

Forsythes Financial Planning Money Matters

“Patience is a key element of success.”

~ Bill Gates ~

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

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Help us care for
our environment!



News Update

John O'Connor - Partner

Welcome to your Spring edition of Money Matters.

International and domestic markets have continued to buffet our investment portfolios over the past three to four months. Many of our clients will have met or spoken with their advisers over this time and our advice will have consistently been - hold tight and stick with our original investment plan. Income is what pays the bills and leads eventually to capital growth. The latest down turn in the sharemarket has occurred without any significant deterioration in company profits, hence the recovery, when it occurs, is likely to be more rapid than we have experienced in the past.

On an entirely different note, I want to congratulate Erin Touzell and Warner Leung on their progression last month from Trainees to full Paraplanners. Both Erin and Warner have been with us for over 2 years now and make a great contribution to our paraplanning team. Many of you will already be familiar with Erin or Warner, but to get to know them both a little better, see their profiles.

As a professional organisation operating for nearly 60 years in Newcastle, Forsythes understands the importance of having highly qualified professional staff to achieve consistent quality client advice. We maintain a strict professional educational regime within Forsythes Financial Services - Our paraplanners must hold a relevant University Degree and the Diploma of Financial Services. In addition

to these, our Advisers must also hold the Advanced Diploma of Financial Services with a view to progressing to a CFP (Certified Financial Planner). All Advisers and Paraplanners also participate in regular ongoing professional education, to ensure they stay up-to-date with investment markets, changes in legislation and new strategies. We trust that this discipline is reflected in the advice provided to our valued clients.

Staff Profiles



Erin Touzell

Erin is 23 years old and graduated from Newcastle University in 2005 with a Bachelor of Finance degree. She worked at Asteron Financial Services in Sydney for a year as a Unit Pricing Officer,

before joining Forsythes in 2006 as a trainee Paraplanner. Since then Erin has completed her Diploma of Financial Services and recently commenced studying towards her Advanced Diploma. Erin lives on the Central Coast and enjoys surfing, swimming and cycling.



Warner Leung

Warner joined Forsythes in March 2006 as a trainee Paraplanner. Since that time he has completed his Bachelor of Finance degree and Diploma of Financial Services, as well as commencing his Advanced Diploma. He is an active member of the Newcastle Junior Business Chamber, as well as Forsythes' own Intermediate Business Development Group. Warner is a keen football (soccer) fan and enjoys playing for Adamstown Rosebuds as well as following his favourite teams - the Newcastle Jets and Manchester United. Warner is captain of the Forsythes Dragon Boat Racing team, who have just started training for this years regatta after achieving an impressive overall 1st place in the men's division and 10th place in the mixed division in their debut last year.

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Forsythes

Financial Planning



Volatility ~ Survival Tips

How to deal with volatility, and why it should not distract long term investors

Markets have taken Australian investors on a wild ride in recent times. The old adage “what goes up must come down” could probably be updated. These days, what goes up not only comes down, but also goes back up and comes back down yet again. It’s called market volatility, and more often than not, how we react to volatility can determine whether or not we make a profit. This article explains that volatility is not the concern of the long term investor, and gives you the tools you need to help get you through the ups and downs.

Volatility is not the long term investor’s concern

Volatility has been present in our markets before, but recently it seems like we have been in a period of increased turbulence. Chart 1 shows that we are currently experiencing a spike in volatility. But it also shows that periods of volatility are a regular occurrence in investment markets. The circles in the chart show just how often volatility occurs. Unfortunately, during such times, people get jumpy and try to predict where the market is going, selling off equities or becoming scared of investing in them.

Despite everything most market ‘experts’ say, investing is not a struggle, a battle, a game or a contest; it is a continuous process that lasts a lifetime. Whether you are winning or losing at any given moment is beside the point. The only thing that matters is whether you prevail in the end – and the factors that may determine long term victory are the exact opposite of the ones that tend to create short term success.

Occasionally in the short run, investors who can’t let go – who track every market move – come out on top. But the longer they keep at it, the more likely these same people are to become ‘losers’. That’s because obsessing over the markets leads you to think you can foretell the financial future. You then make increasingly

aggressive bets, and sooner or later, you may experience either heartburn or heartache. Fortunately, you can break this destructive pattern. The secret weapon is based around self control, and successful investors put this to work simply by adopting a virtuous approach to investing.

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A virtuous approach to successful investing

Living with market volatility isn’t easy. The first thing you can do during a change in the market is talk with your financial adviser to look at your investment goals, time horizon, financial circumstances and risk tolerance in order to adapt your investment strategy accordingly. But the values that influence our daily lives also apply to investing. If you understand these basic principles, you’ll be a better equipped and more confident investor.

1. Courage

Investing in shares is risky, but it’s a calculated risk

Think about the recent sharemarket gyrations as something like a dice, but with more than six sides. This ‘super dice’ has more positive sides than negative sides. Each time market forces roll this dice, you take a chance on the outcome.

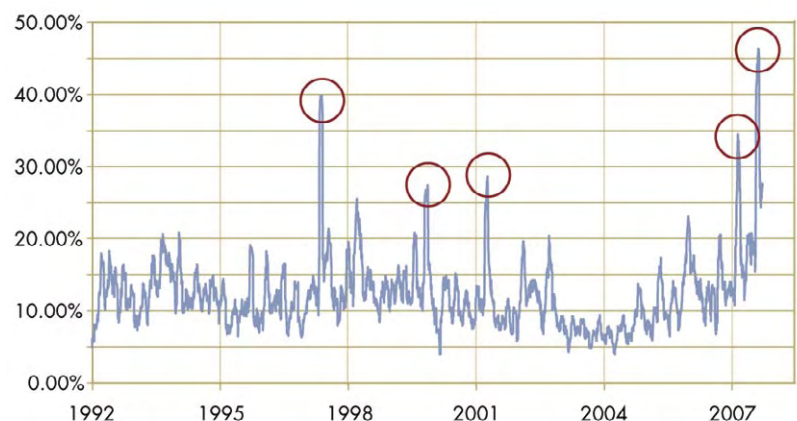
So January and February 2008 brought us negative results. As the dice is rolled for the next month, quarter or year, we take the risk that it could again land with a negative side facing up. But our chances for seeing a positive number next time are still greater than the chance of negatives. Historically, the sharemarket positive numbers have outweighed the negative numbers over long periods of time. There’s no reason to believe that they will not continue to do so in the future.

2. Honesty

Be honest to yourself about how much you really know

Be honest about – and constantly test – what you don’t know. Decades of research by the world’s leading psychologists has shown that overconfidence – thinking that you know more than you really do, or that you are more skillful than you actually are – is one of the most fundamental aspects of human nature. Back in 1999, when you could invest money into just about any tech stock and watch it triple in two

Chart 1: Market Volatility as measured by standard deviation from May 1992 to March 2008



Source: 1 month rolling standard deviation of daily returns, ASX 300 Accumulation Index

days, one of the single most common phrases in the world of investing was “I am a genius.” In fact, anyone who made money trading shares without first studying the underlying companies had a lot of dumb luck, but not one iota of genius. Successful investors accept not just the possibility – but the certainty – that they will be wrong some of the time. You need to protect yourself against being wrong in two dimensions: space (picking the wrong investments) and time (buying when you should sell, or vice versa). Overconfident investors are convinced they’re right in both dimensions – just when they are most likely to be wrong. Fortunately, powerful protection is available (see Figure 1). Putting all these protective tools to work at once will provide you with the closest thing to real peace of mind an investor can get.

3. Detachment

Remaining neutral in your investment approach

There is certainly a tendency for the media to excite viewers and readers about short term fluctuations in the market – getting investors all hot and bothered about the fortunes of individual securities, countries and sectors. Even in the daily news, you don’t have to look far to find examples of financial shock therapy. The share-market plummets and the headlines warn of economic armageddon. Oil prices soar and another investment ‘expert’ touts the need to buy shares in energy companies. Investors are far better served to detach from the constant noise beat up from the media.

The long term ride to wealth accumulation or preservation, an honest confrontation of risk and reward – implemented via a carefully selected asset allocation – is the only way to prepare for unpredictable volatility. It is important to accept that the value of your investments will rise and fall in the short term based on market behaviour which is out of your control. And that’s okay if what matters is the size of your account balance on retirement day, not tomorrow or next week. It also makes reading about plummeting individual shares and spectacular booms much less painful.

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4. Discipline

Don’t let emotion rule your investment strategy

Often during a strong market upswing (rising equity prices), investors will instinctively buy ‘so as not to be left out of the gains’. Conversely, during a strong downswing (falling equity prices), investors will feel compelled to sell ‘so as not to be left wearing the losses’.

The most successful investors will be those who stay in control while others may panic. It’s easy to let short term market movements affect and even dictate your investment decisions. Which is why it’s important to understand the role that investor sentiment and emotion plays in the cyclical nature of equity markets.

5. Commitment

Get in – and stay in

Figure 2 compares two investor types: the ‘Bailer’ (or the ‘Chaser’) and the ‘Sticker’. When both invested \$100,000 over a 17 year period, the Sticker who committed to a diversified portfolio clearly benefits from a higher return.

Now consider a ‘Bailer’ or ‘Chaser’ – a hypothetical investor – also starting with \$100,000 in 1990 – who chases the top performing asset sector each year and switches on 1 January every year.

During the same time period, this investor would have changed their asset allocation 17 times. By the end of 2007, their average annual return would have been 8.4% and investment worth \$427,452. As you can see in the table, our ‘Sticker’ fared much better.

The tax implications of selling your shares or ‘Bailing’, should also be considered, as they may offset any positive impact of selling. It is worth investigating how much tax you would have to pay before you decide to sell.

Remember that your investment strategy should be selected based on your risk tolerance, age, how long you plan to work, financial circumstances, retirement goals, and attitudes about investing. And it’s important that you stay committed to your strategy and don’t alter it unless your life changes.

THE POINT

These simple principles will not necessarily make you wealthy

One’s approach to investing can be handled with the same grace we strive for in other aspects of life. So run through these five principles next time the market nosedives or you’re tempted to act on a ‘hot tip’ from a friend or co-worker. As Socrates said, “Virtue does not come from wealth, but wealth, and every other good thing which men have, comes from virtue.”

Written By Russell Investment Management Ltd ABN 53 068 338 974, AFS Licence 247185 (“RIM”).

Figure 1: Investment Power Tools

DIVERSITY

Regardless of market conditions, an investor’s best defence is always a well-planned allocation strategy and well-diversified portfolio. Diversify your investments and nominate a percentage to put into various market sectors – for example, investing 60% in Australian and international shares, 20% in bonds, 10% in property and 10% in cash. Remembering that the gain or loss on any one individual investment represents just a portion of your portfolio.

STOP BETTING AND START WINNING

If you’re really sure a security, fund or industry sector could return a significant gain, invest only a small allocation of your total assets. By remaining disciplined and sticking to your original strategy, you’ll be rewarded if your instinct is correct, but won’t suffer a major loss if you happen to be wrong.

INVEST REGULARLY

Dollar cost averaging is systematic investing; that is, investing a small amount of money on a regular basis. A trick used by experienced investors, dollar cost averaging means that when market prices are falling, you automatically buy more units in the fund with each subsequent investment, and vice versa. Because of this, the average unit price of your investment will be under the average market price, therefore providing an efficient investment strategy.

REBALANCE

Finally, once or twice a year, adjust your assets so they match the target percentages you picked earlier. That will force you to sell a bit of whatever has gone up and buy a bit of whatever has gone down – reversing the tragic buy-high, sell-low pattern that plagues most investors.

Figure 2

	Amount Invested (1990)	Type of Fund Invested In	% Return (2007)	\$ Return (2007)
The ‘Chaser’ or ‘Bailer’	\$100,000	Chases top performing asset sector (switching once a year on 1 Jan)	8.9%	\$427,452
The ‘Sticker’	\$100,000	Diversified Portfolio (consisting of: 32% Aus Shares, 30% International Shares, 8% Property, 25% Bonds, 5% Cash)	10.3%	\$587,526



Government's assistance for working families

When Treasurer Swan brought down the Government's budget on 13th May 2008, two of the announcements included the introduction of an Education Tax Refund to assist working families and changes to Child Care benefits.

Education Tax Refund

This scheme, which took effect from 1st July 2008, represents a \$4.4 billion investment by the Government.

Eligible families are able to claim a refund of up to 50% of the cost of certain education expenses, subject to a maximum cost of \$750 for each primary school child, and up to \$1,500 for each child in high school. The maximum refunds are therefore \$375 for each primary school child and \$750 for those children in high school.

Expenses that are eligible to be claimed include laptop computers, home computers and associated costs, home internet connection, printers, education software, trade tools for use at school, school text books and stationery.

To be eligible to claim the Education Tax Refund, means testing applies to the parents. In essence, parents who are eligible to receive the Family Tax Benefit Part A (FTB A) will be able to claim the refund. Parents who would have been entitled to FTB A, but for the fact their child receives Government payments such as Youth Allowance, Disability Support Pension or ABSTUDY Living Allowance, will also be eligible to claim the Education Tax Refund.

Whilst the Education Tax Refund will be administered through the tax system, parents who are not required to lodge a tax return will be able to claim their refund on a separate form to be issued by the Australian Taxation Office.

Child Care Benefits

The payment of Child Care Benefits has

changed from 7th July 2008. Previously, Child Care Benefits reduced to a minimum level once income exceeded a prescribed threshold.

The changes have seen the removal of the minimum payment. In general terms, once a family's income exceeds \$126,793 (higher income levels apply for families with more than one child in approved child care) the Child Care Benefit will no longer be payable.

To be eligible for the Child Care Benefit, the claimant for the benefit must meet a work, training or study test along with other criteria. Even though families may no longer be eligible for Child Care benefits because of their income, they may qualify for the Child Care Tax Rebate.

Child Care Tax Rebate

The Child Care Tax Rebate is designed to assist families with the costs of child care.

From 1st July 2008, the Child Care Tax Rebate covers up to 50% (up from 30%) of out-of-pocket child care expenses for approved child care. The maximum rebate is \$7,500 per child per year. In the 2007/08 financial year, the maximum rebate was \$4,354 per child.

The payment frequency of the Child Care Tax Rebate has also been increased effective from 1st July 2008. Where previously a payment was made annually, the Rebate will now be paid to eligible recipients each quarter. The Child Care Tax Rebate is not income tested.

The Government provides a number of benefits to assist families with costs associated with raising children and some of these can be significant in financial terms. If you are raising a family, speak to your financial adviser about the additional financial assistance that may be available to you and your family.

Source: Peter Kelly – Professional Investment Services

Did you know?

This year, the Australian age pension celebrates its 100th anniversary.

Introduced in 1908, a pension of one dollar per week was paid to men and women aged 65 and over.

When introduced, 34,000 customers received the age pension.

Source: Australian Government June 2008

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