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2005 SUMMER NEWSLETTER

Welcome to our last client newsletter for 2005. This edition contains some deep and meaningful, thought provoking material, a few laughs, some things to look out for, and a few useful tips that might save you time and money, and an idea that might even save your life.

Seasons Greetings to all our clients, and thank you for your continued support.

Financial Decisions: The Mistakes We All Make

Psychologists have spent many years documenting and cataloguing the types of errors we are prone to making when determining our financial decisions. One leading researcher, Hirscheifer D, writing for the Journal of Finance suggests that there are four common causes: self deception, heuristic simplification, emotion and social interaction.

Over-optimism and over-confidence tend to stem from the illusion of control and the illusion of knowledge. The illusion of control refers to people's belief that they have an influence over the outcome of uncontrollable events. The illusion of knowledge is so dangerous that one writer, Daniel Boorstin opined that 'the greatest obstacle to discovery is not ignorance – it is the illusion of knowledge'. The more information you have the more 'in control' you will tend to feel.

Over-optimism and overconfidence are a potent combination. They lead you to over-estimate your knowledge, understate the risk, and exaggerate your ability to control the situation.

A recent article published in the 'Looking Forward' magazine published by Macquarie Bank has suggested ten tips for avoiding common investment mental pitfalls;

- You know less than you think you do
- Be less certain in your views, aim for timid forecasts and bold choices
- Don't get hung up on one technique, tool, approach or view – flexibility and pragmatism are the order of the day
- Listen to those who don't agree with you
- You didn't know it all along, you just thought you did
- Forget market price, relative valuation, work out what the stock is worth using reverse discounted cash flows
- Don't take information at face value, think carefully about how it was presented to you
- Don't confuse good firms with good investments, or good earnings growth with good returns
- Vivid, easy to recall events are less likely than you think, subtle causes are underestimated
- Sell your losers and ride your winners.

A Smart New Tax Strategy But Only For Some People!

The following strategy, is being promoted by Advance Asset Management in their latest technical bulletin:

Taxpayers who are aged 55 and over and still gainfully employed may be able to gain access to part of their superannuation in the form of a non-commutable income stream. This enables them to access the pension and annuity tax offset of up to 15%, and earn tax-free income and capital gains on the pension assets.

Having commenced the pension while still gainfully employed they can then, in some circumstances make deductible contributions via salary sacrifice to a superannuation fund until they retire. The net benefit can be significant provided that the taxpayer has not exceeded the Reasonable Benefit Limits. This strategy requires careful analysis, and will only work for some taxpayers.

Questions have been raised regarding the potential impact of the tax avoidance laws. The Advance Technical Bulletin argues that a strategy that generates increased retirement benefits, which will eventually be taxed, hardly bears the stamp of tax avoidance.

The questions that require careful consideration include, how much of the taxpayers superannuation can be accessed while still working, are there significant Capital Gains Tax liabilities that could be minimised or avoided, what tax bracket is the taxpayer in, and will the strategy really save tax, and finally, how will the increased superannuation benefit impact on the Reasonable Benefit Limits? Please give us a call if you believe that the strategy could work for you.

Just For Chuckles

“They tell me that you’ll lose your mind when you grow older.
What they don’t tell you is that you won’t miss it very much” Malcolm Cowley

The Tax Man Is Watching Real Estate Transactions

Last year the Tax Office matched 36 million records and identified 320,000 taxpayers who had not correctly reported taxable income, raising an additional \$176 million in revenue.

This year the Tax Office expect to match 40 million records. The Tax Commissioner has identified real estate transactions as one area that will come under greater scrutiny. Data will be gathered from land titles offices, and state revenue offices to identify both purchases and sales data. Capital gains on investment properties will be targeted.

Are You A SKIN Or An OWL?

SKIN means 'Spending the Kids Inheritance Now', while OWLS refers to 'Older People Withdrawing Loot Sensibly'!

Watch This Space...If You Have An Allocated Pension

The Government has announced that for allocated pensions commencing on or after the 1st of January 2006, new pension valuation factors will apply. The new pension valuation factors will reflect current life expectancy trends. Under the new rules, pension payments will be spread over longer time frames, thereby having the potential to avoid running out of cash by age 80.

Some clients may wish to transfer to the new regime, and we will be developing a spreadsheet to enable comparisons to be made between the old rules, and the new rules.

Before making any changes we will need to consider the potential impact of Reasonable Benefit Limits, social security implications, and the 'after tax' impact that flows from having a lower deductible amount each year.

All clients who have an existing allocated pension should discuss this issue with us in the next twelve months. There is no need to rush into making a change. At the time of writing, the new pension valuation factors are only provisional, and therefore we cannot develop a spreadsheet to test the alternatives.

When Is An Investment Good Value?

The basic idea behind 'value' investing is to buy something for a price that is lower than what it is worth. Price and value (or worth) are two very different things.

Benjamin Graham the author of one of the best books ever written on investing (The Intelligent Investor) said, 'price is what you pay and value is what you get'!

When looking at the Australian share market we look for companies that have a proven management team, a track record of paying dividends each year, a comparative advantage in their industry, and a vision for the future. Such companies are not always cheap and patience is required.

Warren Buffet (arguably the world's most famous investor) is on record as saying that the share market is, a transfer mechanism, transferring wealth from those with no patience to those that do. Remember that when you make an investment, you are buying future performance.

The Rule of 72

Investors who want to know how long it will take to double their money can follow this simple calculation. If you divide 72 by the expected or actual rate of return, you will know how many years it takes to double your money (assuming that no withdrawals are made along the way).

Example: If you expect that your rate of return will be 8% per year (72 divided by 8) the result shows that it will take 9 years to double your funds. The following table shows a range of outcomes:

Actual or expected rate of return	Number of years required to double your money
9	8
10	7.2
12	6

ICE – In Case Of Emergency

A campaign encouraging people to enter an emergency contact number in their mobile phone's memory under the heading ICE (In Case Of Emergency) has gained widespread acceptance in the UK following the terrorist attacks earlier in the year. ICE allows paramedics or the police to be able to contact a designated friend or relative in an emergency situation.

The idea came from an Anglican Ambulance paramedic, who had attended roadside accidents and struggled to find a contact for people who had been involved in an accident.

Why not put ICE in your phone now? It could be vital one day in a life or death situation. It only takes a few seconds to do, and it could save your life.

Travelling During The Holidays?

As many of our clients know, we travel around Australia researching great places to retire to. One of the useful resources we came across is an internet based trip planner that shows you how to get from where you are starting from, to any destination in Australia. The service is sponsored by Caltex, so they show you where all their petrol stations are along the way!

Have a look at www.nowwhere.com.au/caltex/austlocator/caltextripplanner.aspx

Disclaimer

This newsletter is for general information only. Tax, Social Security and Investment Laws change frequently and may affect different persons in different ways. You should not act solely on information in this newsletter.