

# RISPIN FINANCIAL

# THE BOTTOM LINE

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## IS IT BAD NEWS OR GOOD NEWS?

The financial markets have once again shown us that they can be volatile and just when we got used to outstanding annual returns in our portfolios we are now going through a downturn.

- Global credit markets are digesting the US sub prime debt crisis
- International equities markets fear a US recession
- Commercial property markets have overextended and some players such as Centro are forced to re-structure
- Australian equities have followed the international markets down
- The AUD continues to rise to the detriment of exporters and investors
- Interest rates are rising and housing affordability is squeezed

Is this bad news or good news for the long term investor? The answer is neither... it is what it is.

The returns for growth assets over the last 5 years until 29 February (including the present downturn) are still good:

Asset class	Average return 5 years	Despite downturns of:	
Property securities	10% pa	28%	24%
Australian shares	19% pa	1%	14%
International shares	15% pa	5%	14%
(After currency rise)	6% pa	17%	10%
Balanced portfolio	11%pa	5%	9%
		over last 12 months	over last 3 months

The average superannuation fund investor has a portfolio time of at least 20 to 30 years (some longer). Over this period of time the ups and downs of the financial markets do not have a significant impact on the returns which are available. It is exposure to growth assets that gives us the long term returns that we need.

Mere mortals are unable to consistently predict the ups and downs of the markets so there is little point trying to do so. The only consistent way to make a decent return is to buy good quality investments and hold onto them.

Therefore:

- There is no need to change your asset allocation for short term market volatility
- Markets are now trading at or below fair value which means it's a good time to buy and not the time to sell
- Income levels (dividends, rents, interest) continue at where they were despite a drop in capital value
- Many of the excesses of the boom are now behind us and we can look forward to a period of more "normal" growth

Ring me if you would like to talk about the markets and your own portfolio.

Best regards,  
Neil

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## FINANCIAL RECORDS - WHAT TO KEEP AND WHAT TO TOSS

Knowing exactly which financial records you need to keep, and for how long, can allow you to clear out some of the clutter with peace of mind.

Maintaining organised records will help you monitor your financial progress, prepare your financial statements, identify source of receipts, keep track of deductible expenses, prepare your tax returns, and support deductions claimed on tax returns.

However, you don't need to hold on to all your financial records forever. Nor do you have to necessarily keep mountains of paper-based records. Here is a quick guide to what you can toss and what you can keep – and still be prepared if the Australian Tax Office decides to audit you.

### 1. Financial Statements and Receipts

As a general rule, all financial statements and receipts which you have claimed need to be kept for five years. So if you have completed your 2005/06 tax return you can now safely dispose of papers prior to 1 July 2001.

However, if you or your business have Fringe Benefits Tax (FBT) liabilities then the records must be kept for seven years.

### 2. Assets & Capital Gains Tax (CGT)

If you have paperwork relating to any asset which has, or potentially could have, a CGT liability, you need to keep these records for the period of holding the asset plus five years after its disposal. For example, if you purchased some shares in 2000, you have to keep the paperwork until five years after you sell the shares. For some assets, you may have to keep records for longer.

### 3. Annual Tax Returns

It is probably wise to retain copies of your annual tax return indefinitely. They generally take up little space and are always helpful as guides for future returns or amending previously filed returns.

### Reducing the paper pile

With identity theft becoming an issue in Australia, any papers – particularly bank and credit records – need to be disposed of carefully, not merely thrown in the normal household garbage. A paper shredder is a small investment

for the peace of mind to know that your details can't accidentally fall into the wrong hands. Businesses routinely shred their sensitive documents prior to disposal or employ the services of a secure disposal company – you should do the same.

If you are reluctant to dispose of your records after five years, an inexpensive scanner – attached to your computer – can digitise your paperwork so that you can still access your old information but dispose of the mountain of paper. You don't have to wait five years before you scan your papers. Converting your paper records to digital records will mean you can dispose of your pesky paperwork sooner; digital records are considered to be the equivalent of paper records.

Of course, many financial records can now be received electronically rather than through the mail. Bank statements, credit cards and investment statements can, in most cases be received electronically, helping to keep your home office uncluttered and saving a few forests along the way. Electing to receive these items electronically means that literally thousands of pages of information can be saved on to one blank CD – just make sure the CD is labelled and stored carefully.

Finally, these guidelines shouldn't override advice from your accountant or other financial adviser. If you have any doubt about whether you should keep or toss an item, then keep it and ask your accountant; he or she can help determine what records you should keep, for how long and in what form.

*[ CPA Australia, Sept 2006 ]*



# WHAT'S YOUR MONEY MIND SET?

Your financial future could largely depend on which 'money mindset' you fit.

Research on attitudes to saving and debt levels identified five money mindsets that apply to Generations X and Y. The categories indicate that people hold different views on the ease of saving, their sense of ever being debt free and how well informed they feel about financial options. The mindsets are:

## 1. Financially Insecure Low Income Earner

This group comprises a large proportion of clerical workers and tradespeople, many aged between 40 and 45. People in this mindset believe they shouldn't have to save for retirement, with 89 per cent believing it would be difficult to save enough to retire comfortably anyway. This group had strong insecurity about their financial situation. Eight in ten are concerned about the amount of debt and interest payments they have to make. Virtually all of them believe that they have been 'burnt' in the past, and are therefore careful with their money. They are also likely to feel confident about taking on debt only if they have a constant income stream. Despite all this, they feel well informed about their financial options.

## 2. Financially Comfortable Debt User

Representing 25 per cent of those surveyed, this group were mainly in the 35-39 age group with one person households reasonably common. Many work full-time in professional roles earning over \$50,000. They are more likely to be tertiary qualified. Compared to the other groups, they are more likely to have shares (56 per cent) and managed investment funds (23 per cent), as well as investments in property other than their own home (27 per cent). With average debt levels of around \$150,000, this group seems comfortable managing the use of debt, while making savings and investment decisions. They strongly hold the view that they are well informed about their financial options, and are confident that they will be free of debt.

## 3. Younger Financially Unsophisticated

There is a strong concentration of this group amongst the 18-24 age group (i.e. Generation Y) and it is less common in the 40-45 age range. They are less likely to be found in managerial or professional positions. These people display real concerns over their debt situation. Eight in ten are particularly likely to feel over-committed on debt. Most feel it will be difficult for them to save for their retirement (despite believing that they should do so and not rely on government pensions).



Despite their fears over their current situation, they believe debt is okay if you maintain the minimum payments. Still, they feel that they'll never be free of debt.

## 4. Financially Conservative Debt Averse

This mindset applies predominantly to those aged under 35, with many of them in their late 20s. There is a higher proportion of young couples, and there are many with an income of over \$100,000 and few with an income of under \$50,000.

Their savings averaged \$89,000 and they use the full range of savings and investment options. Average debt for this group is \$102,000.

These people have rather conservative attitudes in the area of finances. They do not believe that borrowing money is okay just to get something you want. They do not believe they should borrow just to get the things they want now. More than half of them believe it will not be difficult to save enough to retire comfortably upon. They are confident that they will be free of debt in the future. Those with debt are concerned about the amount of payments they've got to make from their income each month.

## 5. Threatened Savers

This group is largely aged under 24 (Generation Y), female and living at home with parents in metropolitan areas. Many are students or unemployed.

These people are especially likely to claim that saving is not easy for them. Also, they indicated other attitudes which reflected that they are not yet comfortable with their financial future. Saving is something they would more likely be doing in the future, and they tend to see it as difficult for them to save enough to retire comfortably. Two thirds indicated they would be inclined to use a financial planner. They are relatively more inclined to feel that debt is okay as long as they can pay the minimum payments. However, most are of the view that they will never be debt free.

[ CPA Australia, Sept 2006 ]

## PROTECTING YOU AND YOUR FAMILY

It is amazing how many people will insure their car or their house without question but don't think twice about insuring their most valuable asset – their ability to earn an income. The table below shows only 6% of households protect their income by insurance.

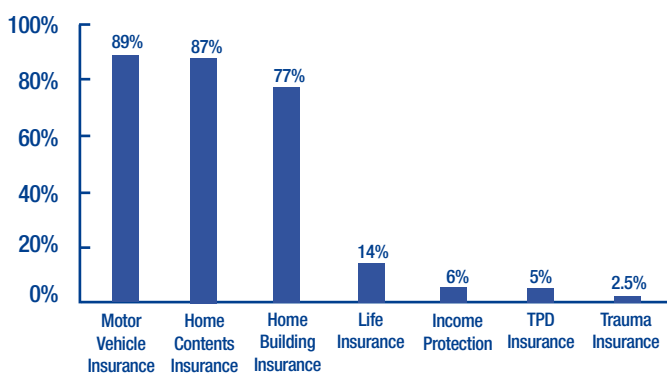
If you stop and think about it everything depends on your income. What if sickness or injury prevented you from working in the long or short term. Just because your income ceases unfortunately the mortgage/rent, bills and everyday cost of living does not. This is why income protection insurance is so vital.

Income protection means you can receive up to 75% of your income if you are unable to work because of illness or injury after a selected waiting period. Income protection in most cases is 100% tax deductible.

Whilst no one wants to think about things going wrong, BUT can you afford if they do?

Please contact Jenny Sneesby from our office if you would like further information or a complete analysis of your insurance requirements.

The following table shows the percentage of households that take out insurance cover for their various assets.



## NETWORKING

This is a new segment in our "Bottomline" newsletter. This edition" features a Melbourne based business "BamBoosox".

### Who are BamBooSox?

This is a Melbourne based family business that was established in 2006. Each pair of BooSox is manufactured in Australia, supporting Australian manufacturers. BamBooSox are designed for people who are conscious about healthy feet, desire performance and superior comfort in their socks, using eco-friendly fibres.

### Why Bamboo?

Bamboo grows quickly, requiring few farming inputs and no pesticides. Bamboo is more sustainable than Cotton. Cotton requires huge amounts of water & extensive use of pesticides – that pollute the environment. Bamboo takes up more greenhouse gases & releases more oxygen and does not need replanting, or fertilizers and its roots are very good at stabilising erosion prone soil. It is a natural and eco-friendly fibre without any chemical additives. Bamboo fibre is praised as "the natural, green and eco-friendly new-type textile material of the 21st century".

### BamBooSox Current Range

BooSox PRO, BooSox SPORT, BooSox HEALTH (released Dec 2007), BooSox Sport – CREW (released Dec 2007).

For more information or even some feedback on BooSox you can visit their website at [www.boosox.com.au](http://www.boosox.com.au), contact via email at [enquiries@boosox.com.au](mailto:enquiries@boosox.com.au)

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It is our intention to improve the financial well being of our clients. We will work hard to make sure that your association with us is a positive interactive experience.