

Planning for a healthy, wealthy and wise retirement, ensuring your income and preserving your estate, from one generation to the next



A word from Joy...

Finally, Financial Planning commissions to be banned...
(from July 2011).

If the Rudd Govt obtains a mandate, Financial Planning commissions will cease on or before July 2011, with dire ramifications if Advisers do not obtain client's agreement to replace these with fees.

Whether your Adviser is paid via commissions or a fee should make no difference if you are fully aware of what your Adviser receives and you are satisfied with the benefits you are receiving.

The problem is not the payment of commissions per se. The real problem is the **lack of independence in the advice** that you receive. The lack of independence is exacerbated, sometimes caused, by receiving commissions from a fund manager who **also** stands to gain from the relationship.

Why is independent advice so important? The answer to this is best demonstrated by the following **true** story, experienced in our office not more than 2 months ago...

During their first consultation a new client assured us they were paying no fees. (How they thought their fund managers and advisers were being paid was not clear – to them or Segue's Adviser at the time).

On close scrutiny they were, in fact, paying more than 2.6% for the pleasure of having people 'mind' their money.

That's right, 2.6% just to 'mind' their money. They were receiving **no** advice, **no** planning, **no** reviews, **no** tax strategies, **no** estate planning, **no** consideration of their objectives, **no** asset allocation adjustment to ensure their portfolio was more closely aligned with their aims and objectives, **no** changes to take into account their changing needs, **no** Centrelink planning, **no** consideration of alternative structures, **no** new options and/or opportunities to improve their outcomes... The list of lost opportunities made what they didn't know a real **cost**. **Fees, if understood and appropriately applied are an investment – not a cost.**

Ignorance is at the root of the problem with 'commissions'. People don't know what they don't know and commissions, even when they are clearly declared, are not comprehended

but rather 'swallowed', sometimes 'lost' in the vast amount of information that clients must digest. Because all fees go first to the fund manager who passes some to the advisor, people tend to think they are "just an investment cost".

There are no upfront commissions and no ongoing (trail) commissions when you invest in Segue's Portfolio Management Services. Segue's fees are stated clearly at your first meeting and they include a strategic plan designed to meet your aims and objectives; ongoing advice and management of that plan; tax strategies; estate planning; asset allocation and adjustment to ensure your portfolio continues to be closely aligned with your aims and objectives; changes that take into account your changing needs; Centrelink Benefits; consideration of alternative structures to optimize every area of need; new options and/or opportunities to improve your outcomes; regular reviews mutually agreed as frequently as required.

Call Simon or Joy on 9509 1599 if you would like to discuss your desire for **totally independent** advice – no commissions.

Bigger homes. Bigger waistlines. Bigger debts...

Did you know that Australia has the highest household debt to disposable income ratio in the world? It's even higher than America's. Bigger homes. Bigger waistlines. Bigger debts. Australia is in the middle of its own credit boom.

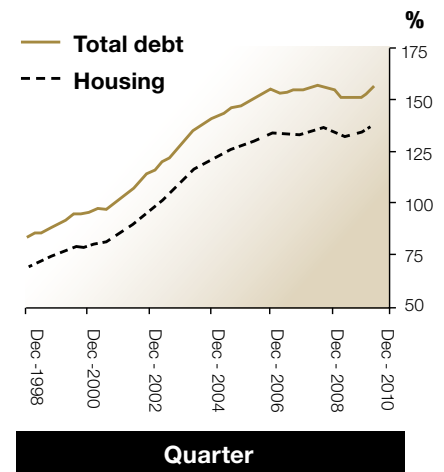
The ratio has turned up again recently. It's around 156% today, largely thanks to the mini-boom in mortgage lending.

Fitch Ratings late February said that rising interest rates in 2010 would trigger more home loan and commercial mortgage defaults. It said this would cause some "deterioration" in the quality of assets that underpin mortgage-backed bonds.

"The improvement in Australia's structured finance asset performance, which was experienced during 2009 thanks to historically low interest rates and a resilient economy, is unlikely to continue during 2010," said David Carroll, the director of Fitch's Australian structured finance team.

Fitch is talking about bonds and structured products made up of mortgages and commercial real estate leases. That's an interesting story and will affect the quality of bank assets (and perhaps mortgage funds and listed property investments). Does that have a familiar ring? Will the Goldman Sachs story be repeated here in Australia? We'll wait and see.

Household Debt To Household Disposable Income Ratios



Source: Australian Bureau of Statistics

Australians all let us become...

...more productive, for we are getting older!

Could this be a new Anthem? You need to look no further than the headline in Sunday's Age (April 25) for your answer.

Prepare to work until you're 100

In the article John Beard, director of the World Health Organization's department of ageing and life course, said employers should allow staff to keep working into their 80's and 90's if they want to, in order to cope with the growing cost of an ageing population. He went on to say pouring money into hospitals and pension plans was not the solution. The solution according to the article is to rethink the policies that view older workers as "untrainable". Are there many 70 year olds out there happy (wanting) to be retrained to work on until they drop?

Will you have 70-year old coal miners working in Queensland? What kind of work can an ageing population reasonably be expected to do?

Even though our children are younger (and perhaps freer) than many other countries, they might not be so confident after reading parts of the Government's latest Intergenerational Report, released early March 2010. See it at: <http://www.treasury.gov.au/igr/igr2010/default.asp>

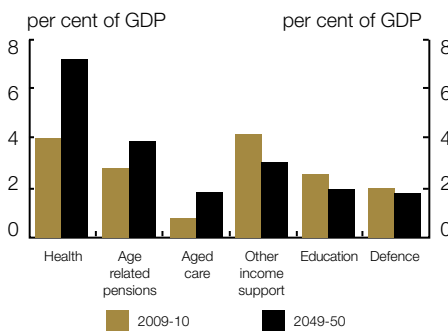
Will they come to resent the Government for encouraging them, via grants, to get into the house market when prices were high and interest rates low? Nick Gardner in the Sunday Telegraph stated, "Almost half the first-home buyers lured into the market by the Rudd Government's grant are struggling to meet

their mortgage repayments and many are already in arrears on their loans. With interest rates rising it's only going to get worse.

Expect the recently announced increase to compulsory super from 9% of wages to 12% to be gobbled up paying for Australia's increasing old age and health care liabilities rather than improvements in lifestyle - a point made in the Intergenerational Report.

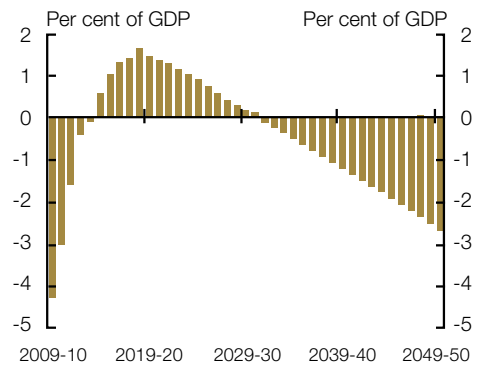
The ageing of a large segment of the population will lead to increased national spending on healthcare as a percentage of Australian GDP. As you can see from the chart below, health, aged pensions, and aged care are all expected to go up as a percentage of Government spending and GDP.

The Boomer Retirement Bill Comes Due



To pay those bills, you need more tax payers and higher taxes. Or you need more productivity. That's what the Government is counting on. It hopes that increases in output per hour by Aussie workers will deliver higher GDP growth and thus higher Government tax receipts. But even so, the Government itself projects a growing "fiscal gap", shown below as the annual Federal deficit as a percentage of GDP.

Australia's Growing Fiscal Gap



The importance of intergenerational wealth management to ensure the next generation survives the onslaught of costs and taxes with the potential to erode their assets has never been greater if they are to enjoy the choices that retirees have today. (See article *Integration of Family Wealth Planning* below)

Integration of Family Wealth Planning

With over 400,000 self-managed super funds operating in Australia now, the strategic focus for many trustees (and their advisers) is on the integration of family wealth planning within the SMSF. SMSFs allow the aggregation and investment of a family's superannuation benefits as well as providing a pool of monies and assets to look after family members, children and grandchildren.

So how do we best manage the progression of a SMSF to a Family Super Fund?

- Establishing family super constitutions & agreements
- Managing estate planning within the family super fund

Top five family super fund strategies –

1. SMSF borrowing and member profiling to build investments in the fund
2. attune the profiles of the members of the fund to reduce fund taxation
3. build a family insurance plan in the fund with trauma, life TPD and salary continuance
4. build Wills and auto-reversionary pensions into SMSF estate plans
5. use SMSF Living Wills to plan for incapacity.

Watchouts –

1. family disputes
2. who controls the fund
3. the right trust deed – drives and controls what the trustee can and cannot do.

More on this subject in the June Segue News.

Managing your health to enjoy your wealth

The Sweet Way To Lower Blood Pressure and...

Recently scientists discovered that eating chocolate regularly significantly reduces the odds of having a stroke. Now other researchers are providing even more evidence that chocolate—especially the dark variety—benefits the entire cardiovascular system. In fact, eating just one small square of chocolate a day can lower your blood pressure and reduce your risk of heart disease.

How? One possibility is that the phytochemicals known as flavanols that are abundant in cocoa somehow protect the cardiovascular system. Because dark chocolate contains more cacao—and, therefore, more flavanols—it may have more health benefits than other varieties

of chocolate. Flavanols are responsible for improving the bioavailability of nitric oxide from the cells that line the inner wall of blood vessels (vascular endothelial cells). Nitric oxide is a gas that, once released, causes the smooth muscle cells of the blood vessels to relax and widen.

Add one ounce or less of chocolate that contains at least 70 percent cacao to your diet each day. This amount has been shown to reduce oxidative stress and improve vascular and platelet function. Savoring a small piece or two of high quality dark chocolate after dinner is a tasty way to boost your polyphenol levels. It's one sweet treat that your heart will love!

Stay well.