Dear friends,

Looking Forward

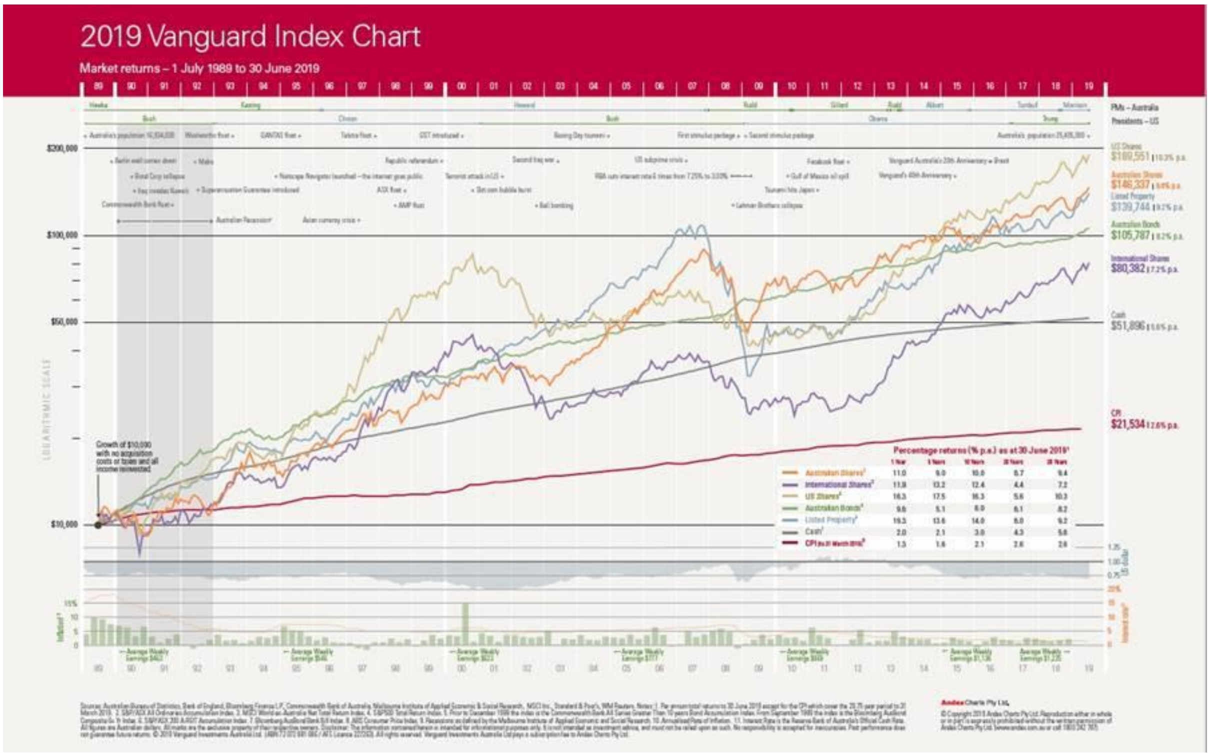
Holidays always make me reflect on life (as I'm sure it does with you) and I must say it is with gratitude I come back to work energised for the year ahead. Thank you for putting your trust in me, and our team.

While on leave, I re-read some work by economist Don Stammer in which he raises an important issue, one which I believe is often overlooked. It is the magic of compound interest – or, as any year eight student will explain, the impact of interest paid on interest on investments over time.

Stammer also refers to Albert Einstein's description of compound interest as "the eighth wonder of the world", and whilst this reference may be merely anecdotal, who am I to question the veracity of either information source?

The important thing is for investors to have the long-term view – and the long-term effect of compound interest is compelling:

Graph below demonstrating the impact of a balanced (65/35) Index Portfolio on $10K over 30 years at 7.8% pa NET returns.



Recently my friend Simon, aged 56 and paying $20,000 pa into super, was delighted with the prospect that his (and his partner's) combined balance of $1,026,000 should increase by $100,000 pa. This annual increase is due to their regular super contributions plus the compounding effect on their existing savings (using an assumed earning rate of 7.8% pa based on 30-year average market returns of a balanced (65/35) Index Portfolio).

If you read eGrow regularly, you will know my mantra is to invest in your super **"as soon as you can, as much as you can – and for as long as you can".**

I was delighted to be able to share this logic with a young medical professional couple who recently became clients. Over the course of accumulating their retirement savings, I explained that just as they should expect growth in investment markets, they should also expect those markets to 'tank' from time to time – complete with the accompanying 'shock-jock' predictions of financial market disaster, and the end of life as we know it.

You would therefore NOT be surprised to know that my advice to them was "always to stick to your long-term strategy and you will be able to ride out the market downturns". I also explained that in the draw-down phase of superannuation (still a long way off for them) having a strategy which entails keeping the equivalent of at least two years' income in cash (otherwise known as the 'Marinis Buffer') will ensure that in the event of a market downturn, they can live off their cash and avoid selling good quality assets to live on.

Interestingly, when recently discussing their insurance needs, one of my young medical professional clients stipulated that he wished to apply for 'own occupation only' income protection insurance. He felt he had spent so much time studying in his chosen field that he did not want to have to work in 'any' occupation if he was to become disabled. Getting the right insurance is vitally important – just as it is important to know when it is time to give it up.

And thus, you no doubt may have noticed from my comments above that I was led to reflect during my holiday, on our next generation.

I would wholeheartedly endorse buying any 'kidults' in your life Scott Pape's book 'The Bare Foot Investor' (perhaps even the eBook or podcast). The more that young people understand about saving, superannuation and taxation the better. Once they have bought into the idea of long-term saving, I am then more than happy for them to sit down with me (or one of the younger members of my staff) to discuss how they can get the most out of their individual circumstances – and set them on a path to home ownership, great super, and financial protection using appropriate insurances.

And One More Thing

I will be writing to the Prime Minister and the Treasurer this month with the request that they avoid the temptation to engage in any further tinkering with the superannuation system. I believe that I speak not only for myself, but for all of the clients I discuss it with, when I say that we are sick and tired of the seemingly never-ending changes.

We can all work towards providing a decent retirement for ourselves if the goal posts are not constantly moved around. Yes, super is imperfect - but per capita, the Australian system is probably the best funded in the world. Our administration and legislation often get a global bronze medal, but we are still doing a lot right.

The benefits for our country when the baby boomers all retire and start spending their super will be staggering. Instead of being a drain on the economy, older Australians will become major consumers. People with money in their pockets, and no children or housing worries, are happy spenders!

If you would like to see my recent media articles in The Advertiser or in Alan Kohler's Eureka Report, please click **here.**

And as always, if I or any of the team can help in any way, please don't hesitate to call us on (08) 8130 5130.

Kind Regards,

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