grow WITH MARINIS

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Editorial by Theo Marinis

Staying Still is Going Backwards

Clients Need Their Strategy To Be Reviewed Regularly And Changed When A Life Altering Event Occurs

Welcome to the Spring 2009 edition of Grow and a huge thank you to everyone who has provided comment and feedback on the previous editions of this magazine (and our website and client letters for that matter!)

We certainly have been through some strange times over the last two years. A lot of the economic "certainties" which we thought we knew have been thrown out the window as we have seen investment markets crash, major players in the US and minor players in Australia have collapsed, and to a certain extent we are left wondering "where to now?"

Unfortunately, I cannot make promises but I can say, based on my training as an economist, accountant and financial planner, that I expect a period of stable long-term growth ahead of us.

But as always I urge caution and conservatism.

My most important message to readers of Grow is that their investment strategy should evolve with the changing times and they should be prepared to "get rich slow".

Investors should have a plan which is tailored for today's needs and which considers inevitable changes in the future. We should be willing to give up a little of the upside of investing to cushion us from the impact of collapses, essentially buying an insurance policy.

I urge all my clients to see us to review their investment strategy at least annually. There is always change in people's lives and a set and forget strategy is simply not appropriate. People marry, have children, gain jobs, lose jobs, go travelling, become ill, some divorce, some remarry and all of us, eventually, expire. Similarly, Federal Government legislation always changes constantly; a recent example of this was the shock decision to extend to 67 the age at which Australians can claim the aged pension.

On the positive side, I did recognise one important sub-text in the Federal Budget which really did reassure me. This was that while the Government was prepared to change the rules around contribution to super which would have affected the top two per cent of wage and salary earners, they were not prepared to negatively impact the 98 per cent of the population who do not contribute $50,000 pa to super.

This gives me great heart. It says that super really is recognised now by both sides of politics as too big and too important for them to do anything other than fiddle around the edges with.

On another front, some clients have been asking me why I am "restless" when it comes to suppliers of Marinis Financial Group, in other words why do I keep investigating other master funds, SMSF administrators or life insurance providers? The simple answer to this is because I want the best and most cost effective providers so I can charge the minimum fee possible, while delivering the levels of service demanded by my clients. Just as I encourage annual reviews for my clients, I also do the same for myself!

In conclusion, I'd just like to say a word about how much I have appreciated the support our business has had from our client base over these last two years.

As I have said many times, I consider this a 'family' of people, both staff and clients, and we work together for the best outcomes all-round. While it is really my job to be there for our clients in tough times, I have been humbled by so many of our clients offering words of encouragement and support for me and my team which is a wonderful position for us to be in. Thank you all.

PS – A quick note of congratulations to Ivana, Julie and Keryn for nudging Marinis Financial Group towards being awarded our "Pink Tick" in recognition of the business being female friendly. Please read the article later in this edition.

Theo Marinis B.A., B.Ec., CPA., CFP®
Financial Strategist
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Why Does Every Government Meddle With Super Rules?

This is one of the most regularly asked rhetorical questions put to financial advisers, more in frustration than a real desire to understand what the answer is however, it probably is worth discussing.

Since the Hawke Government, under then Treasurer Paul Keating, introduced the Superannuation Guarantee in the early 1990's, there has been a change to super policy at every Federal Budget, regardless of the PM's political persuasion – but the good news is, in Marinis Financial Group's opinion, it has generally made the system better and fairer for all in the economic circumstances of the time.

Now individuals will argue that the introduction of an excess contributions tax or limiting how much they can contribute in any one year is NOT fair. However, all Governments look at superannuation policy on the basis of the "hit" to their tax revenue base (or forgone money that could be used to pay for roads, schools and hospitals) which a more generous retirement policy implies. Both government and individuals want a good, fair outcome.

In other words, there is a constant rebalancing between the needs of the individual and the needs of the country at a policy level and this is why there are changes.

One important fact has become obvious and that is the essence of superannuation has become too big and too important to the country for Governments to make significant changes – we estimate policy is actually 98 per cent consistent and only two per cent changed from its inception.

Another important principal we have identified over the years is that Governments tend to "grandfather" conditions. This means they don't change the rules for people who are already in a particular circumstance and they bring in major changes progressively.

Despite these sometimes unsettling changes, Australians should never lose sight of just how good superannuation is. Essentially, Government agrees to forgo up to 30 per cent in tax if you put that money into "untouchable until retirement" savings. It is by far the most important structure for funding our lifestyles when we are no longer working.

Of all the rule changes introduced over the last 22 years, Marinis Financial Group would argue that the Transition to Retirement (T2R) concession, made by then Treasurer Peter Costello, is the simplest, yet most important and generous concession, as it allows people in the last phase of their working lives to ease into retirement and/or build up significant savings which they can draw down upon in their retirement. (If you are over 50 and working, please discuss with us how a T2R strategy can significantly help you).

This is the whole point of why government allows superannuation – helping individuals to save up a healthy amount of money so they can pay their own way in old age, rather than asking the public to pay for them.

T2R in particular means that after a lifetime of saving, with a significant boost in the final years of work, you can afford dignity and an enjoyable lifestyle in retirement.

Even if you don't end up with significant superannuation savings because of your particular circumstance, you will benefit from whatever you are able to put away. For example, if you have $100,000 in super when you retire and draw down $5,000 pa you will be able to spend an additional $100 per week on top of your basic age pension, allowing you to buy better food, perhaps have small local holidays and go to the cinema – it is certainly better than trying to survive on the government's $300 per week pension alone!

The challenge for government is always "are we giving away too much revenue?" with our superannuation policy. The recent announcement by Treasurer Wayne Swan, generally speaking, restricts the amount of superannuation contributed to $25,000 pa for people under age 50 and will actually affect very few people.

Most of us can't afford to contribute so much to our retirement savings because we are paying off mortgages, paying car loans, trying to fund children or university aged young adults or we simply don't have enough spare cash. (If you are one of those people able to afford this figure, please speak with your adviser ASAP to ensure you don't inadvertently make excess contributions as these are taxed very highly).

There has also been considerable debate about the decision to increase the age at which Australians are eligible for the pension by two years to 67. This figure is now in line with most European countries however, some have made it 68. The reason for this change is a practical one: simply, there are not enough wage earners to pay sufficient tax to allow Generation X to retire on the public purse earlier – which puts the onus on these younger people to save early and save hard for their own retirement. This rule does not mean you can't retire until 67, what it means is that you won't get government assistance until that age.

This older age for retirement also reflects the longer life expectancy for people who are currently under 50 and the fact that they will have had a lifetime of super savings under their belt, consequently most will be able to fund themselves at least between when they finish work and age 67.

Marinis Financial Group expects superannuation policy changes to continue over the years however, we think there will continue to be tinkering at the edges. In times of plenty, government will be more generous than in times of hardship. Regardless of these changes, the Australian retirement system is the envy of the world's retirement planning community and has been widely recognised as one of the reasons this country has avoided the worst of the economic downturn being suffered elsewhere around the globe.

Getting It Sorted Early

Most people come to see a financial planner in their mid to late 40's when all of a sudden it dawns on them they have less time ahead of them in the workforce than behind them however, Adelaide couple Angela and Tim Brennan saw the light a decade earlier.

"We have always been good savers and put our minds to sorting out our mortgage as soon as possible – I guess my background as a first generation Australian taught me to be very cautious with money," said Angela Brennan.

"After that wonderful day when we said goodbye to our home loan, we continued to put our old mortgage payments away and before too long we had a bit of a nest egg.

"I worked for Marinis Financial Group for a few months a couple of years ago and as a result I knew what Theo could do for clients. I have also seen him interviewed in the paper from time-to-time and thus resolved to make an appointment sometime. In the meantime we were very busy with our three young children and I made sure I read widely on the subject of wealth creation, including buying Noel Whittaker's book.

"Believe it or not, I had a 'light bulb' moment when I walked past the television and Oprah Winfrey was talking about now being a good time to invest in the markets, so I called Theo.

"About six months ago, we got organised and had our first visit with Marinis Financial Group. Theo correctly identified that we are conservative investors and designed a strategy which fits our long term plans yet has a bit of flexibility in case things change along the way.

"It took approximately five months from our initial meeting for the strategy to be agreed upon and all the processes put in place. Now that we are through that part of it, I am very confident my family is on the right financial track.

"One hurdle for me was becoming an investor in the stock market. My family had always believed the way to look after your future was with bricks and mortar. Theo helped demonstrate to me that we needed to spread our risk away from just one investment style. Owning our own home means we already have significant exposure to property therefore by buying liquid investments such as shares we are offsetting some of our risk.

"This whole process has made me quite interested in finding out more about financial planning as a career. My children will all be in full time school in another four years, hence it would be great to have a career I can manage my family needs around... I must ask Theo about the academic qualifications required."

How To (Really) Help the Kids Get Along Financially

There is an old saying, give a man a fish and you feed him for a day, teach the man how to fish and you feed him for life.

The same goes for helping out the next generation. Don't give them cash, give them an education on how to earn, keep and manage their own.

Please don't misinterpret this as Marinis Financial Group being somehow against inter-generational wealth transfer, we are not – it is a core part of our business. What we encourage our clients to do first is to pass on their experience to their children, so the next generation can be at least as successful. If there is any money left after retirement, we are happy to help it to pass, as tax effectively as possible, to the next generation.

The other point is that in our experience people get so much more satisfaction out of having earned their own money rather than having been given it – and they are much less likely to squander it (those of us who went to Sunday school will remember the parable of the Prodigal son, I'm sure) when they earned it.

By any stretch of the imagination, there is a lot to talk about with teenagers and young adults about the financial services sector in Australia. I recommend an ongoing conversation starts over the dinner table and should incorporate:

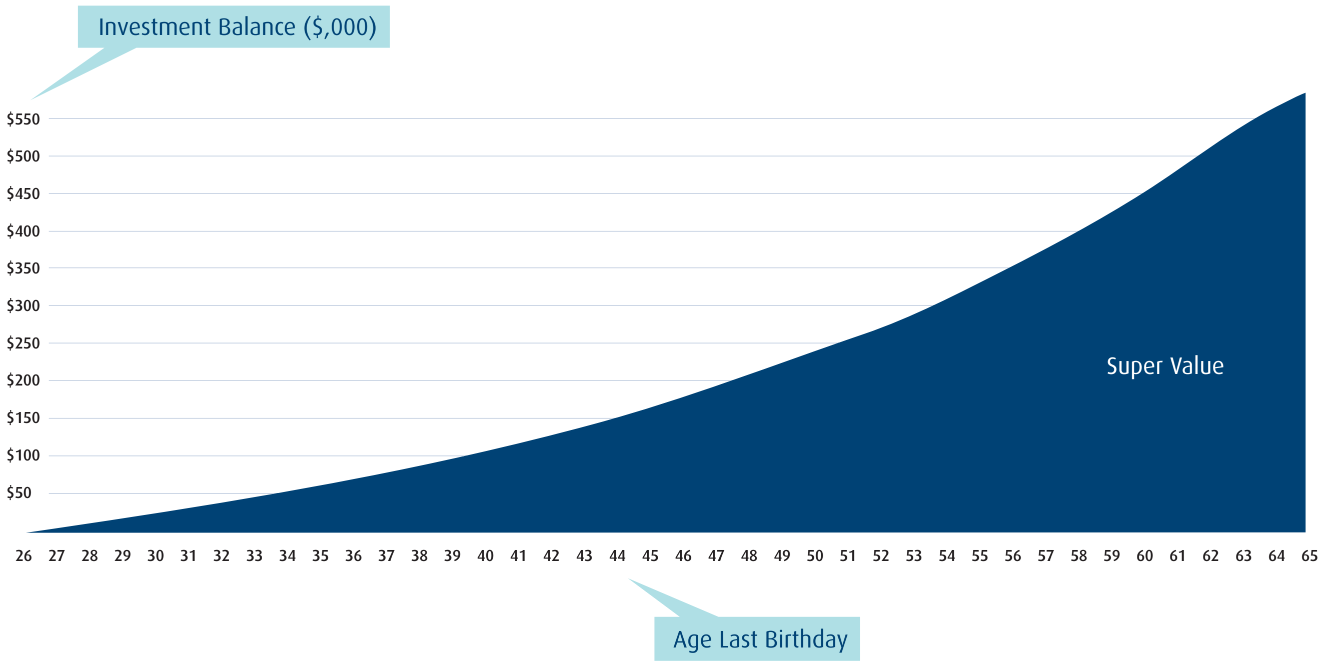
Compulsory super – what is it and why is it important?
Life insurance and income protection – why bother protecting your own life/income?
How credit cards work – and why it is good to have one and pay it off before any interest is due
How do personal loans work?
What is a mortgage and how does it work?
What is a will and how to make one?

Don't try to be too complicated, use simple terms and talk about your own personal situation, such as how "you" can buy a house or how "you" can start planning to retire – of course, you will get much greater levels of interest if you manage to portray what's in it for them.

Feel free to take your teenager or young adult along to your review meeting with your financial planner. This will help them to understand the long term nature of such a relationship and to get a sense that what you the parent have learned the hard way and are educating them about, is quite real.

If you have a working young adult in the household and they are earning less than $60,342 pa and you can afford $1,000, it is really educational and beneficial to them in the long term for you to make a $1,000 contribution to their superannuation account. The Federal Government will then match that amount (via a co-contribution), giving them $2,000 in total, in addition to the 9 per cent (Super Guarantee contributed compulsorily by their employer). Therefore, if they earned $35,000 pa they would have roughly $5,000 pa in their super as a result of this approach. In 40 years, at 5 per cent compounding interest, that amount of money will GROW to $600,000 and that figure should capture their imagination.

Superannuation Benefits



Assumptions:
Opening super balance of approximately $5,000. No CPI indexation of current salary or SG rate and therefore SG component is based on 9% of $35,000 pa throughout the 40 year projection period. Includes personal non concessional contribution of $1,000 per year and Government Co-Contribution of $1,000 per year. Assumes a rate of return of 5% pa and includes the deduction of 15% tax on SG contributions only and not investment earnings.

(Anyone can make a co-contribution, so it is also a great way for grandparents to help support their grandchildren.)

Being young and single, and having a supportive family, can really give your retirement savings a huge boost. This is the first generation which will go through its entire working life with compulsory super, so their retirement should be financially secure – but as any aged pensioner will assure you, it is one thing to be able to pay the bills, another thing to be able to afford to enjoy your life.

If your children have reached 40 it is time they selected and met with a financial planner, if they have not as yet done so. This is the next most important step in their financial education. The adviser will help them understand what they have got in terms of retirement savings and what they should do to get to where they want to be.

It may be that at 40 your children cannot afford to make additional super payments etc however, by being aware of their situation they have time to make sensible choices.

One interesting change we are noticing in the superannuation world is that retirement savings are now (rightly) becoming considered family wealth.

We think it is a very wise step for parents and grandparents to consider leaving any unused retirement savings they may have to their children or grandchildren – to be added to their retirement savings as Non Concessional Contributions. That way the next generation will not be able to get their hands on the cash until they retire and hopefully they will to some extent, do the same for their children.

Are They "Green Shoots" I'm Seeing?

Off the back of a "sound bite" from Barak Obama, many commentators have been getting overheated about the shape of the global economy – but, as always, Marinis Financial Group counsels caution.

As an economist who deals with the real world through our financial planning practice, I am often surprised by the breathless observations of people who spend far too much time pouring over statistics and trying to interpret some kind of short term meaning and the unbelievable weight given to their guesses by some elements of the media.

I've always liked the analogy that being an economic forecaster is a little like being a blind javelin thrower – they are not very accurate, but boy do they capture everyone's attention!

I personally do not see "Green Shoots" in the economy at present, really just a stabilisation and crawl back to a point of balance. Once that point has been achieved and maintained for a period of time, then possibly real growth can begin... and possibly I will notice the allegorical shoots!

In reality, there are two quite different economies at work, one is the international (read American) economy which has caused this incredible downturn globally and the second being Australia's.

Elsewhere in this edition of Grow I've talked about the positive structural and market reasons for the success of the domestic economy, but the most important issue really is confidence.

While the Rudd Government will go down in history as having (thus far) "dodged the economic bullet" by avoiding a depression, it is actually the little known mandarins of the Federal Treasury, Ken Henry and his executive team, who are really to thank, as the stimulus package they recommended to the PM delivered the national confidence which is keeping the wheels of commerce turning.

Phase one of the package put early cash in people's pocket before Christmas and promised and delivered more before the end of the last financial year. Phase two was the tax benefits for small business to buy new cars and computer equipment. Phase three was the school facilities initiative which gave hope to tradesmen and then the big ticket national infrastructure spend was phase four. Wrapped around all these initiatives was the first home owners grants. Australians don't just buy homes, they buy new carpet, a new fridge, a dishwasher etc, and demand was created in the property market again, making all home owners feel wealthier.

All this activity has helped keep confidence booming. If people are confident that they will have work they are prepared to spend, if they are spending, they create jobs... and the cycle continues.

Now we do have an issue to grapple with and that is the debt burden the stimulus package will leave us with.

I am not overly concerned by the quoted 15 per cent of GDP figure as it is low by international standards however, it will need to be paid back. My advice is to enjoy the recent tax cuts because once the economy has regained its strength, the government will have to retire the deficit so it can maintain its "social contract" with the people of Australia as a sound economic manager.

I am uncertain if we are going to see another slide in the economy as some cynics suggest, if we have just experienced a "dead cat bounce" or if we are about to charge ahead like an unrestrained bull.

I am, however, mindful and cautious of the US and European Debt burdens and how these will play out over the medium to longer term. I would be very pleasantly surprised if the economy does in fact roar ahead. What I expect is really the middle ground but, as I've often repeated, I don't have a crystal ball which is why I am a financial strategist, not a stock picker.

My general advice in this time of uncertainty is for investors to avoid debt and don't take unnecessary risks. Pay down mortgages while interest rates are low and you may also consider locking in part of your loan into a historically low fixed rate for a time, in anticipation of interest rates picking up again in the medium term. Put any extra you can afford into your superannuation and make sure you take time to sit back and appreciate just how lucky we are to live in a wonderful country like Australia

Successive governments of both political persuasions have bequeathed us a robust, well regulated, financial system. We are also blessed with an abundance of natural resources which our customers want and a well educated population, thus the future is very promising.

The short term risks to our prosperity revolve around unemployment and deflation. In my view, so long as the authorities can keep these twin evils under control we will come out of the present difficult situation within a couple of years. It will be looked back on as simply one of the normal dips in the economic cycle.

The biggest challenges I think our children and grandchildren will have to manage, as I see it, revolve around people movement due to climate change – there are literally hundreds of thousands of people on the Pacific and Indian Ocean islands such as Kiribas and the Maldives who are expected to be homeless in the next 50 years, if sea levels continue to rise. With such a huge land mass and small population, Australia is their likely destination and dare I say it, whether we like it or not.

My view is that we should plan for such a situation, think about where and how such populations will live, what they will do and how they will integrate and what we can do to fund it. I'd much prefer to deal with reality than ignore it!

As always, if you have any comments or thoughts you would like to raise with me or any of the team, please don't hesitate to call us as we welcome your input.

Keeping the Finances Running And Transitioning To Retirement!

Rob Hoepner - BBus, CPA, is the Accounting and Finance Consultant who has kept the wheels of Marinis Financial Group running from day one.

There is an old saying "Behind every successful man is a good woman". In business terms the equivalent is "Behind every successful business is a good accountant" and Marinis Financial Group is proof of the axiom.

Rob Hoepner has been consulting to Theo since Marinis Financial Group was a one man band, keeping track of all the necessary tax, payroll and reporting that is needed to keep the business doing what it does best – serving clients.

Originally from Adelaide, Rob has travelled extensively, spending an influential period of his youth in New Guinea with his family and also spending a very happy five years in North Queensland, but it is South America which has taken this accountant's heart.

"I started out in the ATO as a 17 year old and followed the auditing stream, which lead me to finally qualifying with a Bachelor of Business from the University of South Australia and as a CPA. It gave me a really good insight into the systems and reporting side of business, what works and what doesn't. It also gave me a great appreciation of the benefits of continual improvement in business compliance and information processes," Rob said.

"What started as a part time consultancy business in 1997 after meeting Theo via a friend's referral, we found we hit it off immediately. As both of us were ATO trained, we shared a similar, conservative view of the world. Neither of us are great risk takers and we both like to make sure all the 'i's are dotted and the 't's crossed."

"Theo was my first client but more importantly he has become my friend. In fact, we have agreed that if business got in the way of our friendship we would sacrifice the business side of the relationship and just be friends - I think that says it all."

As a consultant to Marinis Financial Group and a number of other successful businesses, Rob now has the luxury of being able to choose his work schedule.

"All my clients know that once the tax year is done I will be off for at least six weeks. These days I usually make plans to travel with my long term girlfriend who just happens to live in Medellin in Columbia – and I'm really looking forward to her visiting our wonderful city this year near Christmas time," Rob said.

"I am probably one of the luckiest people alive as at 50 I have already started my transition to retirement. I was a superannuation 'convert' from the day I started working and, as a result, some 33 years later, I realise that I will be well prepared for my retirement – of course a bit of advice from Theo along the way has helped as well!

"My Dad shakes his head when I talk to him about retirement. He says he didn't even start to think about preparing for it until he was my age. I guess I haven't had to raise a family of my own, so my expenses were less along the way however, the idea of planning for when I was not working resonated with me from a young age and now I feel very liberated as a result.

"The great thing is that I have choices that I can make. I'm planning to build a house in the Hills and am free to travel when I want. Of course the budget is not unlimited, but knowing that I can do what I want, when I want, is really a very exciting feeling.

"I don't think I will ever completely retire, I'll just become more 'time rich," says Rob with a smile.

MFG is Officially Female Friendly!

Marinis Financial Group has officially received the "Pink Tick" after being accredited as a Female Friendly organisation.

Drawing directly from the Female Friendly website:

"So what does it mean to be Female Friendly™ Accredited? To the consumer, it means the business they are trusting in has been successfully accredited to the Female Friendly™ standards. They will not have to worry about being overcharged or disappointed and more importantly, the service provided will be justified and correct.

For the business owner, it means potential customers will be directly driven to their closest Female Friendly™ Accredited service, which could increase your turnover. It also recognizes and rewards your honourable reputation, as well as letting your business benefit from the strong branding of the Female Friendly™ company."

Managing Director Theo Marinis is delighted his business now has this recognition.

"We are a family business and as such we value all members equally, not just alpha males," Theo said.

"We sought out accreditation so we could demonstrate publicly and reassure our female clients that we want to be known as valuing equality.

"I don't really expect accreditation to drive hundreds of new clients our way, but what I do expect is that our clients will have even more confidence in our values and priorities – which are really the things which set us apart from our competitors.

"I think that financial planners who do not value their female clients are facing a very uncertain future.

"Statistically, women live up to five years longer than males therefore it is reasonable to assume that the female partner will be the client in the long term.

"Also, research shows that women make most of the important financial decisions in a relationship – let alone the fact that 54 per cent of our population are female, so it is good business, as well as good manners, to be recognised for being a female friendly operation.... that and I live with my wife Julie and two daughters and work closely with Ivana and Keryn, so with these strong and intelligent people in my life it was not hard to be enlightened!"

www.femalefriendly.com.au lists all the businesses which have been accredited and also allows feedback from any person who is dissatisfied by a member's performance so if a breach of the agreement is registered, accreditation can be withdrawn.

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