Themes for 2016: Diversification and divergence

In brief

Given the dismal start to the year for many markets, what should you be thinking about as you make your way back from your summer breaks? For 2016, we maintain a pro-risk stance, but with a hefty dose of moderation. While the volatility of 2015 may have left a few scars, returns from cash are still negative, when adjusted for inflation, in large parts of the world and only slightly positive in Australia. That means, it's still preferable to invest globally rather than sit on the sidelines. The big themes for 2016 will be diversification (to manage volatility) and divergence (searching for attractive returns globally).

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Shares

Within the sharemarket, the Eurozone and the US are poised for the most macroeconomic support. The European Central Bank's monetary policy is prompting credit growth and bolstering investor sentiment. Mario Draghi's commitment to "work and assess" the region's growth will continue this year.

In 2015, US earnings growth was disappointing. American companies were hit by the low oil price, while multinationals that source revenue from abroad were hurt by a strong US dollar. But the depressed earnings levels of 2015 should set the stage for a better 2016 if there is moderate appreciation in the US dollar and energy prices stabilise.

Although there is caution around shares in emerging makrets, there are also some opportunities to access good companies at an attractive price. Overall, the challenges faced by emerging economies in 2015 will continue as commodity prices will remain low and global trade sluggish.

Fixed income

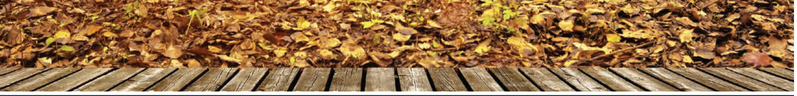
On the bond side, treasury yields in the US, UK and Australia should drift higher as inflation heads back to central bank targets and US rates rise. However, longer-term yields are likely to be restrained by a modest growth outlook, persistent central bank buying and demand from money managers. High yield bonds are certainly offering robust returns, but not without risk. Diversification and selectivity will be critical in generating income.

So, some suggested resolutions for those lacking inspiration.

1. **Get active:** the rising markets of the last few years have floated many boats, but now investors will need to be more selective.
2. **Broaden your horizons:** the Australian domestic market isn't the most attractive market for share or bond investors at the moment, so look beyond our shores.
3. **Keep an eye on the Fed:** the planned path of US rate rises has been well signalled, but any divergence from that path could make the waters choppier around the globe and the impact on currencies will be material.
4. **Finally, don't expect smooth sailing:** maintain a well-diversified portfolio to manage volatility.

Source: J.P. Morgan Asset Management

Speak to your financial adviser to discuss your investment options.



Good advice – key to a successful retirement

Climbing down the retirement mountain

What would you like to achieve in your retirement? Whether you want to travel the world or visit your grandchildren more often, it's important to ensure the superannuation and investments that you've accumulated throughout your working life will see you through retirement.

According to the Australian Bureau of Statistics, around 79,000 people in New South Wales will hit 65 this year, and across Australia the number of over-65s will grow by 40 per cent in the next 10 years. That's a lot of people with big decisions to make.

In recent years, many are realising that retirement income planning is dramatically different from pre-retirement wealth accumulation.

A useful analogy is mountain climbing where the ultimate goal is not just to make it to the top of the mountain but to make it safely down the other side. The skills required to get down are not the same as those needed to reach the summit.

So after climbing the mountain and accumulating wealth throughout your career, it pays to get guidance from a financial adviser about retirement income planning.

The types of questions most likely to be asked by retirees are:

1	**How can I be sure my money lasts as long as I do?**
2	**What's the impact of inflation?**
3	**How much money will I need for essential expenses?**
4	**How should I provide for aged care costs?**
5	**Will I keep my entitlement to the age pension?**

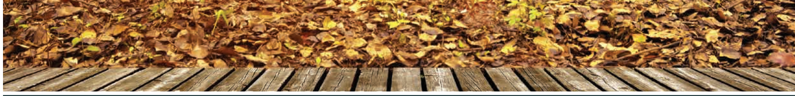
Speak to your financial adviser for guidance on planning for your retirement.

Retirement planning requires specific knowledge about investment management, personal finance, Centrelink rules, aged care needs, drawdown strategies and estate planning. Your financial adviser will guide you through these complex areas and understand the specific retirement risks.

One of the key risks is longevity. The good news is we are living longer; the bad news is we don't know how long.

Getting the right financial advice can remove the fear of running out of money in retirement and, after decades of work to climb the mountain of retirement saving, help retirees enjoy the experience of coming down the other side.

Source: Challenger



The dangers of not having a valid and up-to-date Will

Why is this a tragic situation?

Death in every family is a stressful event. Dying without a Will adds to the stress and anguish of your loved ones on your passing. At this stressful time, it is far easier if your family has a clear idea of your wishes and your intentions for the distribution of your assets after your death. A properly drafted and valid Will delivers certainty to those remaining and enables them to focus on grieving without being side tracked about uncertainties over the distribution of assets.

Why is this important function neglected?

People are often too busy and caught up with the challenges of daily living to give any thought to what will happen to their assets and their family when they die.

Why is having a Will important?

A Will enables you to specify how you would like your assets to be distributed in the event of your death.

A Will also gives you the opportunity to nominate an executor. The executor controls the administration of the deceased estate and the distribution of assets to your heirs. It is important to appoint a person of your choice to perform this important function. As your executor, you should nominate someone who is competent and also has the requisite empathy and compassion. This will ensure that the wishes reflected in your Will are strictly observed.

What happens if you die without a Will?

An administrator will be appointed to administer your deceased estate and distribute your assets in accordance with the intestacy laws operating in your state of residence.

Why is this an issue?

The Intestacy rules generally give close relatives a specified share of the deceased estate, but these rules do not take account your wishes and unique family circumstances. It is preferable for your assets to be distributed to your loved ones in accordance with your wishes. It is also preferable to have this process controlled by your executor.

Who should draft your Will?

Wills should be drafted by competent legal professionals. 'Do it yourself' drafting by a testator without legal training can result in ambiguous and contentious terms which have to be interpreted by the courts. This would not deliver the certainty that you want, and could result in disputes amongst the family members after your death. This is stressful and costly to everyone involved.

Why is discussing the terms of the Will with your solicitor important?

It is important to discuss your distribution plan with your solicitor to ensure that the Will drafted reflects your aspirations. Distribution plans can also be challenged by disgruntled family members. The solicitor will review your circumstances to identify any potential risks of challenge, and may suggest the possibility of modifying your distribution plan to reduce this risk.

Why is it important for a solicitor to review your completed Will?

The relevant legislation prescribes formalities that need to be observed when Wills are signed and witnessed. If these formalities are not observed, there is a risk of the Will being challenged after your death. It is, therefore, important for the completed document to be reviewed by your solicitor so they can ensure that all relevant formalities have been completed.

Source: TAL

Discuss these issues and your circumstances with your financial adviser so an action plan can be formulated.

Top financial to-dos for 2016

As the new year kicks off, it can be difficult to work out your priorities amongst your new year's resolutions. Here are some tips to consider for 2016:

1. Consolidate your super	If you have more than one super account, consider whether it's worth your while consolidating your accounts once and for all, and take the opportunity to find out if you have any lost super by using the Australian Taxation Office's online services. (Note, be careful not to cancel any insurance in the process.)
2. Check the beneficiaries of your super	As superannuation is not automatically included as part of your estate, it's important to ensure that your nominated beneficiaries are up-to-date. If your super fund offers binding nominations, consider whether this may be an appropriate option for you and whether you need to renew this or seek advice.
3. Check your insurances	Do you have the appropriate insurance cover in place? It may be time to reassess your personal arrangements including cover for death, disability and income protection and check other insurances such as home and contents and other assets.
4. Review your Powers of Attorney	Make sure that you are still comfortable with the person or persons appointed as your Power of Attorney and that you keep them updated on your wishes. If you don't have a Power of Attorney in place, and would like more information talk to your adviser.
5. Destroy unused credit and debit cards	Credit card fraud and identity theft are common place. Ensuring that your cards are destroyed properly is one way to protect you and your family from these risks. Cutting up or shredding a card is a common way to dispose of it, whilst running a strong magnet over the magnetic strip scrambles the data on the strip, making it difficult to extract information. If your card has a chip in it, a hammer or pair of scissors can help. It also helps to dispose the different pieces of the cards into different waste bags. The same applies for any documents that contain personal information.

Source: Financial Knowledge Centre

For more tips on how you can prepare yourself financially for the year ahead, speak to your financial adviser.

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