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Personal Financial Advisers

cipher

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Your **money** your **future**

Welcome to the February edition of cipher

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss **financial fitness for sport lovers** and provide you with information on **the myths of property prices** and **how to retire your way**.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime we hope you enjoy the read.

All the best,

The Varria Team

Sports lovers enjoy better financial fitness

If your golf clubs have been under wraps or your tennis racquet has been tucked away for some time, it could be worth dusting them off. Research by AMP found Australians who play sport regularly are 64% more likely to achieve their financial goals than those who don't.

With the weather warming up, plenty of us will be thinking about getting in better shape. That can mean heading outdoors for a round of golf, a dip in the ocean or just kicking a ball around the local oval with the kids. The health benefits of physical activity are well documented, but AMP's study also found a clear link between our sportiness and the way we manage our money.

Link between sport and money management

According to the survey, playing sport on a regular basis makes us more likely to think about our long term financial wellbeing. As a guide, people who frequently play sport are 66% more likely to make extra contributions to their super fund, and more than twice as likely to own an investment property as less active people.

If you ride a bike or play netball, take a bow – the AMP survey found you're likely to be among the nation's most financially savvy thinkers. Cricketers are most likely to have a financial advisor, and golfers top the league table for personal savings – with one in three having more than $50,000 in savings.

When you think about it, these results aren't all that surprising. Keen sports people often achieve success by setting personal or team-based goals. So it's a natural step to set goals in other areas of life like money management.

A number of overseas studies confirm AMP's findings that physical and financial health often go hand-in-hand.

One group of US researchers explained the link, saying that people who make healthy choices today to enjoy good health tomorrow, are also more likely to regularly put money aside to achieve greater financial security in the future.

I freely admit I'm no sports scientist, but it's fair to say there's another link between physical health and fiscal fitness – both can be achieved when you make it part of a regular routine.

Getting in good habits

Getting physically fit involves taking the time to exercise regularly. It may not happen overnight but your fitness should improve over time.

The same applies to financial security. It's all about developing and sticking to good money habits – like using a budget to gain control of your cash, spending less than you earn, and saving and investing for the long term. It's not hard and it delivers great results without working up a sweat.

People who take their sport seriously use a coach for help lifting their game, and you can think of us like a mentor for your money. It could even be worth thinking about having your next review meeting over a round of golf, and achieve two goals at the same time.

– by Paul Clitheroe AM

Paul Clitheroe AM, co-founder and Executive Director of ipac securities limited, Chairman of the Australian Government Financial Literacy Board and Chief Commentator for Money magazine.

If you've always thought property prices only go up...

It may be time to reconsider some myths about property investment

With so much emphasis on property in the media, it can be difficult to sort fact from fiction. But before investing in any type of asset—including property—it pays to consider the pros and cons, and any commonly held misconceptions.

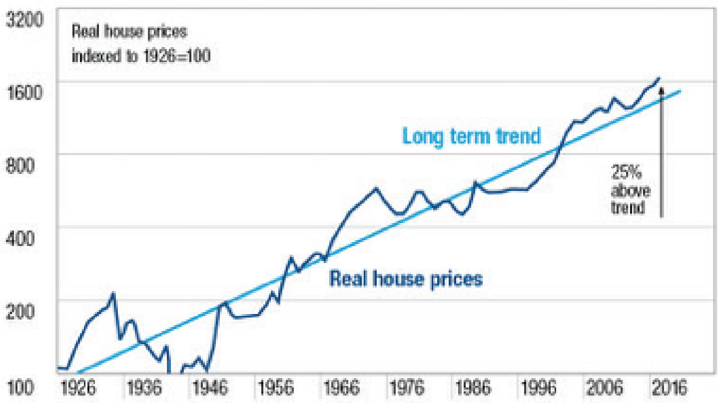
Here we bust 3 property myths.

Myth 1: Prices always go up

Believing that property always goes up is understandable—especially given prices have dramatically increased in our major cities in recent years.

But like most investments, the property market demonstrates cyclical patterns. That means, at times property performance can be stagnant and show little or no growth. And like many investment cycles, a boom can be followed by a bust. [i]

Australian house prices relative to their long term trend



Myth 2: All property is the same

When we think about property, we tend to think about it as one market. We generally take a macroscopic view. We hear about the performance of Australian property and may think that buying a property anywhere will turn out to be a good investment. But this approach can lead to decisions that fail to yield the results we expect.

Within the property market are countless micro-markets. And property prices can depend on the different economies they have links to—as we've seen in Australian mining towns where prices reached record highs in recent years only to be followed by a sharp decline.

Similarly, we hear general reports in the media that property prices are rising and this general sentiment can set unrealistic expectations. For example, specific price expectations in the CBD should be markedly different from those in a particular region or suburb. But we may tend to think that all prices in all areas will always rise. And this is where the danger lies.

Myth 3: Property's a sure thing

The combination of low mortgage rates and rising home values means debt levels have increased dramatically. In fact, the top 10% of leveraged Australian households have an average debt to disposable income ratio of 600%. [ii]

If you cannot afford to repay a home loan due to changes in personal circumstances, such as losing your job, your entire financial future can be put at risk. Any slumps in house prices could result in many people being unable to cover outstanding loan amounts if forced to sell

Take a long-term view

It's important to think about property as a long term investment, even when buying a home to live in—and to borrow within your means so you're not financially stretched. Explore your capacity to repay a loan with our borrowing power calculator.

And if you take on a home loan, consider buying insurance to help protect you in case your circumstances change and you're unable to meet your loan repayments.

When it comes to investing, it's important not to put all your eggs in one basket. That way you may be able to protect your money by spreading risk over different markets.

Speak with us to find out more about the types of investments that may suit you.

i http://advice.realestateview.com.au/buying/beginner-guide-to-investing/4/

ii http://media.amp.com.au/phoenix.zhtml?c=219073&p=irol-newsarticle&ID=2122127

How to retire, your way

How you'd like to spend your retirement is as unique as you. From the big life changing goals, to the smaller, more personal ones that give your life meaning.

Living well in retirement

Australia has one of the highest life expectancies in the world, and it's likely to increase well into the 90s over the next 40 years. i Meaning we could be looking at around 30 years in retirement.

So whatever your retirement goals are (like travelling, having a sea change, caring for family or working part-time), it's important to be prepared financially.

The cost of living in retirement

Assuming you own your own home, recent research shows that to retire comfortably, couples will need about $640,000 as a lump sum to retire on. ii

Yet, a recent survey by Roy Morgan shows many Australians aged 50-64 may not have the amount they need to retire comfortably at 65, and in fact many may still be in debt. iii

It can be easy to feel overwhelmed by these figures, but your finances may actually be in better shape than you think.

What you can do yourself, right now

There are a number of things you can do yourself now, that can really make a difference to your future retirement – both financially and mentally. That includes thinking about how you'd like to manage your income and lifestyle to reflect your changing needs. Here are some ways to get started:

1. Get clear on your retirement goals and how you want your life to look

Too many options can make planning difficult, so it's good to get a clear idea about the lifestyle you want and the top things on your list, including:

- knowing how you want to spend your time
- if you have a partner, comparing lists, so you're on the same page
- working out where you want to live

2. Work on simplifying your finances

It's a great idea to get your finances organised sooner rather than later. Some of the things you can work on now include:

- tracking your spending
- working out where you can make savings
- getting your super sorted
- taking advantage of any government incentives you may be entitled to

Other tips and information are also available on www.amp.com.au/retireright and www.moneysmart.gov.au.

3. Think about your numbers

Have a realistic look at how you can achieve your goals, and live the lifestyle you'd like within your budget. You may need to reassess some things in favour of others, or be stricter on the smaller things (like eating out) so you can enjoy bigger things in retirement (like a holiday).

4. Put a plan in place to help achieve your retirement goals

Once you're clear on your goals, a plan will help you step out how you'll get there. It can make all the difference.

5. Talk to us

Most of us need some help to create a plan for our retirement goals. And making the most of your super, investments, government entitlements and incentives can be hard to do on your own.

We can help you:

- Work out how much you'll need to live on
- Work out how you could create an income in retirement
- Understand possible future expenses
- Examine your superannuation savings, planning for now and in retirement
- Understand your living options, including aged care and what it could mean for your finances
- Find ways to keep doing the things you love, and new things you'd like to do
- Understand the rules around age pension eligibility.

After all, understanding all your options, and having a clear plan for your future, really can help you step into your idea of retirement with confidence.

i Australian Government Treasury Department., 2015 Intergenerational report. https://treasury.gov.au/publication/2015-intergenerational-report/chapter-1-how-will-australia-change-over-the-next-40-years/

ii ASFA, Retirement Standard Summary, December 2016. The lump sums required for a comfortable retirement assume that the retiree/s will draw down all their capital, and receive a part Age Pension. All figures in today's dollars using 2.75% AWE as a deflator and an assumed investment earning rate of 6%. They are based on the means test for the Age Pension in effect from 1 January 2017.

iii Roy Morgan Research, State of the Nation Australia spotlight on finance risk, August 2016.

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