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Did You Know?

Few prime ministers have been able to choose a convenient timing of retirement. On the Liberal side only Bob Menzies managed this (Joseph Lyons died in office). On the Labour side none have retired voluntarily (John Curtin died in office).

Source: www.findem.com.au

Insights into Successful Investing Employ Experts

The methodical, systematic approach taken by most fund managers helps them avoid many of the mistakes individual investors are prone to.

Even the smartest investors use managed funds. Why? Because managed funds employ disciplines that many investors do not.

Since the 1980's, investment experts have paid increasing attention to a field called behavioural finance. It's a science that investigates whether individuals behave rationally when they invest. Unfortunately many of us don't – and that can prove expensive.

According to academics like Nicholas Barberis and Richard Thaler of the University of Chicago, we exhibit a number of irrational behaviours when it comes to investing.

Exceptional ability

Research quoted by the two Chicago academics says individuals often have an inflated sense of their own competence. For example, around 90% of us believe we are above average drivers. Carry this approach into investing and it's easy to see why some investors take excessive risk given their investment expertise.

Researchers have identified other biases. "Self-attribution bias" is the understandable, but unfortunate, tendency to claim success as a result of our talents and failure as a result of bad luck. An investor might regard a good year in the sharemarket as proof of their stock picking prowess. However, a poor year is the fault of a bad market.

"Hindsight bias" is our tendency to believe (often falsely) that we predicted an event. If we think we successfully predicted the past, we may have an inflated sense of our ability to predict the future.

Behavioural finance and investment manager research also tells us that individuals will sell winners sooner than losers. In other words they can carry their losses and cut their profits – exactly the opposite of a rational approach.

It is because of these irrational behaviours

that fund managers often out perform individuals. Their investment approach is more structured, they are trained and manage to avoid poor investment behaviours.

Of course managed funds have other advantages.

Safety in numbers

By investing in just a few shares (or other investments) you carry more risk because your whole portfolio can suffer from an event that affects just one or two assets. By diversifying your portfolio, you can reduce risk without sacrificing too much return. Managed funds make it easier to diversify – because you pool your money with that of other investors you can have the capital to invest in a wider range of assets.

Better management

Choosing investments – and when to buy and sell them – means gathering a lot of information, processing that information and being able to act upon it quickly. Economies of scale means managed funds have the technology, people and research capacity to invest more successfully than most individual investors.



More convenient investing

Those economies of scale – and the power of modern technology – also allow managed funds to offer you services, choices and investment information that make investing easier. For example most modern managed funds can be accessed via the phone and the internet and offer a range of investment choices to suit different needs. Regular statements and investment information also make it easier for you to monitor your portfolio and fill out your tax return.

Source BT Financial Group – Abridged extract from "Ten Investing Truths"

getting you from **a** to **b**

Superannuation contribution splitting revisited

Late in 2005, legislation was introduced that would provide many superannuation fund members with the opportunity to split superannuation contributions made on or after 1 January 2006, with their spouse.

Contribution splitting operates on an "annual split" basis. That is, after the end of each the financial year, a superannuation fund member whose super fund allows contribution splitting, can request the super fund to split contributions made during the previous financial year. As contribution splitting only came into effect from 1 January 2006, this year's split only applies to contributions made between 1 January 2006 and 30 June 2006.

A super fund member may split up to 100% of their undeducted contributions (those contributions for which a tax deduction has not been claimed) and up to 85% of taxable contributions (contributions for which a tax deduction has been claimed).

Contributions may be split with a spouse provided certain criteria's have been met.

A "receiving spouse" includes a person, who although not legally married, lives with their partner on a bona fide domestic basis as husband and wife. It does not include same sex couples nor does it include couples who live apart. To be eligible to receive a contribution split the receiving spouse must be under the age of 65 and not retired. In other words, the receiving spouse can't have satisfied the "retirement" condition of release as prescribed in the Superannuation Industry (Supervision) Legislation.

The Australian Prudential Regulation Authority suggests that a receiving spouse aged between 55 & 64 may be able to receive a split contribution provided they are currently employed for more than 10 hours per week, or are not currently employed but have not yet decided they will never work more than 10 hours per week again, or have never been gainfully employed for more that 10 hours per week.



Where a receiving spouse aged 55 years or older, has retired, they will not be able to receive split contributions.

Therefore a receiving spouse who has already reached age 55 will need to consider a number of additional factors to ensure a split may proceed.

With the announcements contained in the 2006 Federal Budget proposing the abolition of reasonable benefit limits from 1 July 2007, and the proposal for people over 60 years of age to receive superannuation benefits tax free after that same date (where the benefits are paid from a "taxed" superannuation fund), the value of contribution splitting with a spouse may have diminished.

However, there are still circumstances where contribution splitting may be viable including:

- *Where a spouse is approaching age 60 and they intend to commence receiving a tax free superannuation pension, opportunity exists for a younger spouse to split their contributions with the older spouse in order to increase their superannuation account balance;*
- *Couples who plan to commence superannuation income streams whilst under 60 years of age may derive tax advantages from income splitting.*
- *Younger couples may also benefit from contribution splitting, particularly where one partner receives little or no income. Split contributions may be used to fund vital life insurance cover for the receiving spouse.*
- *Whilst the proposed changes to superannuation announced in the Budget are far reaching, the benefit on contribution splitting, resulting in both partners having superannuation benefits, may help to protect them against the risk of future legislative change.*

To split, or not to split? The issues are complex however contribution splitting may be an appropriate strategy for many people. You are encouraged to seek professional financial planning advice prior to requesting a contribution split.

Incidentally, for those people wishing to effect a contribution split, the Government has developed a standard form to be used to facilitate the splitting process. This form can be downloaded from the following link:

http://www.ato.gov.au/content/downloads/sprn15237-03-2006_w.pdf

Source: Peter Kelly – Professional Investment Services

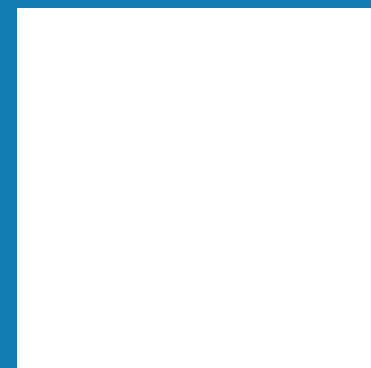
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