



expert.

a newsletter from Investment & Planning Services

issue 08

An Overview of Investing in Volatile Markets

The Wrap

Welcome to the eighth issue of expert. We hope you've settled in well for the New Year after a wonderful festive season. Easter is here! We're already well into 2009 and now would be a good time to step back and take a look at what's currently happening in the market and what lies ahead.

Staying positive is the key! This issue provides an overview of investing in volatile markets and provides insights into why it's best for investors to stay put during any periods of market volatility to focus on the long-term outcomes.

It also touches on some of the things people at different life stages should consider when it comes to super and pension investment. While the rapid change in economic conditions has caused a stir in some areas of investment, in the property market it has created a situation where, in many cases it is cheaper to buy than to rent.

We share with you the latest news on the IPS team. From good parenting to bowling comps and golf tournaments, we definitely like to take on a challenge!

We hope you enjoy the eighth issue of IPS expert and as always we encourage feedback and questions on any of the topics covered in the newsletter.

Paul Plummer
CEO

With the recent media coverage of current investment market volatility, it is not surprising that investors are asking whether this latest volatility should have an impact on their investment strategy.

DALBAR (a Boston based financial research organisation), in their study titled "Quantitative Analysis of Investor Behaviour (2008)", found that over the 20 years to the end of 2007, the average US investor in equity mutual funds had received a return of only 4.5% per annum (pa), compared to the S&P500 return over the same period of 11.8% pa. Investor's behaviour cost them more than 7% pa over the 20 year period – on a \$100,000 investment that's the difference between a final outcome of \$241,171 rather than \$930,756 – a cost of almost \$700,000.

Generally, investors are therefore best placed by staying put during any periods of market volatility and focusing on the long-term outcomes.

We have compiled a number of investment insights to assist when investing during volatile markets.

Helpful insights to investing in volatile times

To keep focused on your goals during volatile times, keep in mind the following seven insights:

1. Risk and return are related
2. What goes up must come down occasionally
3. Diversification reduces volatility and can enhance returns
4. It's the time in the market, not timing the market that matters
5. Chasing performance can cost you money
6. Patience is a virtue
7. Talk to your financial planner

For more information contact Paul Plummer on 4227 5511.

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Day on the Green

Another fantastic finish at the 3rd annual IPS Golf Day held on 27 February 2009. A total of 60 players descended on the Wollongong Golf Course making up 15 teams from businesses such as Abico Insurance Brokers, Accent Communications, Maguire & McInerney Lawyers, Martin Morris & Jones, National Australia Bank, RMB Lawyers and Waples Marketing Group all battling it out for the title.

It was an action packed event with a relaxed BBQ and celebratory drinks at the end of the day to congratulate RMB Lawyers on a well-deserved win.

It's Great Being a Parent

With his eldest son Jo recently obtaining his motorcycle licence to start racing, and his youngest son Tom, having his first game of football with Thirroul Butchers, quiet weekends will no longer exist for Paul Plummer. As he travels between race course and football field, you're sure to spot Paul in the IPS truck travelling the Illawarra and Southern Highlands.

Double Strike

IPS is the major sponsor of Dapto Bowling Club and from 16 March – 18 March, Dapto Bowling Club held the "Gus Bianchetto Pairs Tournament". There were various state and local stars in action all striving for the title.

IPS would like to take this opportunity to congratulate all pairs who participated in this exciting event and express a very big "CONGRATULATIONS" to the winners being, R Duggan and Jim Green. We're sure all players had a very rewarding and fun filled day.

Purchasing Insurance in Superannuation



Superannuation is one of the most tax-effective ways to save for your retirement. It's also one of the best places to take out personal insurances such as:

- Life Cover
- Total and Permanent Disability
- Income Protection

Buying insurance in super can be more affordable in the following scenarios:

- If you're self-employed, you may be able to claim your super investments as a tax

deduction, regardless of whether they are used by your fund to purchase insurance or investments

- As you benefit from 'up-front' tax concessions
- If you are an employee and are eligible to make salary sacrifice contributions, you may be able to buy insurance through superannuation with pre-tax dollars, or;
- If you make personal after-tax superannuation contributions and meet certain other conditions, you may qualify for a Government co-contribution of up to \$1,500 which could be used to purchase insurance
- Can pay insurance without reducing your disposable income
- If you don't have adequate insurance you may consider having premiums deducted from your existing superannuation balance
- The trade off with this option is some of the money that could otherwise meet your living expenses in retirement will be used.

MLC Advises Caution with Cash

In volatile markets, investors are often tempted to move their investments out of the sharemarket and into 'safe havens' like cash.

Doing so can however have two undesired effects:

1. If an investor sells when the value of their investments is down, they will make a loss on their investment.
2. There is often a strong rebound in equity markets after a period of poor market performance, and an investor who has left the market would miss out on this.

Anthony Waldron, General Manager of MLC Platforms said: "While we don't know exactly when, the one thing that is certain is that equity markets will recover and start to grow again and those individuals who have remained invested will benefit from

the upturn, and those who are invested elsewhere will miss out."

Another area for caution with cash is investors pulling their funds out of cash management trusts to invest in cash products covered by the Government Guarantee.

"What's important is that customers look at the stability and security of the company that is managing their investments – whether they be invested in cash, equities, property or any other asset classes – and not just on whether or not they are invested in a product that is covered by the Government's guarantee," said Anthony.

MLC advises Australians to get financial advice before making any investment decisions, so any changes to their investment strategy keep them on track to achieving their long-term goals.



Paul Wright,
Director
IPS Home Loans



Why Now is a Great Time to Invest in Property

Residential property will become the prominent investment option for many Australians in 2009 as they search for a way to recoup their losses from the share market. Investors will search for an investment that has the greatest upside. Cities like Sydney and Melbourne, where growth over the last 5 years has been below average will be the first to move.

Here are 3 key reasons why we believe this to be true:

1) **Affordability** – A faltering economy makes property more affordable because it puts downward pressure on interest rates. If our economy continues to slide, interest rates will continue to fall making property even more affordable.

Due to falling interest rates and rising rents, the costs to hold on to a blue chip piece of property is approximately one tenth of the cost it was 12 months ago.

Yes, it is true unemployment will increase but it is important to put that into perspective. If unemployment

rises to 7% or even 10% it means that 90% of the population is still employed. Unemployment will impact on the consumer market and mortgage belt areas in the property market but will have very little impact on the property investment markets.

2) **Low supply and increasing demand** – Unlike the US where there is an oversupply of residential property, in Australia we have a severe shortage of stock. In a report released by RP Data recently, it was estimated Australia is short by 140,000 homes and growing. At the same time population growth is very strong and the long term outlook is that it will remain that way.

3) **A stable banking environment** – Australian banks now make up four of the top 12 banks in the world. Again, unlike US or European banks who are faltering, our banking system has weathered the economic storm well and is poised to ramp up lending again as confidence returns to the market.

There is no doubt now is the time to invest in property and it is vital to get in before the masses. However, it is important to be sure you are buying the right asset. For further information on buying an investment property, please contact me on 4227 5511.



Super and Pensions: What are my Options?

If you have seen your superannuation or pension investments fall in value in recent times, we understand you may be quite worried. So here are some things people at different life stages could consider:

People who are ten or more years away from retirement

It's important to keep in mind that super is a very tax-effective long-term investment not only for the ten or more years until you retire, but the 20 to 30 years you could spend in retirement.

It's important that your super is invested in a portfolio that matches your timeframe. One approach is to make super contributions from your pre-tax salary. This is known as salary sacrifice. Another approach is to make super contributions from your after-tax pay or savings to take advantage of the co-contribution from the Government.

People who are approaching retirement

If you are 55 years of age or over, you could consider making salary sacrifice contributions (see above) and starting what's called a 'transition to retirement' pension. Because of the potential tax benefits, this strategy could enable you to build-up your super without reducing your take-home pay.

Alternatively, you could consider working part-time and use a 'transition to retirement' pension to replace your reduced salary.

People who are already retired

If you are already retired, you've probably been impacted more than other people by the financial crisis. However super pensions are a very tax-effective place to invest your retirement savings. This is because no tax is payable on earnings in the fund and you can receive a tax-free income at age 60 or over.

If you are worried about your financial situation, there are a couple of options you could consider and IPS can help you. To find out the best approach for you, you should speak to your financial adviser, Paul Plummer.



Easter wishes from IPS

All of us at IPS wish you and your family a safe, happy and peaceful Easter. As we too are looking forward to spending time with family and friends, the IPS office will be closed from Thursday 9 April and will re-open Tuesday 14 April.

For all Home Loan matters during this period, please call Paul Wright on 0410 517 017. If you have an urgent Financial Planning matter that requires immediate attention, please call Paul Plummer on 0412 591 536.



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