GFM Wealth Advisory | TRADE SECRETS

May 2014

SMSF Specialists | Investment Management | Financial Planning | Accounting

IN THIS ISSUE

- 2014/2015 Federal Budget – Delivered 13th May 2014
- Best Interests Duty
- Harry and Yvonne Clack – Clients of GFM since 1977
- 10 Year Team Member Dinner
- Mt Everest Base Camp – Leukaemia Foundation Charity Trek
- Will you live too long?
- How much Insurance is enough?
- Buffet on Gold
- Rising property prices does not make us citizens wealthy
- Patrick's a dad!
- Annual Golf Day

2014/15 FEDERAL BUDGET: DELIVERED 13TH MAY 2014

By Tony Gilham

The Federal Budget is noteworthy, if only for the fact that there are just so many changes being proposed, and virtually every Australian, the whole 23 million of us, will be impacted in some way, but as the Treasurer announced on the night, most of us will be left to do the "heavy lifting".

In every decade there is one budget that ends up being a game-changer in Australia.

The budgets of 1988 (return to surplus), 1996 (spending reductions), and 2000 (GST), were strategies that permanently altered the economic dynamics of the Australian economy. The 2014/15 FY budget is likely to join this list, as it facilitates the move to smaller government, more infrastructure investment and less household dependency on government payments in the outlook years.

It is important to note the budget announcements are still only proposed at this stage and yet to be legislated under the new Senate, so the government will need support of the six of the record 18 crossbench Senators.

It is highly likely that the Federal Government will amend or drop many or some of the budget proposals, in order to get the legislation through the house.

Why such a tough budget?

- The Government recognises that early and decisive action is necessary to realign the expenditure and revenue sides of the budget. The budget is characterised by Government directing taxpayers dollars from spending that is consumed today to productive investment for tomorrow.
- There are very few new spending programmes, and most new ones are funded through savings and other programmes. This is a budget with difficult savings but it is far from the austerity budgets in Europe, which sparked rioting.
- The budget deficit is expected to be $49.9 billion in 2013/14 (3.1% of GDP), expected to drop to $29.8 billion in 2014/15 (1.8% of GDP) and only $2.8 billion in 2017/18 (0.2% of GDP).
- If the Abbott Government had not moved to stem the tide of Government spending, Australia would have faced a rising interest bill, already more than $1 billion per month – and another decade of deficits that would have meant an incredible 16 budgets in succession in the red.
- As we all know, the Federal Government is in debt, and currently paying around $1 billion a month in interest payments on that debt. Most of the Government debt is held via Commonwealth Government Bonds, and more than 70% of those bonds are held by foreign investors, so the vast majority of interest payment each month goes offshore.

Just think what the Government could do if it didn't have that debt:

- $1 billion a month could certainly build a lot of new schools and hospitals each and every month.

Yes, it has been argued that Australian Government debt is substantially less than the debt held by most other Governments in the developed world, but the problem is, we just can't continue to expand our debt levels, because if we do, we will get into the "basket case" position that many southern European economies face, notably Spain, Portugal and Greece, and to a lesser extent, Italy.

The Governments of Spain and Greece are virtually bankrupt, and Greece has already defaulted on its Government debt, and the problem is, not having any money, they find it very difficult to do anything to stimulate their economies. As a result, both Spain and Greece have unemployment rates above 25%, and the very sad fact is that youth unemployment is a massive 60%.

If our great country continues to go into debt, then we certainly do run the risk of becoming what Paul Keating once described as a "banana republic", and it would certainly be extremely sad if we ended up with massive unemployment rates, because we as a nation have borrowed too much and consumed too much and left all of these massive debts to the next generation.

In our own families, I think we all aspire to leave some of our assets to the next generation, and it would be almost unthinkable if all we left were debts. We should be thinking the same way with Commonwealth Government debt: - it's just not right to leave that debt to the next generation.

How will these proposed budget changes affect us as individual taxpayers, superannuation fund members or age pensioners?

There are well in excess of 100 individual changes that will affect a vast number of Australian citizens, and subject to the passage of legislation, many of them are a fait accompli, we simply just can't do anything about it. The Government has talked about an end to "the age of entitlement", and quite a few tax benefits and welfare concessions have been withdrawn, and there's nothing that you can do to change that.

But there are a lot of changes proposed that perhaps don't come into effect for possibly one, two or three years, and there are actions that can be taken to soften the blow. In this article, we will concentrate on those.

Superannuation

The super system or the taxation of super was not a prominent feature of this year's budget, which was in line with the government's election promise of no unexpected detrimental changes to super in its first term. The key super changes were a delayed deferral of the Super Guarantee rate increases (SGC) and the refunding of excess non concessional contributions. There are also changes to Defence and Military Super Schemes.

Superannuation in Australia has always enjoyed significant taxation concessions, and the tax treatment of superannuation fund earnings is substantially better than holding investment assets through any other structure.

It certainly could be argued that the tax concessions available to superannuation in Australia at the moment are overly generous, and there certainly is a chance that tax concessions could become less generous in the years to come, but they are still likely to be more favourable than other investment structures.

Governments in Australia (and around the world) are keen for citizens to fund their own retirement, and that's why the tax concessions are provided. The problem around the world with Government based age pension systems, such as Centrelink pensions available in Australia, is that virtually every Government in the world has an unfunded system, or put simply, there is no money in the bank in order to pay pensions. Pension payments made to age pensioners in Australia comes out of general Government revenue, which is tax that is collected from us each and every year.

Of course the problem around the world is, without exception, populations are aging at a rapid rate, and each year there are more people going into retirement, and less people going into the workforce. The current system of unfunded pension schemes around the world is clearly not sustainable.

Hence the Federal Government does provide significant taxation concessions for superannuation fund members in Australia, but the sad fact is that a lot of people in Australia either don't understand how these concessions work, are scared of the complexity around the superannuation system, or simply not aware how generous some of these concessions can be.

Action points for superannuation fund members in the very near future are:

- From 1 July 2014, concessional contribution caps increase to $35,000 for those at age 50 or more.
- There is a significant increase in the non-concessional contribution cap from 1 July 2014, increasing from $150,000 to $180,000 per member, or $540,000 per member using the "bring forward" rule (only available to those under age 65).
- Personal tax rates go up from 1 July 2014, an extra 0.5% for the increase in the Medicare levy, and the extra 2% levy for those earning more than $180,000 the "Temporary Budget Repair Levy"'. As a result, salary sacrifice superannuation contributions become even more attractive, because rather than paying a marginal tax rate of somewhere between 36% and 49% on your taxable income, contributions going into superannuation only incur a 15% tax.
- Transition to Retirement Pensions and Age Based Pensions for fund members over 60 remain equally as attractive, with no income tax on fund earnings and no income tax on pension benefits drawn. Virtually every super fund member in Australia aged 60 or more should be in the pension phase, you simply can't get it any better than not paying any tax at all.
- And fund members between age 55 and 59 should also be starting a "Transition to Retirement" pension, firstly there are still generous taxation concessions, and secondly, we think there is a distinct possibility that in the next couple of years, the Government will restrict Transition to Retirement pensions, maybe starting at a later age, but will almost certainly grandfather existing TTR pensions.
- But the big one for 2014 is for individuals approaching age 65, or existing age pensioners or non-pensioners that get the Commonwealth Seniors Health Card.

Effective from 1 January 2015, any new superannuation pension started on or after that date will be "deemed" for Centrelink purposes, which will almost certainly have a negative impact on Centrelink Age Pension benefits and could possibly mean that someone who already holds the Commonwealth Seniors Health Card, could lose this benefit as a result of deeming.

So in simple terms, it's mandatory that your age based superannuation pension or Transition to Retirement superannuation pension is "set in stone", and preferably with a reversionary nomination, prior to 31 December 2014.

Age Pensions and other Centrelink benefits

It's already legislated that the age pension age will gradually increase from 65 to 67, commencing from July 2017. This will affect people born on or after 1 July 1952.

The 2014 budget now proposes that the age pension age will increase further to age 70, and for every two years from July 2017, the age pension age will increase by six months, until it reaches age 70 in 2035. Again, this will only affect people born on or after 1 July 1958.

So people will now need to prepare to fund their own retirement living, firstly to age 67, and then at a later date, up to age 70.

Maximum age pension benefits are currently around $32,500 a year for a home owning couple, so in order to self fund the five year gap from age 65 to age 70, a couple would need something like an extra $160,000, ignoring the impact of inflation and investment income generated on that lump sum.

Many other changes around social security benefits are quite controversial, and may not get legislated, but if they do, in most cases, we can't do anything about it.

The Government is proposing to freeze the income and asset test thresholds for pensions and allowances commencing from July 2014, stricter eligibility tests for Disability Support Pension,

New Start Allowance and Youth Allowance, and deeming thresholds to be lowered from September 2017.

Again, the only notable action point around age pensions and the Commonwealth Seniors Health Card is to make sure your superannuation pension benefits are "set in stone" before 31 December 2014.

But a critical action point will apply for anyone that turns age 65 during this current calender year. As an example, if you are age 64 today, and turn 65 on or before 31 December 2014, then you're obviously not as yet eligible for age pension benefits or the Commonwealth Seniors Health Card, but you will be eligible from the day that you turn 65.

You will potentially satisfy the grandfathering provisions for account based superannuation pensions that are started on or before 31 December 2014.

Starting an account based superannuation pension, or changing an existing account based superannuation pension on or after 1 January 2015, will almost certainly have a detrimental impact in relation to Centrelink Age Pension benefits and eligibility for the Commonwealth Seniors Health Card.

If you are already at age 65, and collecting some or all of the age pension benefit, or the Commonwealth Seniors Health Card, your existing account based superannuation pension will be automatically grandfathered, and will retain its grandfathered status, provided that you don't change that pension or pension provider on or after 1 January 2015.

Personal Income Tax

Several tax concessions are likely to be abolished, the Mature Age Worker Tax Offset and the Dependent Spouse Tax Offset, Fuel Excise will again be indexed to the CPI, the Medicare co-payment of $7 will apply, and there will be an extra 2% levy imposed on persons with taxable incomes above $180,000, known as the "Temporary Budget Repair Levy". Along with the increase in the Medicare levy, going from 1.5% to 2.0%, it means that anyone on the highest marginal tax rate, earning above $180,000, will pay a marginal tax rate of 49.0%. This provides increased incentive for salary sacrifice superannuation contributions, and to an extent, negative gearing.

Tightening of Family Tax Benefits

The income thresholds at which Family Tax Benefits reduce or cut out, will be tightened, and eligibility ages will be reduced, and only apply to children under age 6 for Family Tax Benefit – Part B.

HECS/HELP - Higher Education Debts

Significant change commencing from 1 July 2016 is that the outstanding HECS/HELP debt will have an interest rate applied at a rate equivalent to the yield on a 10 year Government Bond (currently around 4.0% pa) capped at 6% pa, rather than the debt being increased in line with the CPI, which commonly has been around 2.5%.

There will be increased incentive to make lump sum payments to your HECS/HELP debt.

In Conclusion

It's very clear that both the major political parties are at fault regarding the debt position currently carried by the Commonwealth Government.

The creation of "middle class welfare", over-spending by successive Federal Governments, excessively generous social security programmes, and abuse of the system have all contributed to put us in this position. Over the last 10 years, the size of the economy has grown at a rate of approximately 2.5% pa, yet total Government spending has grown at the rate of around 6.5% pa. That simply isn't sustainable.

Taking back benefits and allowances and a variety of tax concessions that were available in the past, will certainly hurt many people, costing some families maybe between $2000 an $5000 a year, and it's a bitter feeling to lose access to a cash benefit or a tax concession.

But one must question whether some of these benefits, allowances and tax concessions were justified in the first place.

It's quite likely that many of the proposals from the Federal Budget won't see the light of day, but it is inevitable over the next five years, irrespective of which political party is in Government, we will continue to see cutbacks.

BEST INTERESTS DUTY

By Paul Nicol

Effective from 1st July 2013, the Federal Government legislated to bring in a "Best Interests Duty" for financial advisers in relation to their dealings with their clients.

The "Best Interests Duty" effectively means that the adviser must act in the best interests of the client, which we would have thought was a foregone conclusion anyway.

Since this "Best Interests Duty" was first proposed, it has been watered down several times, presumably driven by the big financial institutions that have another agenda.

For a financial adviser who is an authorised representative of a financial institution, it's quite obvious that his first duty is a duty to his employer, and that employer also has a duty, and its primary duty is to its shareholders.

The financial institution is in the business of selling its financial products to its customers, and the financial advisers working on behalf of that institution would presumably be recommending in-house financial products.

You couldn't possibly expect that if you went into say the ANZ Bank looking for a home mortgage they would refer you to Westpac Bank, that had a better deal on the day. Presumably the same would apply for superannuation, investment products, insurance and all other aspects of financial planning.

Here at Gilham Financial Management Pty Ltd, we have our own Australian Financial Services Licence. No fund manager, bank, insurance company or other financial institution holds any equity in GFM. As a consequence, the advice and recommendations we offer our clients are based entirely on their personal needs and objectives.

We do not answer to any financial institution or financial product provider, and we select investments based on their merit, not their ownership structure.

HARRY AND YVONNE CLACK:
CLIENTS OF GFM SINCE 1977

By Tony Gilham

Harry and Yvonne have kindly written the article below for Trade Secrets on their family, working life, retirement and the long term relationship they have had with our company over the last 37 years – we greatly appreciate their contribution to this edition of Trade Secrets.

I first had contact with Tony in April 1977when he took over the agency of my life insurance policy with Legal & General. Tony immediately impressed me with his product knowledge and suggestions for restructuring my insurance affairs.

I have been a Chartered Accountant for just on 50 years, with extensive business experience. During my career, I worked predominantly in Melbourne but also enjoyed a two year stint in London during my mid-20's to obtain further experience.

The experience gained in London was very beneficial for my career, but wherever we travelled, some major incidents seemed to occur. This included being on the last passenger liner through the Suez Canal, before the 1967 Six-Day War, venturing into Cairo with guns trained on us the whole time, a military coup in Athens, riots and a massive general strike in Paris, and flying out just before the airport closed for six weeks. On the return voyage home, there was an attempted coup in Panama City on the day we docked there, and the hotel that I stayed in Belfast was bombed, just after I returned to London.

After returning to Melbourne, I became a Partner in one of the major accounting firms, and later moved into industry financial management, and served as the Chief Financial Officer to a range of companies, as well as providing business consulting services to a merged Local Government Council, and later joined the ill-fated Ansett Airlines prior to its subsequent demise.

For a number of years, I was heavily involved in the training and mentoring of graduate accountants, and was a member of the Institute of Chartered Accountants Education Committee. This has always led me to recognise and appreciate any organisation which advocates development of its staff and maintains up-to-date knowledge, research and practices - an area in which I believe GFM excels through its extensive information bulletins and seminars for clients.

Yvonne and I have been together for 22 years, I have two adult children from my previous marriage and we are proud grandparents of the six little ones between 2 and 12.

We retired three years ago and our main interests/hobbies centre around antiques and art, but we still provide some accounting services and business advice, and lots of time with the grandchildren and friends.

We have been clients of GFM for 37 years, and as our needs developed, it was matched by the personal competence, service and professionalism of the senior people within their firm. GFM have grown to be an extremely competent financial planning practice specialising in SMSF's.

As a qualified accountant, I was well aware of the benefits of superannuation, and generally had a good idea as to how investment markets worked, but we realised that Tony and the team possessed highly technical expertise, and we were comfortable in GFM advising on strategies, managing our investment funds and partnering the whole superannuation function, to meet our objectives.

I believe that the reputation, success and positive client relationships is simply a by-product of the skills and expertise displayed by the whole GFM team over many years. The level and ease of communication and services provided by GFM has always been outstanding, better than we have seen from most other professional service organisations. The regularity of portfolio reviews, information on potential investment opportunities and technical newsletters all greatly assist us in our decision making and the managing of our financial affairs.

The stability of advisers and support staff within the GFM organisation has been remarkable – a point that adds to the overall impression of the strength and working capabilities of the firm, which in turn provides additional comfort to clients such as ourselves.

We had a variety of superannuation funds in place, but in 2006, we started our own SMSF. Initially we had some hesitation, mainly around the complexities of managing our own fund, but in hindsight, the 'in partnership' support of GFM led us through every step and they explained every recommendation that would improve our financial position.

There has been a lot of attention directed at 'bad apple' financial planners through the media over the last few years, and it's not surprising that some trepidation exits in the community, particularly with something as important and emotive as life savings/retirement wealth being involved. During my career, I have evidenced numerous instances of poor or inferior advice given to individuals and companies with dire consequences, and it's important to get the right advice from an expert in the field. I have readily referred clients to GFM as I have experienced that comfort over the years, and am honestly able to recommend the firm on the quality and competency of its principles and its staff, their knowledge, service and attention to detail.

Investing your life savings is a very difficult and complex subject, and we have always been reassured by the research, communications strategies and knowledge of Tony and his team, and their support in providing the confidence to maintain our strategic plans. We know that our financial planning needs are being professionally managed, and in the most appropriate manner for our circumstances - in a word, - trust.

Harry and Yvonne.

10 YEAR TEAM DINNER

By Mai Davies

In April, we celebrated at a great restaurant on Southbank – "Pure South" – to commemorate those team members that have been with the company for more than 10 years. It's actually quite amazing to think that with 19 staff members, 9 have now been with the company for more than 10 years. This is our fourth celebration and is now an annual tradition. Unfortunately, Lorraine was unwell on the night and couldn't be there. We look forward to a few more of our team joining us next year. In ascending order, the team members are:

James Malliaros .... 12 years

Patrick Malcolm .... 12 years

Lorraine Miller .... 13 years

Paul Nicol .... 14 years

Maree Meehan .... 17 years

Witi Suma .... 17 years

Jenny Chin .... 21 years

Mai Davies .... 24 years

Tony Gilham .... 40 years

We all had a fantastic night.

MT EVEREST BASE CAMP: LEUKAEMIA FOUNDATION CHARITY TREK

By Tony Gilham

Many of you will be aware that, during March and April along with 17 others on the Getaway Trekking Team I represented Gilham Financial Management in the fundraising effort for the Leukaemia Foundation, climbing up to Base Camp at Mt Everest.

Once a year, the Leukaemia Foundation have their charity drive known as the "World's Greatest Shave", where quite a large number of people around Australia shave off their hair and collect sponsorship for this very worthwhile charity. Our team of 18 was known as the "World's Highest Shave", because the intention was to have our hair shaved off as close to Everest Base Camp as we could get.

It's fascinating to realise that Mt Everest was only "discovered" and recognised as the world's highest mountain in 1852, when an English geologist crossed the border from India into Tibet to take measurements of this magnificent mountain. At the time, both Nepal and Tibet were closed countries, and access to the area wasn't allowed. It took 101 years thereafter for Edmund Hillary and Tenzing Norgay to conquer Mt Everest (8848m), and since that time, it has been a magnet for many adventurers that want to conquer the world's highest mountain.

Fundraising for our team, "World's Highest Shave", was above expectations, with more than $50,000 raised to date, and at the time of writing, my total was $20,505, and I am determined to get to $30,000 before the end of May.

We had a couple of nights in Kathmandu, a fascinating place but there is no question that Nepal is a poor third world country, although it was extremely interesting to be there. We flew in a 14 seater plane to Lukla, the world's most dangerous airport, and from there, our round trip to Everest Base Camp and back was 158 kilometres, starting at 2840 metres and getting to our high point of 5,364 metres.

Lukla is in the foothills of the Himalaya Range, and there are no roads to Lukla, and we didn't see a car for 12 days. Everything that goes up the mountain is carried on the back of either a Sherpa, a donkey or a yak. I've seen enough yaks to last me a lifetime.

Climbing up in the direction of base camp, we started to see snow and ice at around 3500 metres, and the tree line finished at 4150 metres, and above the treeline, there were places where you would almost think you were on the surface of the moon, as basically nothing grows above 5000 metres.

And the first time that we saw Mt Everest, from about 40 kilometres away, just magnificent, and even slightly emotional. I was a baby when Edmond Hillary conquered Everest, and I can only assume a few years later when I started school, Everest must have been something of a talking point.

As we got closer to Base Camp, the expedition activity was significant, large teams of yaks carting supplies up to Base Camp for the start of the climbing season, which was beginning about one week after our visit. Expeditions take around two months, and climbing from base camp at 5364 metres up to the summit at 8848 metres is a significant challenge, not many have done it, and unfortunately, many have died trying. Soon after we returned, you may have heard the news that 16 Sherpas were killed, hit by an avalanche, during the first stage of the climb from Everest base camp up the glacier about 900 metres.

Before reaching base camp, we had our last night at Gorak Shep, a tiny village at 5180 metres, about five or six kilometres from Base Camp. There is only 50% oxygen in the air, 3 on our team suffered a little bit of altitude sickness (vomiting, headaches etc) and quite a few found it quite hard to sleep at night, especially when we realised that the temperature in the huts was at -3°.

I consider myself very lucky in that I had no falls or other injuries, no tummy problems, or signs of altitude sickness

(other than a few headaches) and the good news is that I came back four kilograms lighter, which must have been the hair that I shaved off. But it's growing back quickly and I should be looking more normal in three or four months.

Our whole team had a great time getting to Everest Base Camp and back, and we are just thrilled that we raised more than $50,000 for the Leukaemia Foundation.

Thanking my sponsors at Base Camp - Mt Everest at the back.

Mt Everest in the background.

The tiny village at Gorak Shep, looking up to Mt. Everest and Base Camp.

No hair at Gorak Shep, 5180 metres above sea level.

WILL YOU LIVE TOO LONG?

By James Malliaros

Because of significant medical advancements, behavioural changes, public health reform, understanding better diets and more emphasis on general health and fitness, Australians are living much longer.

According to recent ABS data, a boy and girl born in 2012 can expect to live to 80 and 84 years respectively. However average life expectancy at birth may underestimate the length of time of the average Australian's retirement, as life expectancy increases with age. Thus a man and woman reaching 65 years of age in 2012 can actually expect to live to 84 and 87 years respectively.

In fact over the last five decades, each decade has seen average life expectancy increase by three years.

So anyone retiring at age 65 today, should expect to live an average of at least 20 years in retirement and probably quite a bit longer. And if you go into retirement as a fit and healthy person, then spending 30 years in retirement is certainly not out of the question.

But will our savings last that long?

It is a sad fact of life that 82% of Australians over Age Pension age receive either full or part Age Pension Benefit. With the maximum Age Pension for a home owning couple at around $32,500 per year, it certainly doesn't afford a high standard of living in retirement, and hence the need to seriously plan to self fund some or all of your retirement income needs.

And of course over the last couple of months, we've heard the Government question the sustainability of maintaining full Age Pension benefits at the current level, and we're certainly not the only country in the world to be experiencing this problem right now. There is absolutely no question that Government funded Age Pension benefits will be harder to come by in years to come, making it even more important for the average Australian to take responsibility for their own retirement income needs.

HOW MUCH INSURANCE IS ENOUGH?

By Patrick Malcolm

How much is your life worth? This is more than a rhetorical question when considering life insurance. Whilst it is natural you would consider your life priceless, you should also look at it from the point of view of owning an asset that provides, say, $100,000 per annum for the next 30 years. That totals to $3 million. If that $3 million asset was a property, there is no doubt that you'd choose to insure it. Everyone believes they are invincible and that they will be able to work indefinitely, if they so choose. Sickness, accident or even death, however, can throw things into disarray.

One of the most common issues that people with any kind of dependents face is, "How much life insurance do I need?"

This is a tough question to answer in a simple equation; there

are quite a few variables which affect the amount of insurance needed.

Today, we as financial planners are required to take into account your personal needs and objectives when calculating your insurance requirement.

In the past, insurance requirements were estimated by using very simple calculations. Often the calculations were based on a multiple of the annual income. This is a seriously flawed idea as it does not take into account debt levels, the number of dependent children or any other factors that could affect someone's life insurance needs.

Unfortunately, many financial commentators and websites can't let go of these outdated methods, and still tell people that they should multiply their income by five or ten years to calculate their insurance needs.

We have long known the dangers of this method and take a far more personalised approach to calculating life insurance requirements.

One of the key factors to consider is what kind of lifestyle you want your family to have if you pass away. How much financial impact will your death cause to your family? Do you want them to be debt free? Do you want them to be financially comfortable if you die? Do you want your spouse to continue to work? Or to have to return to work?

The amount of insurance you might need/want will vary widely depending on your current financial situation. Let's look at two specific scenarios.

Scenario one: You want enough insurance to cover a specific use and don't need any insurance to provide future income for your spouse.

This might be the situation where both spouses are working and making decent money and have no kids. In that case, they might decide to get enough insurance to pay off all debts, at which point the survivor should be fine since they'll keep working.

This calculation is pretty easy. Just add the amounts of debts and whatever other costs you want covered, and that's how much insurance you need.

Scenario two: You want insurance which will provide future income for your spouse/kids.

This is a bit more complicated since you're now dealing with a lot of future assumptions.

In this case we start with all of the current debts and assume you need enough insurance to cover that amount. That's the first part of your insurance needs. The second part will provide an investment portfolio large enough to provide the desired annual income. To do this calculation, many use a 4% withdrawal assumption to be conservative.

The amount of insurance needed will be the sum of these two numbers.

Example: Jim and Samantha are in their 30s, have two kids under ten and a mortgage of $500,000. Samantha is a stay-at-home mum who might return to work one day. They've decided that if Jim dies they want to have enough money so that Samantha doesn't have to work again if she doesn't want to. They're assuming that $60,000 of income per year will accomplish this goal. They have no savings of any type.

Step one: Add up the debts = $500,000 insurance needed.

Step two: Calculate the portfolio size necessary to provide $60,000 per year. $60,000/4% = $1,500,000.

Total insurance needed is $2 million.

In summary, ignore all rules of thumb, but don't get hung up on the details. Things will inevitably change and then you'll be over or under-insured. It is our job as financial planners to revisit these calculations based on changes to your circumstances, such as if your family increases in size, a child moves from being financially dependent to independent, your debt levels change, etc.

Too much insurance is expensive. It's too easy to just get a large amount of insurance, but the reality is that if you are over-insured, then you're paying extra money that could be used for investment purposes.

Plus, you don't want to give your beneficiaries any extra incentive to bump you off!

BUFFET ON GOLD

By James Malliaros

Warren Buffet, the world's most successful investor, always entertains his shareholders, when he sends his annual shareholder letter.

A couple of years ago, he covered off on his thoughts on the merits of investing in gold, and he said:

"The second major category of investments involves assets that will never produce anything, but that are purchased in the buyer's hope that someone else – who also knows that the assets will be forever unproductive – will pay more for them in the future. Tulips, of all things, briefly became a favourite of such buyers in the 17th century. This type of investment requires an expanding pool of buyers, who, in turn, are enticed because they believe the buying pool will expand still further. Owners are not inspired by what the asset itself can produce – it will remain lifeless forever – but rather buy the belief that others will desire it even more avidly in the future. The major asset in this category is gold."

Putting it in perspective, he went on to say:

"Today the world's gold stock is around 170,000 metric tonnes. If all this gold was melded together, it would form a cube of about 68 feet on each side. (To picture this in Australia, it would cover the MCG cricket pitch 68' long, 68' wide and 68' high) At $1750 per ounce – gold's price as I write this – it's value would be about 9.6 trillion dollars. Call this cube Pile A.

Now let's create a pile B costing an equal amount. For that, we could buy all US crop land (400,000,000 acres with output of about $200 billion annually), plus 16 Exxon Mobil (the world's most profitable company, earning more than $40 billion annually). After these purchases, we would have about $1 trillion leftover for 'walking around' money (no sense feeling strapped after this buying binge). Can you imagine an investor with $9.6 trillion selecting Pile A over Pile B?"

If you want to read the whole Warren Buffett letter, go to:

http://finance.fortune.cnn.com/2012/02/09/warren-buffett-berkshire-shareholder-letter/

Buffet's shareholder letter was in February 2012, and in the last two years, the gold price has dropped by 27%.

RISING PROPERTY PRICES DOES NOT MAKE US CITIZENS MORE WEALTHY

By James Malliaros

If you own your own home, then it's a very nice feeling when you know your property has gone up in value. It makes you feel 'richer'.

But rising residential property prices by itself, does not add to the increased wealth of the citizens of a country like Australia. It might be nice to think that your property value has gone up perhaps 50% in the last six or eight years, but basically all other property prices have gone up by the same amount, so comparatively speaking, you are no better off. And if somebody else buys your house for that increased price, they pay more stamp duty, larger mortgage repayments, more in rates and other property taxes, and at the end of the day, the purchaser of that property is only better off if the property price keeps going up.

There is no doubting that owning your own home provides substantial long term financial security, is generally a great store of wealth, and can give enormous emotional comfort, but as Paul Keating once said:

"Nations don't advance by consumers selling each other residential property at ever increasing prices."

PATRICK'S A DAD!!!!

By Paul Nicol

We are very excited to announce that on Thursday the 15th of May at 2.25pm, Patrick and his wife Liesl welcomed their first child Jakob William Malcolm weighing in at 5 pounds 15 ounces. Jakob was born a little premature at 35 weeks, but is very healthy. At the time of writing Jakob will be going home from hospital just before what would have been 37 weeks of pregnancy.

Without doubt this is one of the most special occasions in Patrick and Liesl's life, the creation of a family with so many special memories to come. In the short term you will need to excuse Patrick if he looks a little weary!

Needless to say both Patrick and Liesl are on "cloud nine" and all of us at GFM are absolutely thrilled for Patrick and Liesl. "Congratulations" to them both.

ANNUAL GOLF DAY

By Mai Davies

We held our 12th annual golf day at Riversdale Golf Club on Friday the 14th March, attended by 79 of our keen golfing clients. This was the largest field we have had in the 12 years. We were blessed with perfect weather for the day.

It was great to have a few more ladies and some new players join us this year. Everyone had a fantastic day. The course was in perfect condition.

The competition was Ambrose, and the winning score on the day was 57.50.

Congratulations to Brian Greenhalgh, John Negri, Tony Weir, Libby Weir, the winning team!

Tony Weir, Libby Weir, Brian Greenhalgh, John Negri.

The Runners Up with a score of 57.875 were Noel Ebery, Ross Fortune, Jan Fortune, Vin Squires.

Vin Squires, Ross Fortune, Jan Fortune, Noel Ebery.

Disclaimer: This document is not an offer or invitation to any person to buy or sell any interest in or deposit funds with any institution. The information here is of a generic nature, and does not take into account your investment objectives or financial needs. No person should act upon this information without firstly seeking competent professional advice specifically relating to their own particular situations.

Copyright: © This publication is copyright. Subject to the conditions prescribed under the Copyright Act, no part of it may, in any form, or by any means (electronic, mechanical, microcopying, photocopying, recording or otherwise) be reproduced or transmitted without permission. Enquiries should be addressed to Gilham Financial Management Pty Ltd.