

Infocus



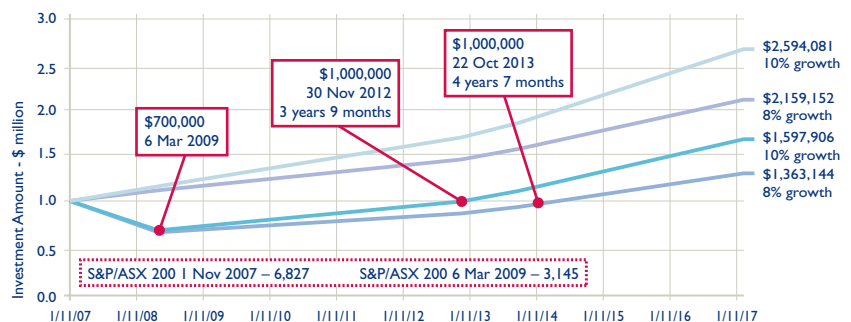
Wealth Management

Why you need to look at investing differently

The May 2009 Federal Budget has further reinforced the need for all of us to consider 'Why we need to look at investing differently'. One of the announcements in the Budget included a reduction in the contributions Australian's can make to superannuation. These changes will affect future retirement plans, further compounding the negative returns the market has delivered over the past 2 years. Consider.

On the 1st of November 2007 the ASX All Ord's index closed at 6,853 points. On the 4th of March 2009 the same index closed at 3,125 points, a drop of 3,728 points or a 54.4% fall.

Furthermore the average 'Balanced' fund has reduced by approximately 30% in the same period. By way of example, if your superannuation fund balance was \$1 million as at November 2007, by March 2009 the balance would have dropped to \$700,000 representing an unrealised loss of \$300,000. Please refer to example below.



Investment Growth	1/11/2007	5/3/2009	30/11/2012	22/10/2013	1/11/2017	Difference
\$1 million @ 10%	\$1,000,000	\$1,136,397	\$1,623,061	\$1,767,175	\$2,594,081	\$-
\$1 million @ 8%	\$1,000,000	\$1,108,765	\$1,478,568	\$1,583,701	\$2,159,152	(\$434,928)
\$700,000 @ 10%	\$1,000,000	\$700,000	\$999,776	\$1,088,547	\$1,597,906	(\$996,175)
\$700,000 @ 8%	\$1,000,000	\$700,000	\$933,469	\$999,843	\$1,363,144	(\$1,230,937)



In this example, how long could it take for the fund to recover back to \$1 million? If your fund returns 8% p.a. it would take over 4 ½ years to return to \$1 million. With a return of 10% p.a. the fund would recover in 3 ¾ years.

Using the same 'positive return' logic of 8% and 10% annual growth, in the above scenario the super fund would grow to \$1.36 million and \$1.6 million at November 2017, exactly 10 years after the market peaked and then dipped.

But what would the superannuation fund balance be if it had continued to grow in a positive fashion from November 2007 at 8% and 10% annually? Based on these growth rates, \$1 million invested would have grown to \$2.16 million and \$2.6 million after 10 years.

This represents a 'gap' of between \$800,000 and \$1.3 million in the retirement benefits clients were expecting.

Given the above 'retirement gap' coupled with the fact that most clients have heightened anxiety levels and their appetite for investment risk has changed (decreased) has necessitated a fresh approach to rebuilding our client's wealth.

But what does investing differently mean? It may mean:

- Including capital protected assets in your portfolio
- Reducing your growth expectations
- Seeking to build wealth outside of superannuation in light of the recent changes to superannuation contribution limits announced in the 2009 Federal Budget
- Moderate gearing of assets to enhance possible returns
- Improving your cashflow management to save more effectively
- Taking profits at certain points of the investment cycle
- Recognizing that inflation will increase in future years and developing a strategy to confront it
- Tax planning in more detail

All of the above points will help improve clients' future outcomes. These points, when properly managed, will help ensure your investment process is managed differently in these changing times.

The BDO Kendalls Wealth Management advisers have a number of strategies which can help in re-building your portfolio and your wealth. For more information contact your BDO adviser

More information

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