Insight
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INNOVATIVE
FINANCIAL SOLUTIONS
(QLD) PTY LTD

All eyes on property and interest rates in 2015

Will we see the property bubble burst in 2015?
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Brought to you by Innovative Financial Solutions

Helping you achieve financial success and peace of mind by providing you with a personalised financial strategy

Welcome to our latest edition of Insight

Through this newsletter we hope to provide you with relevant insight into the areas which affect you and those around you.

Are you ready for the end of the financial year? As the end of the financial year sneaks up on us this is an important question to ask yourself. There may be some opportunities to take advantage of various initiative's and taking some time out to consider your situation could be beneficial.

You may be able to:

- ✓ Access the Government Super Co-contributions Scheme if you earn less than $49,488pa and make additional contributions to super.
- ✓ Implement a salary sacrifice strategy to save on tax (if you're paying marginal tax of 19% and above) and boost your retirement savings.
- ✓ Receive a tax offset of up to $540 and reduce your income tax by making a contribution to a low-income earning spouse's super fund.
- ✓ Split up to 85% of your pre-tax super contributions made this financial year to a spouse, perhaps as a cost effective way to fund their life insurance.
- ✓ Claim a tax deduction on your pre-tax super contributions if you are retired, self-employed or substantially self-employed, with less than 10% of your income coming from an employer.
- ✓ Boost your super while maintaining your current income, if you're over age 55 and still working.
- ✓ Pay for life insurance through your super fund for a more tax effective outcome.

To make the most of these opportunities please get in contact with us and we can review your situation and let you know what actions you can take before 30th June 2015 that could make a real difference to your situation.

Once again thank you for your continued support.

Kind Regards
Chris Hockey
Director
Innovative Financial Solutions (QLD) Pty Ltd

Mortgage paid? Now it's time to build wealth for the future

With your mortgage finally paid off, you can think about building more wealth for tomorrow. We'll show you three ways to build your wealth.

NUMBER ONE

Invest regularly in managed funds

Paying off a mortgage teaches you the healthy financial habit of investing a set amount each month. So, now the house is paid off, why not keep up that discipline with a regular investment into a managed fund?

Managed funds can help you gain exposure to a diverse range of assets, even for a relatively small investment. You'll also get the benefit of the expertise of the fund manager – so there's no need to choose stocks yourself.

By regularly investing the same amount of money over time, you'll be employing a strategy known as 'dollar cost averaging'. Because you automatically buy more units in the fund when prices are low, and fewer when they're high, your average cost per unit is reduced, increasing your potential for profit.

It's like buying $100 worth of apples every week – you get more when they're cheap, so you end up with more cheap apples than expensive ones. Then, if apples go up in price, you're investment should be worth more than you paid for it. However, the cost of apples will go up and down.

NUMBER TWO

Salary sacrifice into super

Another good place to invest some of your income is into your super, through a salary sacrifice arrangement.

It's easy to do – simply arrange for your employer (if this option is available) to pay part of your pre-tax salary into your super, along with the compulsory superannuation guarantee super payments they already make.

Salary sacrifice may also be a very tax-effective strategy. That's because it comes out of your pre-tax earnings, which means it may lower your assessable income. As a result, you could pay less income tax each year, while building your retirement savings.

What's more, the money you salary sacrifice to your fund is taxed at just 15% within super. So if you're in a higher tax bracket – for example, if you're paying a marginal rate of 46.5% tax – this could reduce the tax you pay on this money by 31.5%.

NUMBER THREE

Diversify into other types of investment

Many Australians like to put money into investment properties. And there's no question that this could be a great investment, with potential capital growth and rental income. But don't forget the importance of diversification, spreading your investments across a range of assets, markets and industries – including overseas.

For example, international shares can give you exposure to rapidly growing emerging markets, such as China, Russia and India. You can also enjoy access to the developed markets, and some of the world's most successful companies.

You may also want to consider investing in fixed interest assets, like term deposits or bonds, for predictable returns.

Or if you are keen to stay in property, indirect investment property is another option. By pooling your money with other investors into a property fund, you can gain exposure to commercial or overseas property, at a lower cost than investing directly.

If that all sounds too hard, there are plenty of managed funds to choose from, that can provide instant diversification – without having to do the legwork yourself.

Making your money work for you

Investing can be complex, and everyone's financial situation is different. So it's important to get the right financial advice. A financial adviser can work with you to determine the most tax-effective investment to make the most of your surplus cash.

Will property be hot in 2015?

With interest rates falling to new lows, are property prices set to rise even further?

There's no doubt that 2014 was a good year for Australian property investors. In the 12 months to December, residential house prices jumped 6.8% nationally, driven by a stellar 12.2% rise in Sydney and healthy increases in Brisbane 5.3% and Melbourne 4.5%.[1]

But according to Stephen Halmarick, Head of Economic and Market Research at Colonial First State Global Asset Management, we're still a long way from a property bubble.

"Demand is not being driven by cheap credit, as it was in the sub-prime mortgage boom in the US, Ireland or Spain. Instead, lack of supply is driving the price increase. What's more, official statistics reveal that housing credit growth isn't out of hand," he says.

"The household debt to income ratio in Australia has been flat for about a decade. At the same time, the cost of debt has fallen and incomes have increased."

February's 0.25% fall in the Reserve Bank's official cash rate helped to push the cost of borrowing even lower. As a result, Halmarick says 2015 is one of the cheapest times on record to borrow money, with rates likely to fall even lower.

"I don't think it's ever happened where you'll just get one rate cut — they usually come in a series. The market's expecting another cut of 25 basis points at least by April, so I think we'll be down to [a cash rate of] 2% before too long."

Demand set to remain strong

Halmarick says lower interest rates should continue to fuel demand for residential property, especially in Sydney, Melbourne, and Brisbane. Another rate cut would also mean investors will earn less on savings and term deposits, which mean many will be looking elsewhere for better returns.

> 2015 will be one of, if not the strongest year on record for new residential construction, particularly in Sydney

And low rates aren't the only factor pushing prices up.

"Much of the demand is due to demographics: the population is growing in big cities, both naturally and through immigration, so there's more demand for places for people to live."

There is also an increased appetite for property among investors, especially those who have paid off their homes and want to use the equity to buy investment property.

"There is the attractive tax incentive through negative gearing that property investment may offer, depending on an investor's circumstances," Halmarick says.

Less certain is the impact from international investors, attracted by our low borrowing costs and healthy economy.

"While international investors have created an increase in demand, it's uncertain to what extent, as unfortunately it is hard to get reliable statistics on international purchasers. In addition, offshore investors are only supposed to buy off the plan, rather than purchase established real estate."

Construction ready to take off

But while demand looks set to stay strong, there are also some factors that could help to cap housing price growth. In the short term, affordability may keep some investors out of the market, despite lower borrowing costs. Over the longer term, supply is likely to rise to meet growing demand. Already, national dwelling approvals have risen by 8.8% in the year to December 2014, with further increases likely[2].

"For a number of years, especially in Sydney, there's been significant undersupply of new residential construction," says Halmarick. "However, I believe that 2015 will be one of, if not the strongest, year on record for new residential construction."

Diversify, diversify, diversify

Halmarick says that, as always, diversification is the key to reducing risk. That could be important for Australian home owners, if they already have a significant proportion of their capital tied up in property.

"Portfolio diversification is critical, especially due to current volatility caused by growth in the US economy, but weakness in Europe and Japan and slowing in China," Halmarick says.

"This reinforces the need for diversification into assets such as property, infrastructure, fixed income or equities."

If you're not sure whether property is for you, talk to a financial adviser. They may help you take advantage of the potential of property and other asset classes, while creating a diversified portfolio to keep risk under control.

1. Australian Bureau of Statistics, Residential Property Price Indexes, December 2014, Release 6416.
2. Australian Bureau of Statistics, Building Approvals, Australia, December 2014, Release 8731.

Record low interest rates. Great for mortgages, but what about your super?

Interest rates in Australia are at a record low, but will property and superannuation thrive?

Interest rates have hit a record low in Australia. There are many ways you may be able to benefit from these historically low rates.

The Reserve Bank of Australia (RBA) has cut the official cash rate from 2.25% to 2.00%, citing weak economic growth, low inflation and a higher rate of unemployment.

However, less growth in the economy is not always bad news. Property and superannuation, for instance, may thrive.

> When interest rates are low, house prices tend to rise since home-buyers get a boost of confidence from lower mortgage rates, and that pushes demand for home ownership.

In his statement announcing the rate cut, the RBA governor, Glenn Stevens, said credit growth had picked up to moderate rates in 2014, with stronger growth in lending to investors in housing assets.

He added that the Bank is working with other regulators to assess and contain economic risks that may arise from the housing market.

So if you're thinking of down-sizing, your house may fetch a higher price if you decide to sell.

A lower interest rate can also lead to greater investment in the sharemarket as more people search for a better yield in shares. This in turn can have a positive impact on many super funds. Asset values can increase since many savers may be prompted to include more assets with higher expected returns in their portfolios.

Speak to a financial adviser who can help you decide how best to invest your super, depending on such matters as the amount of time you have before you retire, whether you still have dependent children and the risk level you're comfortable with.

This article follows an economic note from the Economic and Market Research Team at Colonial First State.

PLANNING INSIGHTS

Success doesn't just happen overnight

Plan your journey to achieve your financial goals.

Sarah Hammond is the first Australian woman to 'Everest' a mountain, the latest extreme goal for amateur cyclists.

Sarah climbed 8,848 vertical metres – the height of Mount Everest – by riding circuits of Victoria's Mt Buffalo for 19 hours straight in February.

Whether your personal goals relate to sport, family, or your financial life in retirement, everyone needs a plan. And to be successful sometimes involves changing our behaviour. Even Sarah, who'd always been a cyclist, had to get serious in order to attempt the Everest challenge.

Sarah planned her training to meet her goal, using some of the strategies of change expert Dr Stan Goldberg.

Divide your goal into smaller parts

Research shows that setting smaller goals leads to faster and more accurate completion of tasks. This applies as much to thinking about the different aspects of your financial health – such as insurance, superannuation, investments and tax effectiveness – as it does to training for an endurance event.

'Everesting is such a huge feat,' Sarah said. 'It seemed so impossible, I knew I just had to go for it.' Sarah made her goal manageable by focussing on four areas – physical endurance, nutrition, bike support, and mental stability.

> When it comes to achieving your financial goals, the best structure you can have is a financial plan that takes your circumstances and needs into account.

Be realistic

If your goal is unrealistic, fear of failure could topple you. Sarah chose Mt Buffalo because 'it wasn't crazy steep, but I knew I could manage it over a certain amount of time.' Just like Sarah, choosing your financial goal and a manageable timescale for reaching it is important.

Structure breeds success

'While spontaneity is wonderful for some activities, it's a surefire method for sabotaging change,' says Dr Goldberg.

He suggests identifying the helpful, unhelpful or neutral actions to achieving your goal, and then eliminating the negative, building the neutrals into positives and doing more of the positives. In Sarah's case, she 'toned down' the alcohol and sugar without eliminating them entirely. As she got closer to the big day, she increased her protein intake, and front-loaded her carbohydrates.

When it comes to achieving your financial goals, the best structure you can have is a financial plan that takes your circumstances and needs into account.

Value the outcome

To 'Everest' Mt Buffalo, Sarah had to build up her leg muscles for endurance in hours of climbing, when her legs screamed at her to stop. Sometimes a plan requires actions that are less than exciting (reviewing your superannuation, for example), so it helps to picture the outcome – like that trip around Australia when you retire.

Anticipate problems

Think ahead and prepare. 'I made sure I had every tool under the sun, and tried to think of everything that could go wrong,' Sarah said. She also chose music to listen to, ensured she had proper food to eat during the ride, and put emergency water stops halfway up Mt Buffalo. When it comes to your financial future, planning is the process that identifies what you might need in the future.

Go slowly and stay calm

On the day of the ride, Sarah 'rolled out' at 4am in total darkness. Each 25km lap of Mt Buffalo took two hours. Friends sent encouraging texts, but the toughest moment was 'about 13-15 hours in, when dark came again and I realized I wasn't going to finish as early as I thought.'

The planning paid off, and as she descended in the dark, she had achieved her goal. Now, with a second 'Everest' attempt in her sights, Sarah knows the right combination of goals and planning can make all her hard work pay off.

When real life throws you a curve ball – it's good to be covered

These two real-life stories show how important it is for you and your family to be prepared for the unexpected.

Robert is 61 years old, married with four children, this is his story...

Robert is 61 and married with four children who have all left home. Recently, he made a claim under his Suncorp Income Protection Insurance. "I had pneumonia but kept working. I realise now that was pretty dumb because it really flattened me. Well, it killed me actually – they literally had to bring me back to life."

For most of his working life, Robert has been self employed. When workplace changes led to more self-employed people taking out their own insurance, Robert thought Income Protection Insurance would give him and his family security if he was out of work because of sickness or injury.

"When you're young and in the building industry you think you're bullet proof, but you'd be very foolish not to have it. At this stage, my wife wasn't working and we were bringing up four kids. Whether you think you're actually going to be sick or not, you most definitely have to have it."

Around 15 years after taking out his Income Protection Insurance, Robert was diagnosed with a severe case of pneumonia, which led to heart failure. Fortunately, doctors were able to revive Robert, but he took several months to recover. The money from Robert's Income Protection Insurance meant he could continue to support his family and cover the mortgage and bills during the time he was unable to work.

"The insurance helped us get by. Without it we would be reliant on the public system and you don't get much on that, so it would have been very hard."

Disclaimer: *This customer's name has been changed to protect his privacy. This testimonial was provided by a valued client Suncorp Life & Superannuation Limited, in his own words. This testimonial is not an indication of typical results that individuals will generally receive, and should not be construed as a recommendation to purchase or dispose of a financial product. Please consult a financial adviser before making any decision in relation to any financial product. Suncorp Life & Superannuation Limited ABN 87 073 979 530 AFS Licence No 229880.

In 2012, Jeff was shocked to discover a lump on his neck, this is his story...

Jeff took out his Crisis Recovery policy in 2011. About a year later he made a claim for cancer of the tongue.

My dad died at an early age from a stroke so that was a wake up call for me to ensure I was covered in case I got sick or injured. Coming out to Australia from the UK, I was very sceptical about life insurance companies and whether they'd ever pay out but I still knew I needed the cover because I have a wife and three kids who rely on me financially.

In August 2011, I took out a Crisis Recovery policy with AIA Australia and nearly exactly a year later in August 2012, I made a claim.

We were on holiday down at Margaret River in WA when my wife noticed a lump on my neck. I was a bit shocked. We went straight to the GP and consequently had a CT scan, blood tests and a biopsy and sadly it turned out I had cancer. Hearing the news shocked me and I actually cried – it was the lowest point in my life. I contacted my adviser straight away who sorted out my claim. I had my fingers crossed my cancer was covered and I'd get a pay out, and AIA Australia quickly restored my faith in insurance companies because my claim was accepted and I received a lump sum payment of $210,000.

I'm currently in the process of having treatment but I'm adamant that I will get back to work. The money from AIA Australia has given me peace of mind that if I can't get back to work straight away, we'll get by and my family will be ok.

Disclaimer: This testimonial was provided by a valued client of AIA Australia, in his own words. This testimonial is not an indication of typical results that individuals will generally receive, and should not be construed as a recommendation to purchase or dispose of a financial product. Please consult a financial adviser before making any decision in relation to any financial product.
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Expect the unexpected

None of us can predict the future, and few of us like to think about it - especially when it comes to worst case scenarios. That's where Income Protection or Crisis Recovery insurance can help. They are designed specifically to safeguard against financial hardship from illness or accident which prevents you from returning to work.

Start the conversation

It's a good idea to have a chat with your financial adviser who can help you to assess your future financial needs if the worst happens and you need to call on your insurance. It is important to understand what exactly you are covered for. This will ensure that you are protected and that you will be financially secure if something happens.

At Innovative Financial Solutions (QLD), our aim is to help you achieve financial success and peace of mind by providing you with a personalised financial strategy.

About us

We are a boutique financial planning practice providing strategic financial advice solutions for clients in areas such as wealth creation, superannuation, risk management and retirement. We strive to provide you with a plan that will create and protect your wealth over the long term, while dealing with your day to day financial needs.

We are committed to service excellence and ongoing adviser education. All of our advisers are qualified, financial experts with the experience to ensure the best financial out come for you. Our quality financial advice puts you in control.

Our advisers

Our highly accessible and expert professional advisers are the key to our first-class client service. They will provide clearly communicated, tailored solutions and practical recommendations to ensure you grow and succeed in today's challenging environment.

Their capability is constantly improved through training, professional development and workplace programs.

The value of advice

Making the right decisions about your finances has never been so important. A financial planner can help you do this by understanding your financial situation and helping you develop a financial plan to meet short and long-term goals.

The right financial planner has the potential to provide outstanding value for money - creating a benefit that reaps rewards far in excess of the cost involved.

Of course, 'value' often goes beyond dollars and cents. It can be the peace of mind and security that comes with being prepared for the future. Or it may be the helping hand that arrives at a time of personal upheaval. Sometimes it's the clear sense of direction an expert can provide when we arrive at one of life's crossroads.

Whether you have definite personal goals, like saving for retirement or funding your children's education, or you're facing a raft of financial challenges, a financial planner can make a difference. Put one of our financial planners to the test and you will be offered sensible, achievable solutions that identify opportunities and help you avoid costly mistakes that could derail your future plans.

Our Services

Personal insurance
Superannuation

Retirement Planning
Investment Strategies

Small Business Planning
Estate Planning

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