

# Forsythes Financial Planning Money Matters



“An investment in knowledge always pays the best interest.”



Benjamin Franklin

WELCOME TO THE FORSYTHES FINANCIAL PLANNING - MONEY MATTERS - AUTUMN EDITION 2010

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## News Update

John O'Connor

The New Year is in full swing and I am sure we all feel equally disquieted that Easter has already come and gone. For the large part, financial markets have marked time over the period since Christmas. The interim jitters emanating from the debt position of so called PIGS (Portugal, Italy and Greece) remains a concern, but one that financial markets have chosen to discount, at least for the time being.

Forsythes has put this period to good use in conducting a further client satisfaction survey, following up on one two years earlier. Thank you to those clients who completed the questionnaire, we greatly appreciate you taking the time to provide us with your feedback.

**I am very pleased to report that overall our results were well above industry standard.**

There is however, always room for improvement and the delivery of our face to face review and planning meetings is one area highlighted by clients as needing attention. On receipt of the finding we immediately called a meeting of advisors

and external consultants to determine how this area can be reinvigorated to make it more engaging and satisfying to our clients. I believe we've come up with some great initiatives, which we will look to progressively implement, where appropriate, over the coming year.

Speaking of new initiatives, we have begun to review our clients for opportunities to save them fees and provide greater flexibility through the use of self managed superannuation funds tailored specific to their needs. A significant investment in new software has allowed us to better access this very popular investment structure, the benefits of which have been expanded upon in the article on pages 2 & 3.

Another very pleasing finding from our client survey was that the vast majority of clients surveyed (almost 90%) indicated that they would be willing to refer new prospects to us. To receive a referral from one of our valued clients is always extremely rewarding, as it demonstrates the faith and trust you have in us. We know that clients who refer people to us also feel a great level of personal satisfaction in knowing that they have helped their friend, relative or colleague improve their financial position. So if you think we could be of assistance to any of your friends or associates, please encourage them to contact our office to arrange an appointment with one of our Advisers.

Forsythes has been operating in Newcastle for over 58 years by providing a high quality and personal service to our clients. Your current team remains committed to this path – the loyalty and friendship of our clients is at all times greatly appreciated.

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for our  
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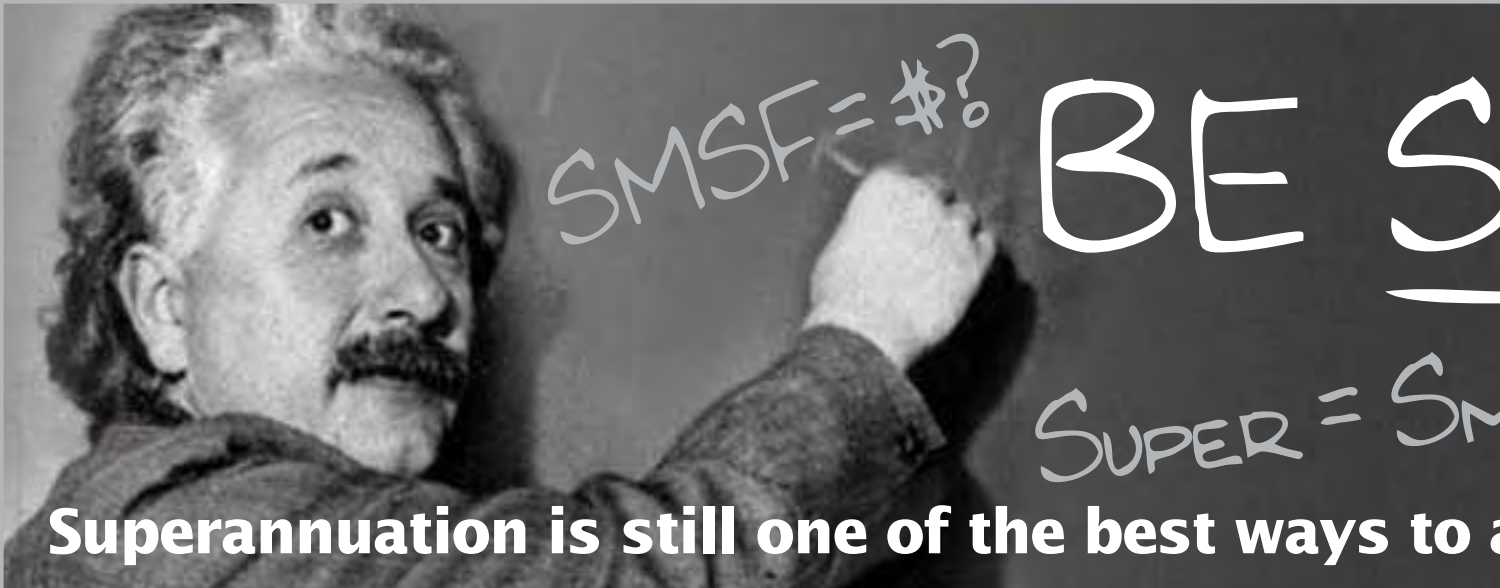
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**Forsythes**  
Financial Planning



## Superannuation is still one of the best ways to a

The main reason, of course, is the favourable tax treatment. When you invest in super, earnings are generally taxed at a maximum rate of 15%. A low tax rate means your money can grow faster than investments that are taxed at a higher rate.

Depending on your circumstances, there may be some other great incentives - like claiming a tax deduction for your own contributions or receiving a co-contribution from the Government. Also, when you reach age 60 or over, all the benefits you receive from a taxed super fund will generally be tax-free.

There are two types of super funds you can use - Public Offer Funds or Self Managed Superannuation Funds (SMSFs).

**Self Managed Superannuation has been one of the biggest growth areas in superannuation over recent years.**

According to the Government's December 2009 'Statistical Summary of Self Managed Superannuation Funds':

- ◆ There are now over 416,000 SMSFs in Australia, with more than 794,000 members.
- ◆ Approximately 2,500 new SMSFs are being registered each month.
- ◆ SMSFs held estimated assets of over \$384 billion by the end of the December 2009 quarter, with this expected to continue to grow in the current recovering economic climate.
- ◆ By comparison, in 2000 there were approximately 200,000 SMSFs with 377,000 members and assets of \$69 billion.

## At a Glance - Public Offer Vs. Self Managed Super Funds

	PUBLIC OFFER SUPER	SELF MANAGED SUPER
<b>Key Difference</b>	<ul style="list-style-type: none"> <li>◆ In a public offer super fund, an unrelated Trustee takes care of all the fund's reporting, management, tax and investment responsibilities.</li> <li>◆ Public offer funds generally suit people who prefer to outsource the management of their super or have smaller account balances.</li> </ul>	<ul style="list-style-type: none"> <li>◆ A self managed super fund, or 'DIY fund', has fewer than five members. Generally, all members are Trustees of the fund and all the Trustees are members. If you set up a SMSF, you take on all the responsibilities of a Trustee.</li> <li>◆ SMSFs are generally more appropriate for people with larger account balances (upwards of \$250,000) who want to be actively involved in the management of their super.</li> </ul>
<b>The Benefits</b>	<ul style="list-style-type: none"> <li>◆ You don't have to worry about the cost and legal hassle of setting up your own fund, or the ongoing responsibilities of running the fund.</li> <li>◆ You can choose from a range of managed investment options and, in some cases, direct shares.</li> <li>◆ Your investment receives concessional tax treatment.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Because you're a Trustee of the fund, you can exercise more direct control over the investment strategy.</li> <li>◆ You have a choice of managed investments, direct shares and private assets such as direct property.</li> <li>◆ Your investment receives similar concessional tax treatment to a public offer fund.</li> </ul>
<b>Tips &amp; Traps</b>	<ul style="list-style-type: none"> <li>◆ While you can only invest in the options offered by the fund, a broad choice of investment options is usually available.</li> <li>◆ Because the Trustee makes all the decisions in relation to the management of the fund, you can sit back and relax while someone else does all the hard work. Keep in mind this also means you typically have no say in the way the fund is managed.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The secret to successfully managing your own super fund is to get expert advice. Don't try to do it all yourself.</li> <li>◆ As Trustee of your own fund, you and the other Trustees are responsible for the administration of the fund and complying with regulatory requirements. This responsibility also applies to any tasks outsourced to third-party service providers.</li> <li>◆ There are costs involved in setting up your own fund, including establishment costs, legal costs, ongoing administration costs and investment costs.</li> <li>◆ Forsythes can help you set up and administer a self managed super fund.</li> </ul>

# SMART! SMART!

## SMART! PUBLIC OFFER OR SMSF?

### accumulate wealth and save for your retirement

## Self Managed Superannuation Funds (SMSF)

### What is a SMSF?

SMSFs are commonly used by family members and close business associates who wish to have more control over their retirement savings. Broadly, the Superannuation Law defines a SMSF as a fund which:

- ◆ Has 4 members or less;
- ◆ All members are Trustees (and vice versa);
- ◆ If the Trustee is a company, all members are Directors, and all Directors must be members of the fund; &
- ◆ No member is an employee of another member unless they are also related.

There can also be single member SMSF, provided:

- ◆ For a corporate Trustee the member is the sole Director, or only one of two Directors who are related, or one of only two directors and the member is not an employee of the other director, or
- ◆ For an individual Trustee, the member is one of only two Trustees and the other is a relative or non-related person of whom the member is not an employee.

### Why establish a SMSF?

The attractions of running your own SMSF include:

- ◆ For many people, the greatest advantage of a SMSF is the greater control, flexibility and investment choice they provide. You have far greater control over the investment strategy for the fund, which provides you with a greater ability to tailor an investment strategy to suit your circumstances and preferences.
- ◆ A wider choice of investment options including direct property and non-traditional investments such as, equity in small businesses, instalment warrants and art

work. This is also extended to foreign domiciled shares and investments. In some circumstances the SMSF can purchase assets from members of the fund, allowing better consolidation of investment assets.

- ◆ Broader estate planning controls as a SMSF can be tailored to meet your own personal circumstances. For example, you can include family members as long as there are no more than 4 members in the fund at any given time, and the Trust Deed may be drafted to include the most appropriate death benefit nominations available under the super laws.
- ◆ Overall reduction in ongoing investment fees. By combining all your member accounts within a SMSF, and investing these funds via a cost effective investment platform, this can lower your overall ongoing investment costs in certain circumstances. Often this will depend on the type and total value of the fund's assets.
- ◆ Tax Effectiveness - while the tax rules for all super funds are broadly the same, the way tax is accounted for can differ between SMSFs and public offer funds - SMSFs can control the timing of taxable events such as the realisation of capital gains and losses.
- ◆ Ability to include your preferred Insurer for Life and Total and Permanent Disablement (TPD) insurance cover. The SMSF can be the policy owner for this type of cover for members and obtain a tax deduction on the premiums. The SMSF can also hold salary continuance insurance; however it is often more tax effective for this to be held outside super in the hands of the life insured.
- ◆ Option to purchase property as 'tenants in common' with members provided the fund does not pledge it's assets as security for any loan undertaken by the member to finance such an acquisition.

### What should I be aware of in establishing a SMSF?

The Australian Taxation Office considers the main questions to consider before you establish a SMSF are:

- ◆ Is the SMSF strictly for retirement? Trustee's must understand that there are strict rules regarding types of investments and accessing super benefits. For example, personal use of holiday homes and sport memberships are prohibited.
- ◆ Will the benefits be worth the costs? It is important to ensure that the set-up and annual ongoing costs are reasonable as a percentage of your total fund balance (when compared to a larger super fund). For example, the average costs of retail public offer funds (including fund manager costs and platform administration) is around 1.5%pa.
- ◆ Will switching to a SMSF affect your current super? It is important to consider loss of any insurance on rolling over any existing super to a new SMSF. In addition, exit fees and charges must be quantified as well as the crystallization of underlying capital gains tax (CGT) on existing super assets sold down on rollover of your benefits to the new SMSF.

### Conclusion - So is a SMSF right for me?

Essentially this is a question that depends on an individual's circumstances. With that said, if you have a superannuation balance exceeding \$250,000 and wish, in conjunction with your adviser, to be much more 'hands on' in investing your super, then you should consider a SMSF as an alternative to a public offer fund.

**Forsythes currently provides accounting, administration and investment advisory services for over 160 Self Managed Super Funds. If you think that a SMSF may be right for you, talk to your Forsythes Financial Planner.**



# Top 5 quirky economic theories

There are a number of obscure economic hypotheses that have been known to provide guidance to budding economists over the years. Whilst our economic outlooks are based on more conventional and sound hypotheses, we thought you may find the following theories as entertaining as we did.

## 1) The Leading Lipstick Indicator

The Leading Lipstick Indicator centres on the premise that when the bull turns into a bear, consumers turn to less expensive indulgences, such as lipstick. This term was coined by Leonard Lauder (chairman of Estee Lauder), who consistently found that during tough economic times, his lipstick sales went up. In fact, the US reported that lipstick sales doubled after the 9/11 terrorist attacks.\*

## 2) The Aspirin Count Theory

This abstract market theory discovered an inverse relationship between stock prices and aspirin production. We're not aware of any formal testing on this theory, but it makes sense that as stock prices fall, more and more people need pain relief to get through the day.

## 3) The Big Mac Index

This index is based on the sound economic theory of purchasing-power parity (PPP), where exchange rates should equalise the price of a basket of goods in different countries. The Big Mac Index, first published in The Economist in 1986 and reviewed annually, has been successful in helping explain exchange rate theory to many investors. As of January 2010, the Economist reported that the most overvalued currency against the US dollar was the Norwegian kroner at 96 per cent above its PPP rate – in Norway, you'll pay US\$7.02 for a Big Mac. The Aussie dollar is considered to be slightly overvalued, with a Big Mac here setting you back \$US3.98.

In 2004, The Economist put a fresh spin on this index by introducing a Tall Latte Index reporting on Starbucks coffee. This didn't take off in Australia – much like the coffee itself. In 2007, the Commonwealth Bank got on the bandwagon with an iPod index but we still think the original burger indicator is the best.

## 4) The Packed Theatre Theory

It appears that when times are tough, people turn to the movies. Whether it's to escape the doldrums with some Hollywood glamour or because it's one of the cheapest forms of entertainment, box office sales in the US have increased during the last five recession years, according to the National Association of Theatre Owners.\*\*

## 5) The Laundered Shirt Theory

The international Drycleaning and Laundry Institute has reported that during an economic downturn, customers visit less frequently and leave clothes longer at the dry cleaners. The recent Global Financial Crisis was no different, where the rise in unemployment reduced the demand for professional and formal clothing. In fact, IBISWorld estimates that revenue for the laundry and drycleaning industry will decline by 3.5 per cent over 2009-10 as a result of GFC-influenced changes to spending habits.\*\*\*

\* <http://www.investopedia.com/terms/l/lipstickindicator.asp>

\*\*<http://www.kiplinger.com/features/archives/2009/06/10>

\*\*\*<http://www.perthnow.com.au/money/money-matters/things-weve-ditched-since-the-financial-crisis/>

## STAFF NEWS

### Lance ties the knot!

Congratulations to Lance Swansbra and Maryanne on their marriage on Saturday, 13th March 2010!



### Congrats to Craig!

Congratulations also to Craig Semmler who graduated this month with a Bachelor of Commerce!



Craig has been with Forsythes for almost 2 years, and is a valuable member of our Paraplanning team. In addition to completing his degree over this time, Craig has been studying towards his Diploma of Financial Services, with the aim of becoming a fully qualified Financial Adviser in time. Having grown up in Dubbo, Craig now lives in Charlestown and loves the Newcastle lifestyle. In his spare time he enjoys some golf, camping and watching the Newcastle Knights play on the weekend.

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