



## Welcome to our quarterly magazine – in this edition:

- Five ways to smarten up your SMSF
- The secret lives of bonds
- Do investment properties really add up?
- Making the most of lower interest rates
- Six secrets of successful investors
- Want to control diabetes? Check your plate

Welcome to this quarter's inTouch magazine. This edition we look at considerations for property investors, the different options available when investing in bonds, making the most of the low interest rate environment and tips for successful investors.

With so many diverse strategies available to grow and protect your wealth it can feel overwhelming – and just when you have it under control, the legislation changes! We hope these articles provide you with some useful information and prompt questions you can discuss with your financial adviser. Remember – you don't have to do it on your own!

Our qualified advisers are available to help you understand the complexities so, give us a call today.

Until next quarter...

## Five ways to smarten up your SMSF

There are over 560,000<sup>1</sup> Self Managed Super Funds in Australia, many of which could benefit by following a few simple steps.

The stunning growth of SMSFs in Australia means that over 1 million Australians are now members of an SMSF, with combined assets greater than both retail and industry super funds.

While many of these SMSFs are running smoothly, many others could benefit from some fine-tuning to ensure the best interests of members are being looked after.

### 5 tips for a smarter SMSF

#### 1. Diversify widely

SMSFs give you greater freedom around how and where you invest your retirement savings. But with that freedom comes the responsibility to ensure there's an appropriate balance of investments to meet the objectives of the fund.

For most people, a smart way to manage the risks of investing is to include a mix of growth assets (e.g. shares and property) and defensive assets (e.g. cash and fixed income) in your portfolio – ensuring you're not too exposed to any one asset class in particular.

The need to diversify also applies within asset classes. For example, while SMSFs are heavily invested in Australian shares (31.7% of total assets at June 2015<sup>2</sup>), few are invested in international shares (0.3% of total assets). This bias not only increases risk, it can also hinder growth.

In the year to 30 June 2015, international shares (+25.2%) significantly outperformed Australian shares (+5.7%)<sup>3</sup>.

Exchange Traded Funds (ETFs) can be a cost-effective way to add diversification to an SMSF, with some ETFs able to give you exposure to an entire asset class in a single investment.

## 2. Avoid a liquidity trap

The ability to buy real property in super is one of the popular attractions of SMSFs. The downside of owning large assets like property inside your super is the problem it presents if your fund needs to pay out one of its members – e.g. due to death or permanent disablement.

In this situation, an SMSF trustee may be forced to sell the asset quickly to pay a member's benefit. This could result in an unfavourable outcome for all concerned.

One way to potentially avoid this is to ensure the SMSF holds a significant amount of cash and other liquid assets (e.g. shares and ETFs). Life insurance may also have a key role to play (see #3).

## 3. Consider life and TPD insurance for members

Unlike some employer super funds, life and total and permanent disability (TPD) insurance isn't compulsory in SMSFs. However, trustees must consider the need for insurance as part of their investment strategy, and this needs to be documented.

Taking out life and TPD insurance can be a smart way to protect the members of your SMSF as it allows you to use before-tax super contributions (e.g. salary sacrifice) to pay insurance premiums. While there are pros and cons of holding life insurance within super, it may make your cover more cost-effective than if you held it outside super.

## What are trustees responsible for?



## 4. Keep track of your costs

While SMSFs can be more cost-effective than retail or industry funds for people with substantial super balances, the additional costs of running SMSFs (e.g. accountant and administration fees) can outweigh the savings for people with lower balances.

As a rule of thumb, only people with more than \$250,000 should consider starting an SMSF. But even people with larger balances need to keep a close eye on costs to make sure you're not diluting your savings with excessive transaction costs and capital gains tax.

## 5. Follow the rules (and rule changes)

There are many rules and regulations SMSF trustees need to comply with. For trustees that don't comply, the ATO has a wide range of penalties ranging from 5 units (\$900) for not complying with an education direction, to 60 units (\$10,800) for lending from the SMSF to members or relatives<sup>4</sup>. And you can't pay these fines with superannuation assets.

It's also essential to keep track of changes to rules and regulations – such as the new obligation for trustees to value SMSF assets at market value, and review the fund's investment strategy, on a regular basis.

A good way to ensure you're always compliant is to use an SMSF administration service that alerts you when you need to act, and seek regular advice from your accountant and financial adviser.

Source:

- [1. http://www.apra.gov.au/Super/Publications/Documents/1511-QSP-1509.pdf](http://www.apra.gov.au/Super/Publications/Documents/1511-QSP-1509.pdf)
- [2. http://www.superguide.com.au/smsfs/smsf-investment-diy-super-asset-types](http://www.superguide.com.au/smsfs/smsf-investment-diy-super-asset-types)
- [3. https://static.vgcontent.info/crp/intl/auw/docs/resources/index\\_chart.pdf](https://static.vgcontent.info/crp/intl/auw/docs/resources/index_chart.pdf)
- [4. https://www.ato.gov.au/Super/Self-managed-super-funds/Administering-and-reporting/How-we-help-and-regulate-SMSFs/How-we-deal-with-non-compliance/](https://www.ato.gov.au/Super/Self-managed-super-funds/Administering-and-reporting/How-we-help-and-regulate-SMSFs/How-we-deal-with-non-compliance/)



## The secret lives of bonds

Bonds are one of the four major assets classes, but they're probably the least understood. Here's why they're an important part of many portfolios.

### What are bonds?

Bonds are essentially loan arrangements that governments and large companies use to raise money.

These loans generally have a fixed term and a fixed interest rate, with the interest either paid in full at the end of the term (i.e. at the 'maturity date') or in instalments along the way.

### How do you invest in bonds?

A simple way to invest in bonds is through managed funds or Exchange Traded Funds (ETFs). This generally means your money is pooled with other investors in a diversified bond portfolio, which reduces the risk that any one borrower will default on the loan.

You can also invest in bonds through your super – bearing in mind that a typical 'Balanced' investment option allocates around 30% of its assets to bonds (also referred to as 'fixed income') and cash.

### Why invest in bonds?

#### 1. They provide a reliable source of income

Investing in bonds with high-quality borrowers (e.g. governments and blue-chip corporates) can give you a steady and reliable source of income over a set time period. This often makes bonds a good option for retirees or investors who want to generate ongoing income.

#### 2. They offer higher potential returns than cash

Bonds typically pay a higher rate of interest than cash and term deposits, compensating investors for the additional risk associated with lending money.

Unlike cash investments, bonds also offer the potential for capital appreciation – which tends to happen when interest rates fall. This is because new bonds are typically

issued with lower interest rates than older bonds, making the older bonds more valuable when traded.

This feature of bonds makes them a good hedge against dwindling returns from cash investments in a falling interest rate environment. The flipside is that bonds may lose value when interest rates rise.

#### 3. They can be a good hedge against share market volatility

Bonds provide diversification benefits for investors because they tend to behave very differently to shares.

The table below shows the performance of Australian shares, Australian bonds and cash over the last 10 financial years, plus the average return over the last 30 years.

As you can see, some of the strongest years for bonds are when shares are in negative territory.

Financial year	Australian shares	Australian bonds	Cash
2006	24.2%	3.4%	5.8%
2007	30.3%	4.0%	6.4%
2008	-12.1%	4.4%	7.4%
2009	-22.1%	10.8%	5.5%
2010	13.8%	7.9%	3.9%
2011	12.2%	5.5%	5.0%
2012	-7.0%	12.4%	4.7%
2013	20.7%	2.8%	3.3%
2014	17.6%	6.1%	2.7%
2015	5.7%	5.6%	2.6%
<b>30 year average</b>	<b>11.8%</b>	<b>9.5%</b>	<b>7.6%</b>

# Do investment properties really add up?



Australians have long been attracted to property as an investment. But we also tend to have a blind spot when it comes to the costs of owning it.

Property holds a special place in the hearts and minds of Australians. But do we let our love for property cloud its true value as an investment?

A strong property market, low interest rates and generous tax breaks have all been magnets for property investors in recent years. The challenge for property investors is making sure you're weighing up the performance of your investment against what it's really costing you to own it.

So what are the costs of owning an investment property?

## Upfront costs

If you're looking to borrow to fund your property investment, the starting point with many lenders is a 20% deposit. On a \$600,000 property, that's \$120,000.

If your deposit is less than 20%, you may need to pay Lenders Mortgage Insurance – which can be a significant one-off cost.

Typically the biggest cost when buying a property is stamp duty, which varies from State to State but is close to \$23,000 on a \$600,000 property in NSW<sup>1</sup>.

Add to this legal fees (\$1,500-\$3,000), building and pest inspections (\$300-\$500) – potentially for multiple properties – bank valuations (\$300-400) and loan establishment costs (\$500-600).

Add them up, and these costs could potentially add around 5% to the cost of your investment.

## Ongoing costs

Once the property is yours, you can obviously start using it to generate an income from tenants. The downside is the ongoing costs. Loan repayments are usually the biggest cost. For example, a \$480,000 home loan with a 30-year term and a 6% p.a. interest rate will generate loan repayments of \$2,878 per month.

And remember that only the interest portion of these repayments is tax-deductible.

Other ongoing costs include council and water rates, strata levies (if applicable) and home and landlord insurance. You may also have to pay land tax for larger or higher-value properties.

## THE REAL COST OF OWNING AN INVESTMENT PROPERTY



### Upfront costs

- Deposit (usually 20% and if less, lenders mortgage insurance may be required)
- Stamp duty
- Legal fees
- Building and pest inspections
- Bank valuations
- Loan establishment costs



### Ongoing costs

- Loan repayments (only interest portion is tax deductible)
- Council and water rates
- Strata levies if applicable
- Home and Landlord insurance
- Land tax (for large and higher value properties)



### Exit costs

- Real estate fees (typically 2%)
- Capital Gains Tax (CGT)

> continued from page 4

### Exit costs

At some stage you may want to sell your investment to realise the capital growth you have hopefully earned. The major costs here are likely to be real estate agent fees (typically around 2% of the sale price) and capital gains tax (CGT), which is payable at your marginal tax rate.

You may be eligible for a 50% CGT discount if you hold your property for more than 12 months, but CGT can still be a significant expense – particularly for higher income earners.

For example, if you bought an investment property for \$600,000 and sold it for \$750,000 three years later, 50% of the total capital gain (i.e. \$75,000) would generally be subject to capital gains tax. If you're in the highest marginal tax bracket, that tax bill could be as high as \$36,750 (including the Medicare Levy and Temporary Budget Repair Levy).

### Property investing for the long term

There's no doubt astute investors can make good money from investing in property, particularly in favourable market conditions. But it's essential to weigh up all of the costs associated with buying, owning and selling an investment property.

Generally speaking, property should be looked at as a long-term investment for 5-10 years – giving you time to achieve the capital growth and income you need to average out the costs and make it a successful investment.

1. <http://stampduty.calculatorsaustralia.com.au/stamp-duty-nsw>

## Making the most of lower interest rates

While lower interest rates are great for those with mortgages, it does not suit everyone and can make things a lot more difficult for those needing income in retirement.

Here we look at how you can make the most of the current low interest rate environment, whatever your stage in life and financial goals.

### If you are an accumulator focussed on paying down debt and building wealth

With interest rates now at record lows, paying down your mortgage as quickly as possible is an excellent way to pay off your debt.

Keeping your repayments the same when rates go down, or even paying a bit extra each month, means you pay off more of your principal, which helps you to build up a buffer when interest rates inevitably rise.

Changing your payment frequency to weekly, instead of monthly, will also help you to use the magic of compounding to pay off your mortgage more quickly.

This is an excellent strategy for all your homeowners to consider, but speak to your financial adviser and mortgage broker before you make any big decisions, just to check your intentions will have the desired result.

### If you are a pre-retiree looking forward to a worry-free lifestyle

With interest rates expected to stay low for some time, having an appropriate retirement plan in place as early as possible is a good idea for all pre-retirees.

This allows you to concentrate on the things you can control – such as increasing your contributions to super, paying off your mortgage or reducing your spending – all of which can help make a big difference to your income and expenses in retirement.

You may also need to adjust how you view risk, through increasing your allocation to growth assets, in order to give yourself a chance to generate enough income for a comfortable retirement.

Your financial adviser can talk you through this strategy and other options you have for putting everything in place for your retirement.

### If you are retired and managing a careful budget

Low interest rates mean that cash investments and term deposits are now returning less than what many have received in the past.

Retirees should look at other income options, one of which is high interest cash accounts. These offer up to 1 per cent more interest than cash investments and term deposits, which can make a difference to your retirement income.

However, it's important to look at these carefully, as some require a minimum monthly deposit, or have a higher interest rate initially, that tapers off to a lower interest rate once the new customer 'honeymoon' period ends.

Depending on your risk profile, other investments that could help increase retirement income in the current market you could consider are a diversified bond fund, given bond yields are rising, or perhaps quality, high-dividend paying Australian shares.

### Planning is key

With interest rates not expected to rise in the near term, it's important that you start planning now to help you pay down debt and grow your wealth.

According to the Association of Superannuation Funds of Australia, you would need \$729,000 at a return of 6 per cent over 20 years to generate \$60,000 in income each year. Based on a return of 2 per cent, this figure rises to \$1 million.



## Six secrets of successful investors

The investment world can change dramatically from one month to the next. But these secrets of successful investors never go out of style.

Successful investing can be one of your biggest allies in the quest for long-term financial security. Unfortunately, unsuccessful investing can leave you wishing you'd kept your money in the bank.

So what are the secrets to making your investments achieve what you want them to achieve? Here are some of the tactics used by successful investors around the world.

### 1. Start with a plan

Smart investors don't just look for 'good' investments. They look for investments that will help them achieve specific goals.

For example, you may be looking to achieve a better yield on your cash than you can with a term deposit.

In this case, a high-yield share fund may be a good option. But someone who is mainly looking for capital growth may be more interested in a growth-style share fund that doesn't focus on dividends.

### 2. Diversify widely

One of the main goals of investing is to ensure you have a mix of assets that are likely to perform well at different times – helping you survive any downturn in a specific market or industry sector.

While many Australian investors are heavily exposed to Australian shares, a well-diversified portfolio will generally hold assets in each of the major asset classes (e.g. Australian and international shares, property, fixed income and cash).

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Tip: Exchange traded funds (ETF) make it extremely easy to diversify your investments as they can give you exposure to a whole index or asset class in a single investment.

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### 3. Watch your costs

It's easy to get fixated on the returns your investments can generate. But successful investors always keep track of, and seek to minimise, the fees and taxes associated with owning them.

A 'buy and hold' strategy can help you avoid transaction costs like brokerage, or buy and sell spreads from managed funds. It can also help you reduce capital gains tax, which generally decreases by 50% when you've held an asset for over 12 months.

### 4. Invest gradually

Attempting to time the market is a dangerous strategy that can increase the risks of investing, particularly if you invest all of your spare money at once.

> continued from page 6

A good way to manage the risk of a market downturn is to invest gradually over time. This allows you to average out the cost of your investments, making the timing of each transaction less important.

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**Tip:** Most managed funds will allow you to set up a BPAY arrangement so can invest in a regular and disciplined way.

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### 5. Don't panic

When share markets retreat (which they inevitably do), smart investors don't hit the panic button and sell long-term investments that are likely to bounce back at some stage.

Instead, if you continue to invest during a market downturn, you may be able to buy high-quality investments at a lower price than you could if you waited for markets to recover.

### 6. Protect your assets

Even the best investment strategy can come unstuck if you need access to your money in an emergency.

A smart strategy is to ensure you maintain a sizeable cash reserve, and put in place appropriate income protection and life insurance. Having the right insurances in place can help prevent the need for a 'fire sale' of your investments if you suffer a serious illness or accident.

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**Tip:** Income protection typically replaces up to 75% of your income if you can't work due to an illness or accident. The premiums for this type of cover are generally tax-deductible.

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## Want to control diabetes? Check your plate



What if you could reverse diabetes with chickpeas, fish and olive oil? A new study from Newcastle University links a very-low-calorie diet with the cessation of type 2 diabetes.

Type 2 diabetes is a progressive condition, at first managed by diet or surgery, and then by medication or insulin injections. But a new study indicates this doesn't have to be the case.

A study conducted in March this year by Newcastle University in the United Kingdom placed 30 individuals with type 2 diabetes on a very-low-calorie diet for eight weeks and stopped all diabetes medication and insulin injections. A dozen participants experienced lower blood glucose levels and their diabetes went into remission for at least six months. The research team believes major weight loss can return insulin levels to normal.

While research needs to continue, the study provides hope that type 2 diabetes may not be a lifelong condition – and that's great news for the 1.7 million Australians who suffer from it.

Inspired by the study, documentary-maker Dr Michael Mosley has suggested that the Mediterranean diet may help control diabetes. The diet is mainly vegetarian, with a few servings of oily fish a week. Olive oil is the primary added fat, and the diet also includes fresh fruit, yoghurt and legumes.

Researchers around the world have been studying the Mediterranean diet due to its remarkable effects on health. A recent study presented at the American Society of Clinical Oncology meeting in Chicago found the diet could help prevent the return of breast cancer. Other studies have suggested it can reduce the risk of heart disease and dementia.

According to Diabetes Australia, 280 people develop diabetes every day. That's one person every five minutes, and makes it the fastest growing chronic condition in Australia.

If you suffer from diabetes, would like to lose weight or would like to improve your overall health, the Mediterranean diet may be for you.

## Will you lose your pension benefits?

91,000 people are estimated to lose their Social Security Pension (including Age Pension) when changes take effect on 1 January 2017.

Speak to your financial adviser now about your new game plan.



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