The Key

Q4 2019

In this edition:

If you are new to reading The Key newsletter, welcome. If you are an avid reader of this publication you would be familiar with this forum, delivering relevant and interesting content from the financial planning industry, to help you better manage your financial life. A core value of our business is that every Australian should have access to, and benefit from, good financial advice. In reading this publication, we hope that you find the articles interesting, and perhaps they will provide some talking points for your next review meeting with your financial adviser.

Enjoy reading this edition of The Key.

Strategies for dealing with market volatility

Market volatility can be a curse or a blessing. It all depends on how ready you are to deal with it.

Financial markets by their nature are volatile. However, the more worrying time for investors is during periods of high volatility when prices move rapidly and unpredictably.

While this can be concerning, a sudden drop in the market can have dramatically different implications for someone nearing retirement compared with a person just starting their career. This is why it's important to have a financial plan.

Consult an expert

Professional plans are created in partnership with a financial adviser, who is trained to help you determine your investment goals, time frames, capacity and tolerance for risk, and appropriate types of investments.

In large part, dealing with volatility depends on how you view risk. Quite simply, risk relates to the variability of your investment returns in relation to your goals and time frame.

In other words, will you fret over a decline in value and sell your holdings to prevent further falls? Or will you remain unfazed and stick with your financial plan?

Threats can come from several areas:

- **Operational risk** – the way a fund is run
- **Exposure risk** – the perils of investing in a specific sector, industry or country
- **Market risk** – the extent to which prices move across the whole market
- **Currency risk** – the way in which exchange rates affect investments
- **Inflation risk** – how increasing prices will impact your returns.

Capacity for risk

For individual investors, though, there is a bigger consideration – your own capacity for risk. This covers not only how risk tolerant you are but also your stage of life.

Together with your financial adviser, considering where you are in your life journey is critical in determining your plans and goals.

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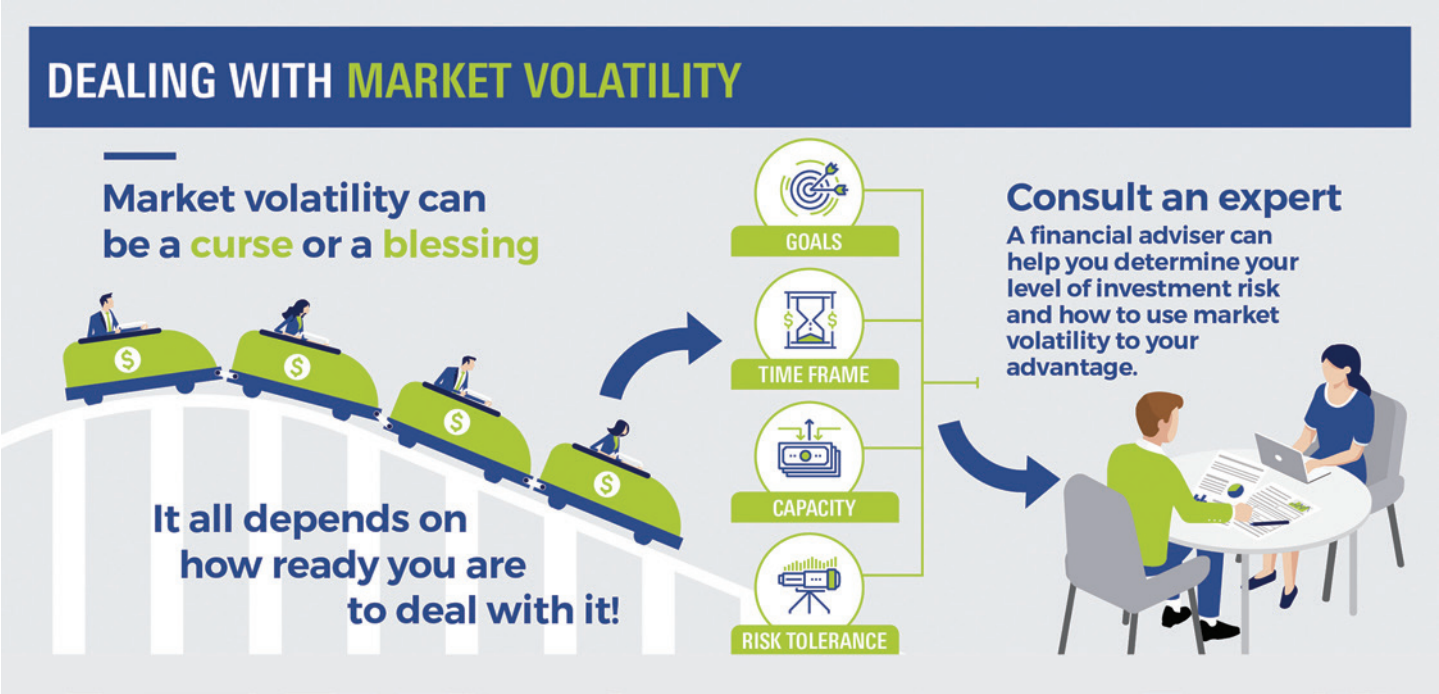


Risk capacity changes as, among other things, when you get married, change jobs, have children, buy a house, plan to retire or enter aged care.

Although market volatility is out of your hands, it may affect your personal financial situation.

Determining how to use it to your advantage is the key, but without advice, you may not even realise that changes or opportunities exist.

Talk to your adviser

An appropriate amount of risk in your investments may give you the confidence to stick with your financial plan even when the market takes an unexpected dip.

But a knee-jerk reaction may cause you to sell when prices are low, rather than hold onto an investment that may rebound and recover. Regularly checking in with your adviser may help you keep your financial plan in sync with all the changes in your life.

Talk with your Financial Adviser who will work with you to develop a financial plan that's specifically tailored to your needs.

Sharing is caring

Australia's philanthropists are giving more than ever. So what motivates an individual to donate to charity, and how has our nation's culture evolved as a result?

According to the Good2Give report[1], an estimated two thirds of individuals in Australia have given money in the past 12 months (to March 2019) either by giving money directly to a charity, by giving to a church/religious organisation, or by sponsoring someone.

Furthermore, the typical (median) amount donated or sponsored in the past four weeks is $80 and average (mean) $378.

Why give?

The Good2Give report lists the majority of Australians feel that charities have had a positive impact, with women in particular thinking that they have had a positive impact on their local communities and on Australia as a whole.

Australia's philanthropists are giving more than ever. What's more, in recent years people have become far more open and celebratory about their giving — triggering a cultural shift and leading people to question how they could better use their resources for a more fulfilling outcome.

The Giving Pledge

In 2010, Bill and Melinda Gates and Warren Buffett created a group called 'The Giving Pledge' for the world's wealthiest individuals and couples to join together and commit to give more than half of their wealth away.

It came about with philanthropists discussing how they could set a new standard of generosity among the ultra-wealthy. And some of Australia's wealthiest, including Leonard Ainsworth and Andrew Forrest have made the pledge.

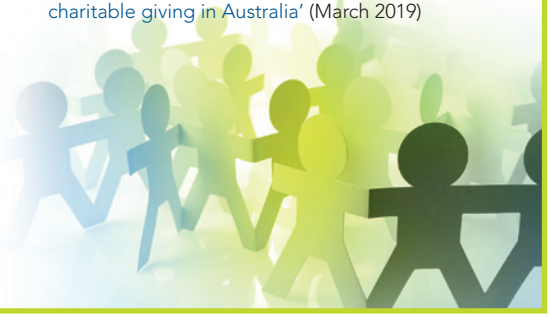
So far, there have been 170 pledges across 21 countries.

"It is my great pleasure to provide this Giving Pledge commitment wherein I pledge to give at least 50 per cent of my wealth to charitable causes both during my present life and beyond. As a private person, I prefer to minimise publicity of my philanthropic activities but at the same time realise that setting a positive example is the best way to encourage others to give back."

- Leonard H. Ainsworth - Giving Pledge website

Is sharing your wealth an important part of your financial plan? Then make sure you discuss your aspiration to give with your financial adviser.

1 Good2Give 'Australia Giving 2019: An overview of charitable giving in Australia' (March 2019)



Practical ways to take control of personal finances after a divorce

The key to managing finances after a divorce is getting organised early. This article provides some tips on taking control at the right time.

Divorce can be one of the most financially stressful experiences of an individual's life. The key to taking control is to get organised early. Acting quickly to arrange accounts, update details and make financial plans may help those in the process of divorce or about to be divorced start the next phase of their life with more peace of mind.

The following six steps can be a good place to start.

1. Get organised

It's important to keep track of key dates, such as when the separation occurred. It's also a good idea to inform the post office if one party moves out, so they can continue receiving mail at the new address.

Next, both parties should gather all financial information, making sure there are copies of all documents. They should also write a list of all financial and property assets, liabilities and policies, making a note of whose name each document is registered under.

These may include:

- bank, brokerage or investment accounts
- credit cards
- vehicle registration
- life, health, home, car and other insurance policies
- utility bills for electricity, gas, internet and phone
- property documents such as deeds, mortgage papers and home loan details
- recent tax returns and tax file numbers
- superannuation account details
- wills and estate plans
- rental agreements or leases.

2. Close joint accounts

Close any joint accounts as soon as possible, it's important to close accounts or credit cards that are in both parties' names, and cancel any redraw facilities. This will protect the finances of each individual and ensure no more debt accumulates.

Each party can then open an account in their own name, which only they can access. They will also need to redirect any income that previously entered a shared account into this new account.

3. Review your finances

The parties will need to update any remaining accounts, loans or policies so they are registered in just one individual's name. Some areas that may require updating include:

Insurance: It's crucial to update insurance policies as any individual not named will not be covered. This individual will need to make sure that they have other cover in place that is adequate and affordable for their needs. Also, remember to update any nominated beneficiaries on new or existing policies.

Loans: The person whose name is on a loan agreement is responsible for any debt, regardless of changed personal circumstances. It's vital for the necessary party to remove their name or for both individuals to pay off the loan.

Superannuation: Superannuation is a significant financial asset. Any nominated beneficiaries of the parties' retirement nest eggs will need to be updated.

Rent and Utilities: Updating rental agreements and utilities will also be crucial, as the listed person may be left with damage or unpaid bills to cover.

4. Changes wills, etc.

Remember to change your will, Powers of Attorney and beneficiaries. Many Australians don't realise that divorce can affect their will. Different states have different laws. It is vital to update wills to reflect new circumstances as soon as possible.

To be valid, a will needs to be signed by two witnesses. Drawing up a will can be complex so it may be best to consult a solicitor, trustee and or your financial adviser who may be able to provide preliminary advice and or refer you onto a trusted professional.

5. Create a new budget

It can take time to adjust to relying on only one income. Creating a budget and financial plan if you do not already have one is an important step.

Your financial adviser can assist you in addressing this early on, which should make it easier to track expenses and feel confident that bills and payments will be covered.

6. Reach out

Divorce can be a difficult time. Getting in touch with family and friends, as well as nearby support services, are positive ways to seek a helping hand.

There are many online government resources, as well as legal aid services and counsellors who can provide assistance.

Your financial adviser may also be able to help by providing timely advice on how to make financial decisions and put in to place a long term financial plan which can assist you in getting back on track.

Nominating your super beneficiary

Nominating your super beneficiary is something you have most likely been asked to do if you have a superannuation fund.

But, super fund trustees can only pay your super death benefit to eligible dependants* or to the legal personal representative (LPR) of your estate. If you haven't elected a valid beneficiary the super fund trustee generally decides who your super goes to.

There are important things you should be aware of regarding super dependants.

Who can you nominate as a super dependant?

Spouse

A spouse includes a legally married spouse or de facto spouse, both same sex and opposite sex.

A spouse can be a person you're legally married to but estranged or separated from. So, if you haven't formally ended a marriage, your husband or wife is still considered your dependant under superannuation law. And, while you can't be legally married to two people, it is still possible to have two spouses – a legally married spouse and a de facto spouse.

Child

A child includes an adopted child or a step-child.

Even though a step-child is included in the definition of a child, if you end the relationship with the natural parent or the natural parent dies, the child is no longer considered your step-child.

However, they may still be considered a financial dependant or in an interdependency relationship with you and could therefore continue to be a beneficiary of your super.

Financial dependant

Generally, a person is financially dependent on you if the level of support you provide them is 'necessary and relied upon', so that if they didn't receive it, they would be severely disadvantaged rather than merely unable to afford a higher standard of living.

Interdependency relationship

Two people have an interdependency relationship if they live together and have a close personal relationship. One or each of them must also provide a level of financial support to the other and at least one of each of them needs to provide domestic and personal care to the other.

Two people may still have an interdependency relationship if they do not live together but have a close personal relationship. For example if they're separated due to disability or illness or due to a temporary absence, such as overseas employment.

Who is not a dependant?

A person is not a dependant if they are your parents or other friends or relatives who don't live with you and who are not financially dependent on you or in an interdependency relationship with you.

If you do not have a dependant you should direct your super to your LPR and prepare a Will which outlines your wishes.

Legal personal representative

An LPR is the person responsible for ensuring that various tasks are carried out on your behalf when you die. You can nominate an LPR by naming the person as the executor of your Will. Your Will should outline the proportions and the people you wish your estate, including your super, to go to.

For assistance in how to nominate your super beneficiaries your financial adviser will be able to help.

* In this article a dependant refers to a 'SIS dependant' which is an eligible person under the Superannuation Industry (Supervision) Act 1993 that a member may nominate as a beneficiary.

Source: Australian Executor Trustees

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