



April 2006

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Did You Know?

On Friday 24th March 2006, the Australian Stock Exchange's All Ordinaries Index closed at 5001.6 points. This is the first time the Index has closed above 5000 points. Interestingly, it is only 15 months ago, in December 2004, the Index broke the 4000 point barrier.

Source: *Financial Demographics*.

Insights into Successful Investing - Avoid Chasing Returns

One of the greatest temptations when deciding where to invest your money is to choose the investment that had the best return last year. You see a return of 40% and curse that you weren't invested a year ago. So you decide to put your money in that investment in the hope that it will do the same thing in the year ahead.

Chasing returns like this is one of the most common mistakes made by investors. It is akin to driving using the rear-view mirror. You can see clearly what is behind you – but not what lies ahead.

Asset Classes

Here's a simple example that explains why chasing returns can be costly. Over the past 20 years, if you had switched your money into the best performing asset class during the previous year, you would have received an average annual return of 10%. However, if you had chosen the previous year's worst performer, you would have gained 14% a year.

It is rare for the same asset class to have the best performance two years in succession. It has happened only twice in the past 20 years. History has shown that if you invest in the asset that performed the best last year, it is unlikely to have the best performance again this year.

It is very tempting to get caught up in the excitement of a bull run on the sharemarket. The same is also true in other assets such as property and fixed interest. However, it can also be dangerous to get caught up in the stampede.

Investment Managers

There is a saying in the investment management industry: "today's rooster is tomorrow's feather duster". Today's best performing investment manager is often relegated to the middle of the pack or worse in years to come. In other words, it is very difficult for one investment manager to consistently produce the best results.

Rather than relying on one-year performance figures, it makes more sense to do some research on investment managers to find one that consistently

produces good returns. We give you a few ideas on how to get started in the section "Do Your Research", later in this article.

Individual Stocks

In the years leading up to 2000, technology stocks made many people rich. In the two years following, many people lost a lot of money investing in the same stocks. The people who lost the most money were those who invested at the height of the technology stock boom. They made the mistake of buying the previous year's best performing stocks.

Many highly successful investors do exactly the opposite, buying laggard stocks when they believe the market has not understood the true potential of these companies which are therefore priced cheaply.

How to Avoid the Trap

So what does this mean for your investing? If you shouldn't base your investing decisions on past performance, what sort of criteria should you use?

One way is to think about the driving analogy mentioned earlier. Avoid spending too much time looking in the rear-view mirror – concentrate on the road ahead. Another way is to think about a weather forecast. You wouldn't base a weather forecast on what happened yesterday, rather you would look at high and low pressure systems, cold fronts and long-term climatic conditions. It's the same with investments – the manager's investment process and the resources and experience they can deploy are at least as important as past performance. There are also a few practical steps you can take.



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

Diversify

Instead of putting all your money into the investment that performed best last year, try spreading your money across the different asset classes, investment managers and stocks. This discipline will help reduce the temptation to chase returns and may also reduce volatility of your investment portfolio.



Stick To Your Guns

Don't chop and change your investment strategy every year. Instead, spend time developing an investment strategy that suits your circumstances and goals, and give it time to work.

Past performance can be useful when you consider longer time periods. For instance, Australian shares was the top performing asset class in the 20 years to 31st December 2004. But Australian shares also lost money over one year, six times out of 20.

Do Your Research

Rather than simply relying on past performance to select your investments, take advantage of the many resources available through newspapers, the internet or professional financial advisers. These can help you track true long-term performance and build up the information you need to make the right investment decisions.

You can check out long-term performance of managed funds and their research company ratings at sites such as www.morningstar.com.au, through newspapers such as the *Australian Financial Review* or magazines such as *Personal Investor*. The Australian Stock Exchange has a wide variety of information on individual shares at www.asx.com.au. Or try the research facilities at broking sites.

Seek Advice

Finally, and most importantly, financial advisers can help you develop a disciplined approach to investing which will take into account all the issues outlined above. They can also tailor your investment to your circumstances and goals.

Source BT Financial Group – Extract from "Ten Investing Truths"

What happens To My Super When I Die – Part 2

In the last edition of Timely Tips we addressed the issue of what happens to superannuation benefits on the death of a fund member.

Just to recap, where a super fund member dies their superannuation benefits will generally be paid to a "dependant". A "dependant" as defined in the Superannuation (Industry) Supervision legislation is a spouse of the deceased, a child of any age and any other person who has an "interdependency" relationship with the deceased. Whilst the trustee of the superannuation fund will generally have discretion to determine to whom a benefit will be paid in the event of a member's death, certainty can be achieved by using a binding death benefit nomination.

Where a superannuation death benefit is to be paid as a lump sum, the benefit may be taxed depending on the amount of benefit to be paid, and the beneficiary or beneficiaries of the payment.

Where the beneficiary is a dependant as defined under the Income Tax Assessment Act (a "tax" dependant is different to a "SIS" dependant) an amount of up to the deceased member's *pension reasonable benefit limit* will be paid out tax free. The pension reasonable benefit limit is currently \$1,297,886 however, where a fund member has a higher *transitional pension reasonable benefit*, then this higher figure is used.

In circumstances where a death benefit exceeds the deceased's pension reasonable benefit limit, then the "excessive" portion of the benefit will be taxed at 38%, or a combination of 38% and 47%, plus Medicare Levy.

Should a death benefit be paid to a person who does not fit within the "income tax" definition of a dependant, the benefit will be taxed according to the components that make up the death benefit. The rate of tax may range from 0% (for undeducted contributions), through to 38% and/or 47% (plus Medicare Levy) for an excessive component. Generally, superannuation benefits paid to a non-dependant are taxed at a rate of 15% (plus Medicare).

The payment of death benefits can be very complex. Members of superannuation funds, and the trustees of deceased member's estates, are encouraged to get advice from a suitably qualified financial planner before death benefit proceeds are paid from a superannuation fund.

Source: Peter Kelly – Professional Investment Services

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