

Forsythes Financial Planning Money Matters

“Your goal, as a creative investor, is to launch your ship into financial orbit...
and then put it on automatic pilot.”
~ Robert G. Allen ~

WELCOME TO THE FORSYTHES FINANCIAL PLANNING - MONEY MATTERS - FIRST EDITION 2008

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News Update

John O'Connor - Partner

Welcome to your April 2008 edition of Money Matters.

Economic uncertainty is a continuing theme within International economies and, to a lesser extent, our domestic economy, at present. The conservative investment direction taken by the Forsythes Investment Review Committee over the past 12 months is now providing real benefit in cushioning the impact of share and property market devaluations. In addition, Forsythes larger allocations to cash and fixed interest have placed our clients in a strong position to benefit by buying in the improved market conditions which are expected over the next 6-12 months.

I am pleased to confirm we have received the results of our recent client survey. We engaged the services of an external organisation – Business Health Pty Limited - who surveyed a randomly chosen sample of 200 of our clients. The survey was commissioned to gain a clearer understanding in two areas;

- What is our client's perception of the service provided; and
- How can our service be enhanced to better meet our client's needs?

Our results were benchmarked against a wide population of top performing Australian Financial Planning practices and in this context can be summarised by the following report excerpts;

- ~ “Your results were generally ahead of our national average.”
- ~ “You achieved top quartile ratings in three of the nine Key Performance Indicators (KPI's) and did not under perform the national benchmark in any of the top line areas.
- ~ “Most of the client comments also make for pleasing reading (and contain some positive testimonials).”
- ~ “Congratulations on a strong report.”

Whilst in all key service areas we received a rating greater than 4 out of 5, our lower rating areas, and in particular some of the constructive comments from clients, highlight the need for improvement in the following two areas;

- “Financial Review Process – How well does your Adviser keep up to date with your changing financial needs? Do they regularly ask for details on your changing circumstances and update you on whether you are achieving your financial and personal goals?”
- “Communication – What is the standard of communication you receive from your Adviser regarding relevance, quality and frequency of communication, including letters, newsletters, telephone calls, seminars etc?”

We recognise that this feedback presents a tremendous opportunity to improve service to our clients in these two critical areas. We have conducted adviser workshops to identify the specific initiatives required to address these issues and enhance our service offering. We are also very aware that our clients are individuals and that a “one size fits all” approach cannot be applied. On this basis, we propose that the appropriate service enhancements be discussed with each client at their next review to ensure that we meet the individual needs of each of our clients.

The next 12 months will be an exciting time, as we now have the information and tools to improve the service offered to each of our clients in a manner tailored to their needs. We hope you will also enjoy the experience!



The Forsythes Collectors Care Art Exhibition in support of Samaritans Foundation is on again in 2008!

From the 5th ~ 15th June
In the Front Room Gallery
Newcastle Art School TAFE
This is a great cause, so mark it
in your diaries now!

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Insurance ~ What you need to know

This Insurance feature continues from our previous Money Matters issue, where we covered Life Insurance and Trauma Insurance.

At Forsythes, our clients are aware of the work we have been doing in assisting them to create wealth. What is of equal, or perhaps greater, importance, are the ways we assist clients to protect wealth for their families when things don't go quite as they were intended. In this newsletter we will explore the core strategies intended to protect individuals and families from the financial effects of unintended, and often unthinkable, life experiences, through implementing the appropriate types of insurance.

Total and Permanent Disability Insurance

Have you ever thought what would happen if you were unable to return to work due to a sickness or an injury? Would you have enough savings put aside to ensure minimal disruption to you and your family's lifestyle as you all adjust to your new way of life? Total and Permanent Disability (TPD) insurance can provide you with financial peace of mind.

TPD insurance can be taken out alone or as an extra benefit to life insurance or trauma insurance.

What are the risks?

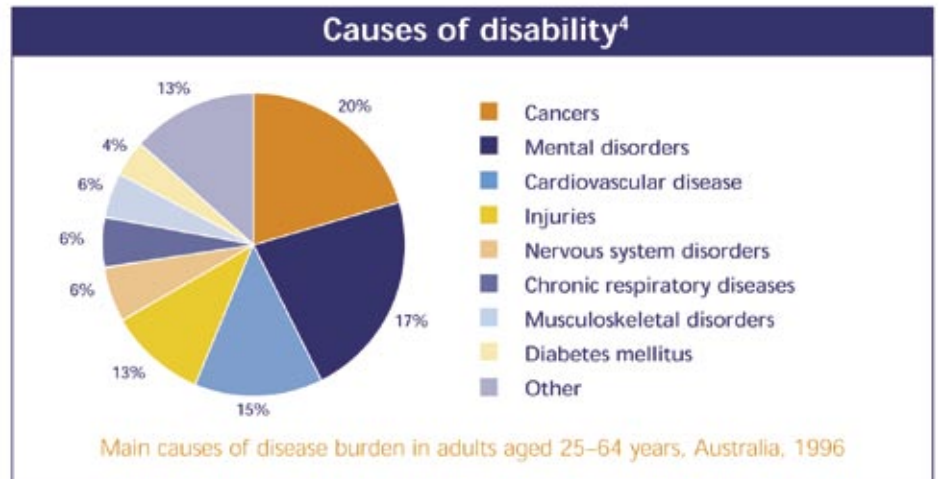
Consider these statistics:

- Around 1.7 million Australians aged below 65 are living with a physical disability.¹
- Over 3.6 million Australians reported one or more impairments that restricted every day activities.²
- 1 in 3 men and 1 in 4 women will be diagnosed with cancer in the first 75 years of life.³

Arm yourself with TPD insurance...

TPD insurance can provide a lump sum payment or equivalent instalments to the policy owner if the life insured is disabled as defined in the policy. Generally, this means that the life insured is unable to work in their own or any occupation for which they are suited by training, education or experience, or may not be able to return to work at all. There are now many specialised definitions of TPD, such as for professionals and homemakers. Your financial adviser will be able to assist you with which definition would be best for you.

TPD insurance can be used as a much needed cash injection for on-going medical expenses that may arise, to make necessary home modifications, or to hire home care services such as nursing, cleaning and cooking.



Who should have this cover?

In broad terms, anyone who does not have a significant amount of extra money at call which could be used if a sickness or injury occurs and they are unable to return to work.

For example:

- People with families or financial dependants.
- People with mortgages or other significant financial liabilities.
- Those not wanting to burden others if they suffer a total and permanent disability.
- People in their own businesses or their key personnel.

Case Study

Stephen was a 40-year-old regional sales manager, married to Melissa and father to 3 year old Cameron. After dropping off Melissa and Cameron at a friend's house one day, Stephen was involved in a head-on collision with another motor vehicle. The outcome was a severe spinal injury which resulted in quadriplegia.

The injury meant that Stephen was unable to perform his duties as a regional sales manager or any other occupation for which he had prior training, education or experience.

The bills were building up, loan repayments were due and on top of all these, there was medical equipment and home modifications that needed to be made for Stephen.

Fortunately, after seeing his financial adviser when Cameron was born, Stephen had taken out a TPD insurance policy for a \$500,000 amount insured, paid out in a lump sum in the event of a claim. With this money, Stephen and Melissa were able to pay off all their mortgage and personal loans, modify their home and purchase the necessary medical equipment to make life easier for him.

1. Australia's Health 2004 – Australian Institute of Health and Welfare, 2004.
2. Australia's Welfare Report – Australian Institute of Health and Welfare, 2003.
3. Cancer in Australia 2001 – Australian Institute of Health and Welfare and Australasian Association of Cancer Registries, 2004.
4. Burden of Disease and Injury in Australia 1999 – Australian Institute of Health and Welfare, 1999.

Income Protection

Unfortunately, nobody knows when an accident or illness may strike. It is a little known fact that most insurance claims are for illnesses not accidents, and of course these are not covered by Workers' Compensation or other social security payments. An AMP:NATSEM study¹ found that around half of all Australians over the age of 30 will suffer a major illness that can lead to long-term disability, and consequently, a long-term loss of income.

Importantly the annual premium for income protection insurance may be tax deductible to you.

What are the risks?

Consider these statistics:

- Over 2 million Australians have a long-term condition that was the result of an injury.²
- Of the working population, 1 in 6 men and 1 in 4 women are expected to suffer a disability from the age of 35 to 65 that causes a loss of 6 months or more work.³

Income protection to protect your lifestyle...

Income protection insurance pays up to 75% of your average annual income, in monthly benefits, to cover your living expenses if you are unable to work.

Income protection has waiting and benefit periods. The waiting period refers to the number of days before the commencement of income benefits; 14, 30 days or years after the claim occurrence. For instance, if you have sufficient savings to last one or two years, you may choose to have cover that only starts after the first two years.

The benefit period is the period of time that you will receive benefits whilst ill or disabled. You may select from different benefit periods paid, for example for two years or up to age 65, when you can access your super or age pensions. Naturally, the premium costs vary depending on which of these options you choose.

Reasons why you need income protection

- Have debts, such as mortgage, credit cards or personal loans that you couldn't service if you were unable to work due to sickness or injury.
- How long would your savings last after your sick leave ran out?
- The need for a regular income stream to pay ongoing family expenses such as food, house bills, rates, school fees, running a car. Think of your weekly or monthly budget and how much these costs add up to.

Leading causes of disease and injury in Australian adults aged 25–64⁴

Males	% of Total Causes	Females	% of Total Causes
Heart disease	11.7	Depression	8.4
Self inflicted injuries	5.5	Breast cancer	7.8
Depression	4.8	Osteoarthritis	4.9
Respiratory disease	4.5	Heart disease	4.4
Lung cancer	4.2	Diabetes	4.1
Diabetes	3.8	Anxiety disorders	3.8
Road traffic accidents	3.4	Respiratory disease	3.5
Stroke	3.2	Lung cancer	3.0
Alcohol	3.1	Stroke	2.9
Loss of hearing	3.0	Colorectal cancer	2.9

Case Study

Jim works as a maintenance manager in a large manufacturing firm. At 43 years of age he and Therese are expecting their third child and have moved to a larger home to accommodate their growing family. With a larger mortgage and Therese now working only two days a week, they do not have any money left over after expenses. They are not overly concerned with their inability to save as they plan for Therese to be able to return to full time work when the children are older.

Unfortunately, after complaining of severe lower back pain, Jim was diagnosed with a slipped disc. He could no longer perform his job in maintenance as it required periods of kneeling and manual activity. Jim had twenty days sick leave owing which quickly passed.

Luckily Jim also had a comprehensive income protection policy. The claim started to be paid three months after the diagnosis at 75% of his previous salary. Without this money Jim and Therese were contemplating they might need to sell their house to reduce the mortgage just to make ends meet.

The policy also included provision for the insurance company paying rehabilitation and re-training costs to help Jim back to work. After six months of rehab his insurance company helped Jim re-skill as a purchasing manager within the same company. The insurance company even assisted, with his employer, to ergonomically redesign his workstation to help support his lower back.

Jim was back in full time work within 12 months, feeling productive and no longer needing any claim payments. His income protection insurance continues and he is happy to pay each year after this experience.



- You run your own business, or with partners, and have ongoing business costs and expenses, whether you are there or not.
- It also gives you peace of mind, knowing that your family is financially protected should you be unable to work.

- AMP:NATSEM. Income and Wealth Report Issue 4. March 2003.
- National Health Survey: Injuries, Australia 2001 ABS Cat No 4384.0. Australian Bureau of Statistics, 2003.
- Institute of Actuaries. Table IAD 89-83. White collar males and females.
- Burden of disease and injury in Australia – Australian Institute of Health and Welfare, 1999.

This information has been prepared and provided by ING Life Limited and was correct as at September 2005. This information was prepared without taking into account a potential policy owner's objectives, financial situation or needs. Before making a decision based on this information, you should consider the appropriateness of this information to your objectives, financial situation and needs.

Conclusion

If you are exposed to some of these risks, and are unsure about how your finances would cope, we suggest you speak with one of our advisers who are skilled at identifying your needs and targeting appropriate solutions.



Economic Commentary

Last month the Reserve Bank of Australia (RBA) increased interest rates and reduced its forecasts for Australia's economic growth. In March it released its six monthly review of Australia's financial stability. Normally this would pass unnoticed but in 2008 financial stability has become 'top of mind'. The RBA's conclusion was that Australia's financial system was relatively well positioned to cope with the difficulties currently faced by financial markets. Banks had high quality assets with very low levels of non-performing loans and had not significantly lowered their lending standards.

In other news, Australia's unemployment rate fell to 4.0%, building approvals rose 5.1% on a year earlier and retail spending was up 7.1% on a year ago. Australia's economy grew 4.3% in the year to December while oil prices rose to \$US110 per barrel before ending the month at \$US101 per barrel.

The Australian dollar (AUD) fell 2.4% against the US dollar (USD) during March as US interest rates fell, ending the month at US 91.36 cents.

Australian Shares

The Australian sharemarket suffered its fifth consecutive monthly fall during March with the S&P/ASX 300 Accumulation index down a further 3.4%. It is 15 years since the market experienced a similar run of monthly results. Over 12 months, the sharemarket has provided a return of negative 7.2% but is down 14.6% over the first three months of 2008.

Keeping the sharemarket under pressure was another increase in official interest rates and ongoing turmoil in credit markets. Credit markets are where larger companies can raise finance or debt if they choose not to seek loans directly from a bank. Changes in attitudes towards risk, in the wake of the US sub-prime issue, have seen lenders unwilling to lend and any loans made are at far higher interest rates than were seen six months earlier.

Higher interest rates across the economy are expected to slow economic activity and crimp the profits of corporate Australia. Issues that threaten profits have a negative impact on equity markets, hence the decline in the market. The S&P/ASX All Ordinaries index hit a new low for 2008 of 5164 points in March.

Not all the news was bad. Offshore sentiment picked up in mid-March as the US Federal Reserve cut its official interest rate and as it took action to support the US financial system. The "Fed's" actions lifted sentiment towards the Australian financial (ex-property) sector which rose 0.7% in March.

Despite snippets of good news, most sectors of the market fell during March. Weakness in some commodity prices and a rotation by investors away from resource companies and towards banks did not help the materials sector.

Further market volatility over the next few months is likely. The US Fed is doing what it can to cushion the blow of the sub-prime problem but acting in the opposite direction for our market is the impact of higher Australian interest rates.

Credit markets are under stress in Australia and companies in need of debt face significantly higher costs, assuming someone will lend them money. Until trust is restored in this market and participants feel sure their loans are 'safe', the equity market will struggle to make headway.

Global Shares

Major sharemarkets were mostly weak during March. Over 12 months global shares were down 5.1% in USD terms and fell 15.9% in AUD terms.

Unsettling markets around the world were the ongoing turmoil in credit markets, high and volatile oil prices and the US economic slowdown.

US markets held up relatively well following the actions of the Federal Reserve. The Fed cuts its official cash rate to 2.25%. It helped JP Morgan move towards the purchase of rival bank Bear Stearns and it provided funds to a set of financial institutions that are normally outside of its sphere of care.

Over 12 months the Dow is down just 0.7%, S&P index is down 6.9% and the NASDAQ has fallen 5.9%.

Asian markets were particularly weak. Japan's Nikkei index fell to 27.6% over 12 months. China's Shanghai B market, the market in which foreigners may invest, fell

17.6% in March but is still up 44.0% over 12 months.

In Europe, interest rates remain on hold as the European Central Bank continues to express concerns about inflation. A slowing economy may see the focus change and interest rates fall later in the year.

Problems in global credit markets and the fallout from sub-prime issues will not disappear overnight. The US 'Fed' has taken steps to ease strains in the US financial system and over time lower interest rates will help turn the US economy around. Further short-term volatility seems likely as companies and markets adjust to the ever changing environment around them.

Fixed Interest

In March the Reserve Bank of Australia (RBA) lifted its official cash rate to 7.25%. The RBA has noted that its rate increases have been 'substantial' and it will be hoping that these have been enough to temper demand and ease pressure on inflation.

Ninety day bank bills began the month at 7.99%, moved up to 8.11% and ended the month at 7.86%. The UBSA Bank Bill index returned 6.99% over 12 months.

Australian government 10 year bond yields were lower at the end of March than they were at the end of December however there has been some volatility. They ended 2007 at 6.33%, have been as low as 5.87% and as high as 6.48% before ending March at 6.05%. The UBSA Composite Bond index returned 4.29% over the past 12 months.

Listed Property

The listed property sector posted a small rise in March following a very difficult period since November 2007. The S&P/ASX 200 Listed Property Accumulation index rose 0.4% to be down 22.8% over 12 months.

At the end of March, the estimated distribution yield on the listed property sector was 7.5%, compared with the 6.2% yield on a 10 year government bond. This difference in yield, combined with ongoing growth in the economy, should provide some support for the sector over the remainder of 2008.

Global property markets stabilised a little in March. The S&P/Citigroup World Property index rose 2.3% in AUD terms although it was down 0.2% in USD.

Source: Colonial First State ~ Market Watch March 2008

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