CAN YOU AFFORD NOT

TO BE AN INVESTOR?

PART 5 OF THE SERIES:

"Can you really afford to retire?"

MUIRFIELD

No Advice Warning

This eBook contains general information only.

The information contained within this eBook is general information only and has been prepared without taking into consideration your personal objectives, financial situation or needs. It is therefore for illustrative purposes only. You should consider any advice in this book in the context of your personal objectives, financial situation or needs before taking action.

We suggest that you speak with a licensed and appropriately qualified financial adviser to do so.

The information in this eBook is no substitute for financial advice.

If you are considering acquiring a financial product you should obtain a Product Disclosure Statement and consider its content before deciding if the product is right for you. It is very important you do so before making any decisions.

Muirfield Financial Services and its advisers, employees, staff and all affiliates assume no responsibility for any actions you take independently and without seeking professional advice from a licensed financial adviser.

Chapters covered in this series:

1. How big should your nest egg be?
2. The impact of inflation and living longer.
3. Reducing the risks of inflation and outliving your nest egg.
4. The SMSF Revolution: Why it might not be right for you.
5. Can you afford NOT to be an investor?
6. How to sack the tax man and live a tax-free retirement.

Letter from the author

Dear Reader,

I am glad you have chosen to receive our 6-part email series ‘Can you really afford to retire?’.

We certainly live in interesting times, both financial and social, and the advance in technology and turmoil of investment markets have made long term decision making very difficult. This is especially the case as you embark on the transition from a stable and dependable employment income to the unknown realm of retirement.

We are hearing more and more from our clients that the most important and influential decision they have made in both the final stages of their working lives and into their retirement was finding someone they can trust. After all, you are relying on someone to guide you through the confusing maze of options and strategies available and not to mention you need to know that your superannuation investments are safe. Finding that person is becoming more difficult in Australia.

The aim of this 6 part email series is to provide you with the knowledge of what strategies are available, how much super is enough to retire comfortably, how to replace your income in retirement and much more. We hope that after reading the complete series you are better armed to make the important decisions that will shape your retirement.

It is important to note that this guide is for general illustrative purposes only and for personal advice you should find a trusted adviser and work with them to develop a plan specific to your own situation.

Hopefully we get a chance to meet at some stage so I can outline why our clients have trusted Muirfield Financial Services with their retirement plans since 1989.

Regards

Melinda Planken
CERTIFIED FINANCIAL PLANNER®
Employee Representative
Partner

Can you afford NOT to be an investor?

Unless you are about to inherent six investment properties or a $1 million share portfolio from Aunt Sadie, our premise in this report is that we all need to wear an investor's hat in order to achieve financial independence. But this does not mean remaining ignorant of investment markets. As we have read, there are risks to consider and then be maintained. It is about education and informing and understanding that risk is not a dirty word to be avoided but rather understood. In short, you need to be an informed investor regardless of whether you are a direct, active investor or a passive investor who is being advised by a financial adviser.

Regardless of whether you are starting out in a career or building a family, seeking to build a powerful nest egg or entering retirement, you need to think (and act!) like an investor.

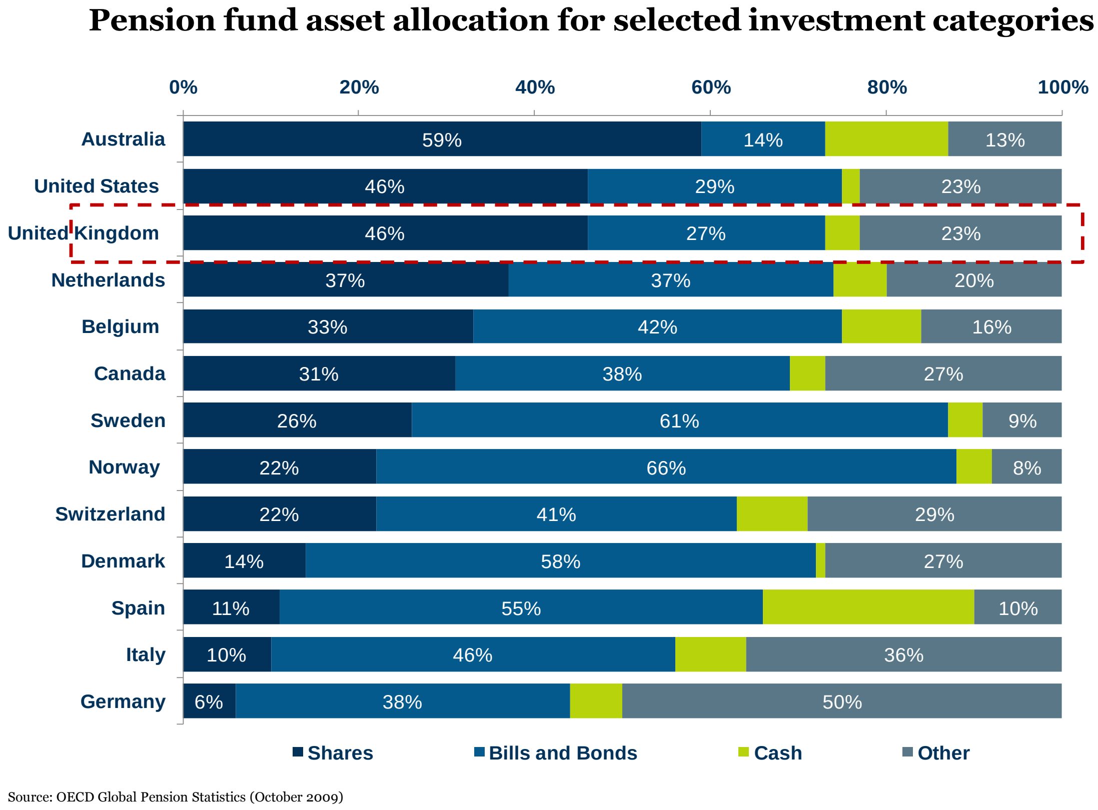
This may feel uncomfortable; after all there are institutions and advisers and wealth mangers out there to help us, right? Yes. But the key is to have strong sense of what the key drivers of wealth are going to be for you.

It is a fundamental principle of our work that income management is as important as nest egg growth. Indeed it is the central platform for this chapter. 'Income management' in this context means the investment decisions we make to generate the income we need to live on after we cease working for a living.

Previous generations of retirees could allocate their entire portfolio to income because they didn't have a longevity bonus to contend with. The majority of a generation of retirees seem to have made do with a government aged pension supplemented by (some) annuity or other superannuation-related income.

However, a 30-year retirement and an appetite for lifestyle spending requires you to regularly re-balance portfolio between growth potential, annuities, and earned income, to help your assets outlast you. It is a more dynamic approach to income management.

Are more shares the answer?



The chart above shows that Australia has a relatively high allocation to shares on global comparisons. This may not be a bad thing but it can lead to volatility in performance of funds under management.

It is an established principle of investing that a well-diversified portfolio provides flexibility in how you take your income later in life. Also, guaranteed sources of income can help provide a steady income so you are not as dependent on Government benefits. Our emphasis here is not so much to seek out growth assets purely for growth sake but to be conscious of the fact that later in life it is income and income security that matters.

Building an income portfolio is the process of selecting the products that will cover your needs but also work flexibility together.

To wear an investor’s hat means having a broad understanding of the balance between the various investment classes and where they sit in your overall portfolio. We need to look at where the nest egg is going to be best invested in order to guarantee us a lifetime income noting that expenses shift through life stages. A number of overall asset allocation strategies exist for building your nest egg, with products generally falling into one of the main asset classes.

Growth assets. Shares and real estate historically provide greater total returns, though usually with higher risk, especially equities, which can be notoriously volatile over short term periods. Total returns are the total of capital appreciation and yield (either dividends or rent). These investments are designed to enable you to maintain accumulation potential.

Your investment fund will be receiving income through your transition years, a strategy designed to push out the longevity of your portfolio. Their more variable nature may make them better suited to meeting ***variable expenses*** as these will be more difficult to predict.

More importantly their capacity to hold their purchasing power makes them an essential component of any portfolio as insurance against future rising variable costs.

Fixed interest securities. These types of investments and products provide, literally, fixed income. They could be government bonds or blue chip company debentures for example. They are usually referred to as 'guaranteed' income although one could argue that this is a misnomer as future income always loses its purchasing power. Although they can be subject to some risk (for example in the case of non-bank or non- government corporate debentures), they are generally considered as 'safe' investments.

Overall they can be a useful, if not a minor component in the early years of you building an investment fund, but there is a strong case for shifting more (although not more than a third allocation) towards these as one moves through to their mid- to late-50s and then towards you retirement years. Hopefully, the investor would, by then not need to be too concerned about any significant loss of purchasing power over time.

Cash and deposits. 'Liquid' funds as they are referred to in investment circles are usually accessed through cash management trusts, term deposits or savings accounts. The obvious purpose in regards to income management, of liquid funds is for the provision of emergencies perhaps related to unexpected medical expenses.

In direct proportion to growth assets, the liquid proportion of one's income management portfolio would; by necessity require augmenting towards the latter years of life. Again, we are talking about a smaller slice of the investment funds as we would always plan to have growth asset-based income well-established for that life stage.

Managed funds. The products in this group vary widely and can provide income, growth potential, or wealth transfer potential. They not only include real estate, but also equities and emerging funds (managed investments in other countries such as China or India) and could contain assets similar to those in the other four categories, although with a definite lean towards equity investments.

Your income needs to last your lifetime. The lead up to your retirement are your final accumulation years; maintaining your standard of living while putting your funds to work within your acceptable tolerance to market volatility will require you to consider how they work together to provide the best possible mix for your overall portfolio.

About the author:

Melinda Planken is a Certified Financial Planner® with Muirfield Financial Services, AFSL 243287. Muirfield have been the trusted finance professionals in Geelong since 1989 with specialist knowledge of retirement planning strategies and advice. As a Partner of the firm, Melinda is well positioned to guide you through the process of retirement and into the next phase of your lives.

This guide is one section out of the 6-part series 'Can you really afford to retire?' We wrote this series to outline the most important issues facing retirees in Australia and how you can avoid the most common mistakes made by many retirees before you. It is intended to get you thinking more pro-actively about your retirement.

I encourage you to book your complimentary retirement strategy session with me to discuss your specific retirement goals. The best way to take advantage of the information you have learned so far is to speak with a CERTIFIED FINANCIAL PLANNER® practitioner about strategies specific to your personal situation. This guide has armed you with the knowledge to know what questions to ask so please click here to book your free appointment and I look forward to meeting with you.

Our contact details

Geelong Office

Address:
Suite 2
17-19 Fenwick Street
GEELONG VIC 3220

Office hours: 8.30am – 5:30pm Monday to Friday
Phone: (03) 5224 2700
Interstate: 1300 242 700
Fax: (03) 5221 7335
Melinda's email: mp@muirfieldfs.com.au

Hamilton Office

Address:
Pro Advice Building
184 Gray Street
HAMILTON VIC 3300

Office hours: By appointment only
Phone: (03) 5224 2700
Interstate: 1300 242 700

We also have clients all over Australia and the world who prefer to conduct appointments via Skype in the comfort of their homes.