adviser about their retirement planning, one of the first questions they ask is 'how much do I need?'. The solution depends largely on the kind of retirement lifestyle you are looking to lead.

Recent research undertaken by the Association of Superannuation Funds of Australia (ASFA), found that to have a comfortable lifestyle, a couple will spend \$50,771 a year while a couple living a modest lifestyle will spend \$27,547. The main differences in spending were in travel and leisure, health services and insurance, household items and clothing.

If you're looking to plan for your own retirement, make plans sooner rather than later. There are also a number of superannuation and other strategies your Financial Services Partners adviser can put in place to help you realise the retirement lifestyle you'd hoped for.

## Unlisted investments - what you need to know

An unlisted investment is not listed on a public stock market, such as the Australian Securities Exchange (the ASX). While there can be benefits to this type of investment, sometimes it can be hard for investors to know what's going on with their investments because:

- you can't see the price of the unlisted investment (and whether it is going up or down) or sell it quickly if you want to
- it can be harder to get out of the unlisted investment early, and
- unlisted investments are not subject to the ongoing supervision of a market supervisor.

Recently we have seen it reported that a number of Industry Superannuation Funds have re-valued or are about to re-value their unlisted assets. This means that the value of these assets may fall, given current market conditions. If you are an Industry fund member or know someone who is, who needs financial advice on this topic, refer them to your Financial Services Partners adviser.

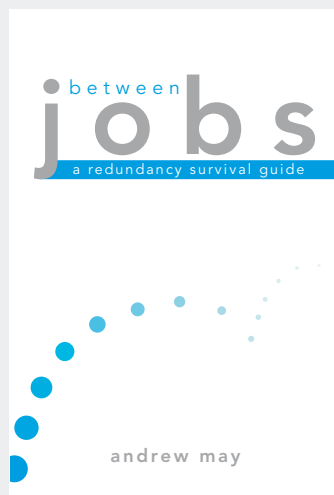
## Between jobs advice

We're delighted with the response we've received from our advisers who have given their clients a copy of Andrew May's new book, *Between jobs - a redundancy survival guide*. The book is a partnership between Andrew May and Financial Services Partners to help people through the difficulties of losing their job.

At the present time the unemployment rate in Australia is 5.8% (668,000 people). These statistics however don't tell the whole story. Andrew May says "The issues that stem from redundancy are far greater than financial issues. Being between jobs can have consequences on an individual's identity, their relationships, and their

health. It has a big impact on their family too."

If you know someone who needs some between jobs support, please refer them to the book. *Between jobs - a redundancy survival guide* is available in Angus & Robertson, Dymocks, QDB and independent bookstores. It's also available online at [www.betweenjobs.com.au](http://www.betweenjobs.com.au). And as always, your Financial Services Partners adviser is able to assist should you, or someone you know, need redundancy advice.



Andrew May



# Rising interest rates and your mortgage

In previous editions of The Key, we have spoken about mortgage rate cuts and getting the best deal you can with your mortgage. After all for most of us a mortgage will be the most significant expense we will have in our lifetime.

Now that the economy is showing some signs of recovery the Reserve Bank of Australia has started raising interest rates. Governor Stevens recently warned that mortgage holders should factor in rises of up to 2% in the next year. Two percent doesn't sound like much, but on a loan of \$300,000, 2% translates into an extra \$500 a month you'd need to find, in order to keep to the existing term of your loan.

## The question many mortgage holders have now is should I fix my mortgage rate?

A variable interest rate means your lender can increase or decrease this rate to match general changes in interest rates. Fixed interest loans are loans where the rate remains unchanged for an agreed number of years, however the interest rate is usually a little higher than for variable loans. Choosing whether or not to fix is a personal financial decision and you should carefully weigh up the pros and cons before making a decision.

### Fixed rate - the pros:

- A fixed rate will allow you to budget so you know exactly what your repayments will be for the duration of the fixed term. The certainty that this gives you can be important if you feel your budget is already stretched to its limits.
- If interest rates rise during your fixed rate term, your repayments won't be impacted.

### Fixed rate - the cons:

- If interest rates are cut you won't benefit from the drop.
- If you decide to move back to a variable rate before the term finishes you may have to pay a break fee.
- A break fee may also apply if you pay off your mortgage early, or remortgage.

### Variable rate - the pros:

- Over time the total cost of a variable interest rate loan is generally cheaper than for a fixed interest rate loan.
- If interest rates drop your repayments will also drop.

### Variable rate - the cons:

- It is not possible to predict what rates will be in the future. This means your budget may not be able to cope with any interest rate rises that might happen.

It is important to understand what features and rules apply to your loan as they will vary from one loan to the next and are likely to influence your final decision. For example you may have an option to split your loan between variable and fixed. This can allow you to take an each way bet by fixing the interest rate on half the loan while the other half remains variable.

### What other clients have done:

- Worked out the cost of monthly repayments for the fixed rate (it is higher) and if that is within budget used that monthly repayment amount for the variable rate loan. This has enabled them to get ahead in repayments which can provide a buffer if/when the variable rate increases
- Taken an each-way bet by fixing half of their loan and leaving the other half on a variable rate.

### Before you make a decision you should:

- work out the cost of repayments for both a fixed rate and variable rate
- review your budget and decide how much you can afford to repay each month
- talk to your lender to find out what features and rules apply to your loan
- consider your medium and long term goals for the future
- decide what is important to you and your personal financial situation.

Remember your Financial Services Partners adviser can help you review your current financial situation as well as your future goals and help you prepare a budget.

# Phone investment scams alert

It is hard to believe but Australians have lost at least \$400 million to telephone investment fraud in recent years. Beware of phone calls out of the blue selling investments and financial products. If someone calls you unexpectedly offering financial investments or products, the best response is to ask them to take you off their call list and hang up.

Cold calling about financial products or services is illegal if the caller does not have an Australian Financial Services

Licence from the Australian Securities and Investments Commission (ASIC). For more information about this topic and for a blacklist of cold callers visit [www.fido.gov.au](http://www.fido.gov.au).

Awareness about phone investment scams is the first step to stopping them. It's something important to talk about with your family and friends too - to make sure they don't get caught by them either.



# Market commentary

The Australian economy has rallied sharply over the past six months. This was driven by the realisation that the worst case scenario for the global and Australian economies did not eventuate, and that prospects of recovery for the global economy are improving. The big issue on the horizon will be around what will happen when governments around the world begin to withdraw the large amounts of monetary and fiscal stimulus.

## Australian Shares

The Australian share market rose strongly over the September quarter, with the S&P ASX 200 Accumulation Index up 21.5%. Over 12 months the share market has risen 8.3%. The Australian economy continued to show its resilience with second-quarter GDP growing by a better than expected 0.6%/qtr, above expectations. Growth in the quarter was driven by domestic demand through private consumption and private investment, spurred on by government cash handouts and business investment incentives.

Profit reporting season made headlines over the quarter. On the whole, profits were better than market estimations, with few disappointments, although profits were still down around 17% from a year earlier. Over the quarter, listed companies continued to recapitalise through raising additional equity capital. Over the past 12 months over \$A100bn has been raised with large raisings over the quarter, including Telstra and National Australia Bank. Mergers and acquisition activity has also risen and a number of initial public offerings (IPOs) have been announced, with Myer the most high profile.

## International Shares

The global economy continues to show signs of strength with improving business and consumer confidence measures and improving manufacturing surveys. Some countries recorded positive second quarter GDP growth figures, including China, Korea, France and Germany, The US economy recorded a contraction of -0.7% annualised over the quarter, better than market expectations.

Markets in Europe were also positive with some tentative signs of improvement in the European economy. Germany (+18.0%), Spain (+20.1%) and France (+20.9%) all rose. Over 12 months, Spain is positive, up 7.0%. The UK FTSE 100 rose 20.8% in the quarter. Unemployment across Europe continues to rise, however, reaching 7.9% in the UK, 18.5% in Spain and 7.7% in Germany. Asian markets were positive but still experienced mixed performance. Japan's Nikkei index underperformed, up just 1.8%.

## Fixed Interest

In Australia, the Federal Government released its final Budget outcome for 2008/09. The Budget deficit was A\$27.1bn, or 2.3% of GDP, versus forecast of A\$32.1bn or 2.7% of GDP. The better result was due to higher than expected tax revenues, especially from company profits.

The Reserve Bank of Australia (RBA) left official interest rates on hold at 3.0% over the quarter, but did raise interest rates to 3.25% in early October. The RBA signaled some improved optimism for the Australian economy, stating "economic conditions in Australia have been stronger than expected, with consumer spending, exports

and business investment notable for their resilience". The RBA did note a change in risks to inflation, highlighting that the "likelihood of inflation being persistently below the target now looks low".

## Listed Property

The Australian property sector rose 30.5% in the September quarter, although it is still down 23.7% over 12 months. The sector has now risen 56.8% off its lows in May. Confidence has returned to the sector, following large capital raisings and debt reductions.

The sector has undertaken a large work-out programme over the past 12 months, raising capital and setting more realistic earnings expectations. The sector is also trading on a firm yield, which has started to prove attractive to investors with an improving domestic economy. Concerns are still held over the commercial property sector, with valuations still falling and tight access to credit remaining.

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