GFM Wealth Advisory | TRADE SECRETS

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SMSF Specialists | Investment Management | Financial Planning | Accounting

IN THIS ISSUE

INVESTMENT MARKET WRAP: 2014/15 FINANCIAL YEAR

By Tony Gilham

It looks like a good dose of volatility has come back into investment markets, but with lots of problems around the world, it's still pleasing that most Australian investors got through with good returns on their portfolios, significantly better than the results achieved from cash and fixed interest investments.

The table below shows the financial year returns through to 30th June 2015, for the 5 major asset classes:

The standouts once again were International Shares and A-REITS, with astonishing returns in excess of 20% for the year.

Australian Shares

There were a couple of nasty months during the year (September 2014 and June 2015), but also some very good periods and even though a return of 5.68% isn't large, at least it's reasonably positive.

Our sharemarket put on +12.81% from mid-January to late April, but the month of June was quite negative at -5.30% as a result of Greece failing to meet its repayment commitments and the Chinese sharemarket taking a thumping at the same time.

It's estimated that resource company earnings were down 30.2% for the financial year, but all other companies were up +6.5%, quite a good result in a subdued economy. At the end of the financial year, the dividend yield across the ASX was 4.7%.

International Shares

The global sharemarket index, the MSCI World (ex-Australia) was slightly negative for the year, losing -0.45%, but for Australian investors it was extremely profitable with a total return of 25.18%, as a result of the significant decline in the Australian Dollar over the year.

Australian investors in unhedged international sharemarket portfolios have now generated returns in excess of 20% p.a. for the last 3 financial years.

A-REITS (Listed Property Trusts)

Another very pleasing result for the year at 20.26% and an average over the last 3 years of 18.39% p.a. Most of the quality A-REITs are now lowly geared, well managed and provide dividend yields of around 5% p.a. or more.

The Australian Dollar

The AUD closed the financial year at US 76.80 cents, a decline of 18.47% over the year, or put another way, Australian investors saw their international assets grow in value by 22.66%, in Australian dollar terms.

And 3 days after the end of the financial year, the AUD went to a 6 year low of US 75.10 cents and we are still of the view that our dollar will end up below US 70 cents, possibly in the next 12 months.

Interest Rates

You struggle to get 2.0% in a cash account and term deposits out to 1 year are yielding less than 3%. The 90-day Bank Bill rate averaged 2.51% for the year, with the Reserve Bank cutting the official cash rate to 2.0% in May.

10 Year Government Bonds finished the year at 3.01%, but the bond index had a reasonably good year returning 5.63%. We think the good days for bond investors are well and truly over.

Commodities

Over the Financial Year, the oil price dropped 43.9% and the iron ore price dropped 35.2%, although both made up some ground in the last couple of months.

Needless to say, the major resource stocks in Australia, including BHP Billiton, Rio Tinto and Woodside Petroleum have found it very tough but are still making good profits.

And the year ahead?

It's almost certain that interest rates in Australia and around the world will remain at historic lows, which makes share-market and property market assets more valuable, as a result of their good cash yields. The possibility of a Greek default is making markets quite nervous in the short term, but we think the overall impact in the medium term will be quite small.

After three phenomenal years in Australian and global investment markets, certainly a period of more subdued returns is on the cards and like we've seen recently, there probably will be some negative periods.

UPCOMING MOVE TO NEW OFFICE: FRIDAY 14TH AUGUST 2015

By Tony Gilham

Some of our clients would be aware that we are building a new office. The new office is at 190 Through Road, Camberwell, not far from the junction of Warrigal Road and Riversdale Road. We are maintaining the same phone numbers and postal address.

We are scheduled to move into the new office on Friday the 14th of August. We will be offline that day and we will remind you of that again leading up to the move. We will be set up and ready for business on Monday the 17th of August.

Since the merging of the businesses 18 months ago, we have operated out of different offices, but now we have the huge advantage of all being located in the one office. This will make things a lot easier for all concerned.

This is an exciting development and all of the team are very much looking forward to it.

ROBERT & SANDRA BISCOE: CLIENTS OF GFM SINCE 2007

By Paul Nicol

Robert and Sandra have kindly written the article below on their family, working life, retirement and the relationship they have had with our company since 2007. We greatly appreciate their contribution to Trade Secrets.

Sandra and I have been clients of GFM since June 2007, 2 years prior to retirement. A pity it wasn't sooner.

I left secondary school and went onto study wool classing at Melbourne School of Textiles in 1966, followed by stints in the public service and the hospitality industry. I went onto work in the hydrocarbon industry with Esso Australia Ltd. in 1977 and retired 32 years later in 2009.

Sandra worked in clerical, secretarial and bookkeeping positions with the Local Government and the hospitality industry, where we met and later married in 1974.

In 1976 our daughter Saasha was born and from that time Sandra became a stay at home Mum. We have two grand-daughters, aged 3 years old and a 7 month old at the time of writing this profile. How the years have flown by!

In our retirement, Sandra and I continue to enjoy travelling overseas and within Australia. Our hobbies mainly centre around family but we do like to travel. I like the occasional game of golf, car club activities with the Mercedes Car Club, collecting wine and the odd piece of artwork. Sandra also enjoys photography and travel.

We became clients of GFM on the recommendation of a work colleague who is now a close friend and is a long standing client of GFM. One of the best bits of advice we could have been given at that time.

From outset, Sandra and I were impressed by the professionalism and frankness of how Paul went about explaining the workings of GFM and what they could and couldn't offer us. There was also discussion as to what Sandra and I were looking for in a financial advisor and what were our expectations and Risk Profile.

This was in stark contrast to what other financial advisors/wealth management people were offering, in some cases crystal ball gazing.

Sandra and I made it clear to Paul that we wanted a long term relationship with our Financial Advisor and were not interested in being shuffled through a myriad of advisors.

Sandra was also encouraged by Paul to give her input and was treated with dignity and respect, after all it was her money and future as well as mine that was at stake, where ever we ended up.

It didn't take us long to come to a decision as to who was going to manage our financial future.

We believe that in our current situation with GFM, post GFC, we are in a better position than had we gone elsewhere.

GFM has a long term, stable workforce who are diligent, courteous, professional and where nothing appears to be too much trouble for their clients. We have no hesitation in engaging with GFM in all financial matters, knowing that we are treated with respect and all is confidential.

Sandra and I are extremely impressed by GFM, in the way Paul and staff attend to our needs and those of our family members who have come on board and other family members who will do so at some point going forward.

Our financial goals are being achieved by sound, consistent advice, ensuring we receive the right information to keep our SMSF compliant in what would be a process too complex for lay persons such as ourselves to manage.

The seminars throughout the year are a valuable education resource in helping us to understand the financial complexities of markets, investments and other topics such as Estate Planning.

The relationship we have with Paul and staff has become stronger in the 8 years we have been clients of GFM, due to the honesty, transparency and due diligence and friendship they have displayed over this time.

Thank you Paul, Witi, Mai, Patrick and the rest of the team for making our experience with GFM both pleasant and rewarding.

CHANGES TO THE CENTRELINK ASSETS TEST

By Bree Hallett

On 22nd June, changes to the Centrelink Age Pension Asset Test thresholds passed the Senate. These changes will come into effect from 1 January 2017. If your entitlements are currently impacted by the Income Test your payment will be unaffected by these changes.

The lower asset-test thresholds (under which a full pension is payable) will be increased. But once exceeded, the taper rate by which a pension is reduced will increase to $3.00 from $1.50 per $1,000 in assets, over the lower threshold. This will significantly lower the assets test cut off thresholds.

The following table sets out the current and new thresholds:

	Current Lower Threshold	New Lower Threshold	Current Cut-off Limit	New Cut-off Limit
Single Home Owner:	$205,500	$250,000	$779,000	$574,000
Single Non Home Owner:	$354,500	$450,000	$928,000	$747,000
Couple Home Owner:	$291,500	$375,000	$1,156,000	$823,000
Couple Non Home Owner	$440,000	$575,000	$1,305,500	$1,023,000

The government has confirmed the comparatively larger increase in the lower assets test level for non-homeowners is in recognition of higher living costs.

The aim of the changes is to reduce the Government's expenditure on age pension by reducing how many people receive the age pension. As a result of these changes many clients may see their entitlements reduce from 1 January 2017 or be cut off completely. Conversely, other people may see a small increase to their entitlement. The government has forecasted approximately:

- 91,000 will lose entitlement to the pension
- 25,000 will have their pension reduced
- 170,000 will receive a pension increase

If you do lose your age pension entitlements due to these changes you will be entitled to the Commonwealth Seniors Health Card.

For clients who straddle the new upper thresholds, through our regular review process we continue to be mindful of the Asset reduction strategies to assist with optimizing eligibility. These strategies include:

- Contributing to superannuation in the name of a spouse under age pension age
- Improving the principal home
- Gifting within allowable limits
- Gifting five years prior to age pension age

It is nearly 18 months until these changes to the Age Pension Asset Test applies, so there is time to consider how these changes affect your Age Pension entitlements, and strategies that can be employed to minimise any downside.

CASE STUDY: DEEMING OF ACCOUNT BASED PENSIONS AND THE IMPACT TO THE AGE PENSION

By Nicola Beswick

Introduction

As you may be aware, when determining a person's Age Pension entitlements, Centrelink apply two tests – an Asset Test and an Income Test. In true government style, the test that produces the lowest entitlement dictates how much Age Pension a person will receive.

On 1 January 2015, a legislated change in the assessment of a person's superannuation Account Based Pension (ABP) under the Income Test, came into effect. No change was made to the assessment of ABPs under the Asset Test.

This legislated change affected all ABPs that commenced on, or after 1 January 2015, or if the person was not receiving an income support payment (such as an Age Pension) from Centrelink, prior to that date. So for anyone applying for Age Pension Benefits or commencing an ABP, on or after 1st January 2015, then the total value of their ABP will be deemed for the Centrelink Asset Test. This meant that for all ABPs, that did not qualify under these two points, Centrelink determined the amount of income received (for the purposes of the Income Test), by 'deeming' the total value of the ABP.

Fortunately, for people who held ABPs prior to 1 January 2015 and were receiving an income support payment from Centrelink (such as the Age Pension), their ABP is 'grandfathered', and hence not subject to the new deeming rules.

Prior to 1 January 2015, when Centrelink assessed the amount of income that a person received from an ABP, only the amount of income that was over an ABPs 'deductible (or non-assessable) amount' was counted as 'income' under Income Test. For example, if a person had an ABP valued at $300,000 and the deductible amount was $20,000 and the amount of income that a person received from their ABP was $25,000, then only $5,000 was counted as income under Centrelink's Income Test. Conversely, if the same person received $18,000 from their ABP, then no income was counted under Centrelink's Income Test.

However, after 1 January 2015, should a person lose their Age Pension Benefits (for any reason), then the ABPs income assessment under the 'grandfathering' rules is lost. When this person re-qualifies for an income support payment, such as the Age Pension, then the ABP is assessed under the new 'deeming' rules, for the purpose of determining their entitlements. Take the same person, with an ABP valued at $300,000. Under the current deeming rates for a pensioner couple, (being the first $79,600 has a deeming rate of 1.75% and anything above $79,600 has a deeming rate of 3.25%), the amount of income determined by Centrelink under these new rules is $8,556.

The new Income assessment rules of ABPs can have a detrimental impact to a person's assessment in their Age Pension entitlements under the Income Test. An example of the impact to a person's Age Pension entitlements is shown in the case study below.

Case Study – Andrew and Mary

Meet Andrew and Mary. Andrew is 66, retired and receives $242 per fortnight in Age Pension. Mary is 62, is working and given her age is not eligible for the Age Pension, or any other government income support payment.

Andrew and Mary's Current situation

As at 1 January 2015, Andrew and Mary have the following Assets and Income:

	Assessable Assets	Assessable Income (p.a.)
Personal Effects	$20,000.00	N/A
Cash	$10,000.00	$4,656.00
Shares	$50,000.00	
Mary's ABP	$120,000.00	
Andrew's ABP	$450,000.00	$-
Mary's Employment Income	N/A	$40,000.00
Total	**$650,000.00**	**$44,656.00**

As Mary is under Age Pension age and does not receive any government income support payment, the value of her ABP is deemed. Deeming is also applied to Andrew and Mary's personal Cash Accounts and Shares.

In comparison, as Andrew was receiving an Age Pension payment prior to 1 January 2015, his ABP is 'grandfathered' and continues to be assessed under the previous assessment rules. As Andrew receives an income from his ABP, which is under the 'deductible amount', no income is counted by Centrelink, when determining his Age Pension entitlements.

Based on the above Assets and Income, Andrew is assessed as having the following Age Pension entitlements under both tests. As the Income Test produces the lower of the two tests, Andrew's Age Pension entitlements will be based on this test:

	Assets Test	Income Test
Andrew's Age Pension Entitlement (p.f.)	$376.00	$290.00
Resulting Entitlement	**Income Test**	

What if Mary decides to increase her working hours...

One day, Mary works some extra shifts at work, while a colleague is on leave. Andrew and Mary diligently report Mary's change in employment income to Centrelink.

However, as Centrelink Age Pension entitlements are assessed on a fortnightly basis, Centrelink assess the increase in Mary's employment income from that week, as a projection of her annual income.

As shown, this change in Mary's employment income, increases their assessed income above the upper limit for the income test, which means that Andrew loses all of his Centrelink Age Pension income.

	Assessable Assets	Assessable Income (p.a.)
Personal Effects	$20,000.00	N/A
Cash	$10,000.00	$4,656.00
Shares	$50,000.00	
Mary's ABP	$120,000.00	
Andrew's ABP	$450,000.00	$-
Mary's Employment Income	N/A	$72,000.00
Total	**$650,000.00**	**$76,656.00**
	Assets Test	Income Test
Andrew's Age Pension Entitlement (p.f.)	$376.00	$290.00
Resulting Entitlement	**Income Test**	

Mary's working hours go back to normal...

Mary's work hours then return back to normal and Andrew and Mary again report Mary's change in employment income to Centrelink.

However, as Andrew had lost his Age Pension entitlement for a period of time, his ABP becomes assessed under the 'deeming' rules.

This in turn, impacts the level of 'assessable income' under Centrelink Age Pension assessments, as shown in the following table:

	Assessable Assets	Assessable Income (p.a.)
Personal Effects	$20,000.00	N/A
Cash	$10,000.00	$19,281.00
Shares	$50,000.00	
Mary's ABP	$120,000.00	
Andrew's ABP	$450,000.00	$-
Mary's Employment Income	N/A	$40,000.00
Total	**$650,000.00**	**$59,281.00**
	Assets Test	Income Test
Andrew's Age Pension Entitlement (p.f.)	$376.00	$149.00
Resulting Entitlement	**Income Test**	

This change results in a decrease of Andrew's Age Pension payments by $141 a fortnight, or $3,656 a year.

Take away points

It is important to be conscious of any change to your situation, which may impact your Age Pension entitlements.

As shown, the loss of Age Pension, even for a single fortnight, changes the way in which a person's ABP is assessed by Centrelink. Just one payment that is over the threshold that results in the loss of Age Pension is enough to lose the more favorable assessment of an ABP.

UPCOMING CENTRELINK LUNCH SEMINAR: MONDAY 7TH SEPTEMBER 2015 AT 12PM

By Mai Davies

We will be holding our next Quarterly Business lunch on Monday 7th September 2015 at 12 pm at Riversdale Golf Club.

The topic is "Navigating the Centrelink Age Pension System & The Upcoming Changes to the Centrelink Assets Test which come into effect from 1st January 2017.

Invitations will be sent to our clients closer to the date. This seminar is suitable for anyone looking to obtain the Age Pension or if you are currently receiving Age Pension Benefits. This invitation is extended to our clients, their family, friends or colleagues that they feel would benefit. If you are interested to attend, please save the date.

ACCOUNTING UPDATE

By Paul Nicol

As all of our clients would know, at the start of 2014, GFM merged with accounting firm P. Gruchy and Associates. This merger has been highly beneficial for many of our clients who have already utilized the services of our accounting firm. Other than being exceptionally pleased with the high quality taxation services and advice we have been able to provide, many of our clients have appreciated having access to a full in-house "one stop" offering encompassing both Financial Planning and Accounting.

GFM Gruchy Accounting offers a full range of services covering:

- **Taxation Services**
  - Tax advice and planning
  - Preparation of company and personal returns
  - Capital gains tax advice
  - Fringe benefits tax advice
  - Investment property
- **Accounting & General Book-keeping Services**
  - Maintenance of accounting books and records
  - Preparation of periodic and annual accounts
  - Handling of banking and commercial documentation
  - GST and BAS services
  - Business advice
  - Budgeting and Cash Flow projections
- **Specialised Accounting Services**
  - Reporting under various regulatory requirements
  - Valuations and investigations
  - Testamentary Trusts
  - Estates

Getting organised for your Financial Year 2014/15 tax returns

It is amazing the number of people that find getting their tax returns completed a very stressful exercise. Needless to say having your financial records in good working order will significantly reduce the stress that comes with the end of financial year and will also ensure that you make the most out of all your potential tax savings.

But just in case you are not organised we have a handy checklist available which outlines everything you need to collate in order to complete your personal tax return. By all means if you would like a copy of this checklist, or if you need assistance with your taxation affairs, please don't hesitate to contact us.

STAFF PROFILE: PHIL GRUCHY

By Paul Nicol

Phil completed an honours degree in Economics at Monash University in 1969. He then tutored at Monash in Micro Economics and Economic Statistics for two and a half years before taking up a position in Treasury Department in Canberra where he was involved in Australia's overseas aid programme.

From there Phil moved to the Defence Department in an area called the Joint Intelligence Organisation, where he provided economic data and briefings in relation to less developed countries, particularly the Middle East. Phil then moved back to Melbourne in 1977 to join with his father in the Accounting Practice and after completing some more study at Monash, became a CPA in 1979.

Phil's business partner Alastair joined the practice in 1983. The practice was merged with GFM and rebadged as GFM Gruchy Accounting Pty Ltd in January 2014.

Here's a quick Q and A with Phil with some things that you may not know about him:

Q. How have you enjoyed the joining of the Accounting and Financial Advice Businesses and what do you see as the major benefit for the clients?

A. The coming together of the Financial Planning and Accounting firms has been beneficial for both parties. Clients of either firm now have the opportunity to utilise the services of the other to give them a complete one stop financial solution.

Certainly from the Accounting side, our existing clients are very comfortable with the new arrangements and we are finding many who previously did not have active financial planning in their lives, more than happy to give it a go.

The synergies from this sort of amalgamation will continue to deliver benefits for all parties for many years into the future.

Q. Your family

A. I am married to Pat and we will celebrate our 39th anniversary this year. We have a son and daughter who between them have four sons ranging in age from one to fourteen.

Unfortunately, none of our parents are still alive.

I am an only child, while Pat has two brothers in England.

Q. Favourite food/drink?

A. I have been known to enjoy a glass or two of wine, mainly red but I am not biased.

As far as food is concerned it is hard to go past a roast and one can never surpass plum pudding.

Q. Little known fact about yourself

A. One of my main interests (obsessions) is collecting Australian art, of all mediums and where I can afford it particularly early Australian artists. My other area of collection is aboriginal art from the Hermansberg area. These are not dot paintings but landscapes and include the Namatjira family.

I also regularly frequent the local auction house and pick up antiques such as small furniture, silver, books and any interesting historical pieces.

Q. What sports do you follow?

A. While I follow both cricket and football (Hawthorn), I would not regard myself as an overly keen follower.

I prefer my gym sessions where I still go for up to three times a week and have for the past 30 years.

ALASTAIR RETIRES!!!:

By Paul Nicol

After 32 years of incredible service to P. Gruchy and Associates (now GFM Gruchy Accounting) as an Accountant and Partner in the firm, sadly for us, Alastair decided to retire with effect from 30 June 2015.

Whilst Alastair is going to be sadly missed by both the staff at GFM and his many long standing clients, of course we are incredibly excited that Alastair is entering a new chapter in his life, very much looking forward to retirement.

For those that are not aware, Andrew Goldman has joined the firm as a senior accountant.

Alastair has immediate travel plans with his wife Margo, hoping to spend more time with his 2 children who are currently overseas in the UK and US. Margo is originally from New Zealand so there are also plans to travel across “the ditch” more regularly.

Although a very bad shoulder injury is preventing Alastair from playing golf at present, he is working hard with regular physiotherapy to ensure he is back out on the course, hopefully by spring. In retirement, Alastair has many plans involving photography, exercise and of course visiting the staff at GFM in our new office, which is only around the corner from where Alastair lives. In fact, we have told Alastair he needs to be on hold for when we need him back from time to time!

After 32 years of a business partnership, both Phil and Alastair have a wonderful personal and business relationship. Alastair has been a fantastic mentor for the staff of the firm, as well as a personal confidant to the many clients he advises.

Alastair leaves an incredible legacy within the business, something he should be very proud of.

SHOULD YOU FIX YOUR MORTGAGE NOW?

By James Malliaros

In the current low interest rate environment, many with home mortgages are asking us: Is now the right time to be fixing their home loan?

With interest rates at historic lows, borrowers have the rare opportunity to lock in these very low rates. However, predicting the bottom of the interest rate cycle is a difficult challenge.

At the heart of the question is the worry that interest rates have bottomed and the next move may be up, even if that may still be some time away. However the option to fix your interest rate or not is one that many people struggle with. There are positives and negatives for both but with a little bit of research you can make an educated decision that will suit your personal circumstances.

Before you make any decision regarding a fixed or variable rate home loan, always look closely at your current financial situation and your future goals. For example, if you see a fixed interest rate advertised for a three year term, but you know you’re likely to sell, renovate or refinance your home within that time, you may want to consider alternative options. Thinking about these things before you decide to fix will help you make a more informed decision about which option is likely to suit your needs best.

The benefits and flexibility of fixed and variable loans will have a significant impact on the way you chose to structure your home loan, be it a new loan on a property you’ve purchased or if you are looking to refinance your existing home loan.

Fixing your home loan

Pros

- If interest rates increase, you could end up paying a lower rate than the variable
- One of the biggest benefits to choosing a fixed rate home loan is the certainty that your rates cannot increase during that fixed term.
- Budgeting - when you have a fixed loan it’s much easier to budget as the repayments won’t change during the fixed period.

Cons

- Any interest rate falls will not benefit you and you could end up paying a higher rate than the variable.
- Inflexibility – traditionally fixed rate home loans have been associated with being very inflexible. Many banks place limitations on the number of additional repayments you're able to make during the fixed term before penalties apply. Other restrictions may also include not having access to a redraw facility during the fixed term and not being able to link a 100% offset account to the loan to help reduce interest costs.
- Break costs - if you want to get out of your fixed home loan, costly break fees could apply.

Variable rate home loans

Pros

- Flexibility and features – most standard variable home loans come with a host of features these days. These features allow a greater ability to pay off a mortgage faster while slashing interest, or conversely, borrow more, redraw on extra repayments or draw down on equity. These features allow borrowers a wider scope to use a home loan towards their specific goals. In addition, most variable loans will allow you to make fee-free additional payments at any time, with no maximum limit. You will also find that you have access to a redraw facility and more flexible repayment options. 100% offset accounts, which can save tens of thousands in interest over the life of the loan and also cut years off a mortgage, are only available on variable home loans. This is a great feature of variable loans as it saves you interest without the need to make additional repayments.
- Ease to refinance - it is cheapest to refinance from an existing variable rate home loan, allowing you to switch to lenders as cheaper interest rates become available. Therefore if you are considering refinancing, whether you are just switching to a cheaper rate or looking to sell your home, borrowing more or renovating in the near future, it is worth considering a variable rate home loan over the inflexibility of a fixed rate loan.
- Low fees - basic variable home loans are cheaper in fees than basic fixed interest home loans as there is usually a fee charged to fix an interest rate.

Cons

- Interest rates can rise – this is by far the biggest issue of variable rates. Interest rates run in cycles and as rates start to rise again, banks pass on those increases to variable rate holders. This can increase your monthly repayments and make it more difficult to keep up with mortgage repayments, especially for those who borrowed significant amount when rates were low.

So what should you do?

Because it can be so difficult to decide on the best time to fix, often the best thing to do is to hedge your bets – by that we mean consider taking out a Split Loan.

A split rate home loan is a total loan amount divided into two custom portions, one locked into a fixed rate and the other a variable rate. The main advantage of split rates is that it lets borrowers take advantage of the best aspects of both loan types.

A fixed component is locked in for the next few years, so borrowers have the confidence of known repayments on that portion and the variable component gives borrowers access to many of the flexible features and additions such as extra repayments, 100% offset and redraw.

If you are considering taking out a longer term fixed rate loan, current interest rates look exceptionally attractive. It looks like Australian banks will be forced to raise more capital, and it's inevitable that mortgage rates will eventually creep higher.

WHY YOU NEED A WILL

By Patrick Malcolm

A Will takes effect when a person dies. It can cover things like how assets are to be shared, who will look after the children of the deceased if they are still young, any trusts to be established, donations to charities and instructions about the deceased person's funeral.

It is important that you have a Will and that it is reviewed regularly or when significant changes occur in your life.

Not everybody makes a Will and this can result in some unforeseen and undesirable consequences. If a person dies without making a Will, their assets will pass according to the laws of intestacy in that state. The laws stating who will receive the assets of the estate if a person dies intestate are different in each state.

A distribution made according to the laws of intestacy may be challenged by aggrieved beneficiaries under the relevant state legislation.

The laws of intestacy are arbitrary and not necessarily fair. They do not take into account the state of a person's relationships at the time of their death. The distribution of a person's Estate may not actually be what they had intended.

Case Study One: Michael's ex son-in-law

Michael died without a Will about five years ago. Apart from joint assets with his wife, he also owned an investment property. Michael also had two adult daughters. Under intestacy laws, his wife and children shared in the estate. The family decided to keep the property as an investment.

However, Michael's eldest daughter is going through a divorce. She has just received a letter from her husband's solicitor. He is claiming a share of that investment property as part of the marriage assets.

If Michael had had a Will written it is highly likely everything would have been left to his wife and the current problem would have been avoided.

Case Study Two: Christine and her Mum

Christine was divorced and had no children. She did have eight nieces and nephews though. She also had a mother in an aged care facility who was on the full pension.

Christine died unexpectedly leaving an estate worth $1 million. She did not have a Will in place. Under intestacy laws her mother will inherit the entire estate. Not only will her pension be affected, she will also have to pay more for her care.

Christine's siblings knew she wanted to leave her estate to her nieces and nephews. If she had a Will, that could have occurred. The estate is now effectively funding her mother's aged care requirements.

Case Study Three: Andrew

Andrew was 25 years old and single when he suffered a severe concussion on the football field. He never regained consciousness. He had saved around $150,000 and was hoping to buy a property soon. He also had $90,000 in super with an equivalent amount of life insurance.

Andrew did not have a Will. Under intestacy laws his $330,000 estate will go to his next-of-kin. In this case, that is his mother and father. However, he has had no contact with his father for over 15 years.

If Andrew had a Will drawn up, his estate could have been left to individuals of his choosing.

GLOBAL & AUSTRALIAN ECONOMIC AND MARKET OUTLOOK:
QUARTERLY BUSINESS LUNCH

By Mai Davies

We held our second Quarterly Business Lunch for the year on Thursday 18th June at Riversdale Golf Club. This was well attended by 85 clients and guests.

Our special guest presenter was Stephen Halmarick, who is the Head of Economic and Market Research for Colonial First State Global Asset Management.

Stephen gave an overview of the current Global economic backdrop and how this is likely to affect investment markets over the next couple of years.

The current economic backdrop is both challenging and complex. In Australia, many parts of our economy are underperforming, there is more evidence of a slowing economy in China, economic growth in the United States seems to have stalled and again it appears Greece is getting much closer to default.

The feedback from the attendees was excellent. Clients felt the presentation was exceptional and expressed how much they enjoyed it.

If you didn't attend the session and would like to receive a copy of the presentation, please call Mai on 9809 1221

FLEXIBILITY DRIVES SMSF GROWTH:

By Tony Gilham

Last October, the Financial Services Council and UBS Global Asset Management undertook research on SMSFs by interviewing 600 SMSF trustees around Australia.

With a population of about 23 million, Australia is the 4th largest superannuation market in the world, with assets held in superannuation of more than $1.85 trillion and around 32% of that amount held in SMSFs.

What was really interesting from the research is that while a majority of SMSF trustees were satisfied by their decision to set up their own SMSF, only 17% of SMSF trustees reported that trying to beat the superannuation industry-wide average return was important to them, indicating that flexibility and control of their investments was more important than absolute percentage returns.

Reading between the lines, what we think trustees are saying is that even slightly underperforming industry averages is acceptable, provided that they can see and have some control over the investments that they own. In other research from the ATO, it shows that the asset allocation for the average SMSF is vastly different than the large corporate superannuation funds in Australia. SMSFs hold about 35% in cash and fixed interest, around 23% in Australian Equities, with almost no exposure to international shares or infrastructure. As a result, the average SMSF in Australia has probably underperformed the industry average over the last couple of years, because of relatively low returns on cash and fixed interest and also having missed the great run in international equities.

In contrast, we at GFM have been very keen on increasing international equity exposure over the last few years and there have been some great results from doing that.

There's no question that SMSF trustees in Australia want control and transparency over their investments, they want to be able to see what investments are doing well and they want visibility so they can act on investments that might not be doing so well.

The industry-wide return for corporate superannuation funds with more than $50 million in assets, was 11.6% for the year ending June 2014. If your SMSF made less than that, it's probably as a result of an under-exposure to international equities and an over-exposure to cash and fixed interest.

59% of survey respondents indicated a greater level of control was their main reason to set up an SMSF, while only 20% said they did so because of poor performance from a retail or industry super fund.

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