

InvestorNews

2016

Investing
in volatile times

The true
Value
of advice



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Welcome to **Investor** News

This year we celebrate 170 years of creating financial independence for our members. From humble beginnings as a benevolent society in 1846 to one of Australia's largest independent wealth managers, we are as committed as ever to helping you achieve your retirement dreams.

It's been a big year for the super industry too, with Australia's total super assets topping \$2 trillion for the first time. With such an important role in Australian society, it's not surprising the Government strives to keep superannuation as efficient and effective as possible.

This year we've made keeping up with the latest developments affecting your super a little easier with enhancements to your online super and the launch of our quarterly online newsletter, *talkingsuper*. The newsletter has tips for boosting your super and links to fund performance, market commentary and more. Turn to page 8 to find out more.



We're passionate about financial advice. We believe advice offers more than financial benefits – it also offers emotional benefits. Turn over the page for a summary of the results from 'The true value of advice' survey.

I hope you enjoy the articles in this edition of Investor News. If there is anything we can do to help, please contact the Client Services Team.

Christopher F Kelaher
Managing Director
IOOF Holdings Limited



The true value of advice

There's a lot to consider when trying to secure your financial future. Should I pay off the mortgage or put money into super.... but what about renovations? When can I stop work? How do I afford the children's education?

Good financial advice answers these questions by mapping out your goals and putting strategies in place to achieve them. The traditional measures of financial advice success have focused on achieving tangible goals, such as retiring earlier, relative investment returns, or simply spending less.

While the financial benefits of advice have long been established, there is evidence financial advice gives you much more...

The true value of advice



The survey of 521 advised and non-advised participants revealed those who receive ongoing financial planning advice experience*:

- **13 per cent greater** levels of overall personal happiness
- **21 per cent overall** increase in peace of mind
- **19 per cent less** likelihood to have arguments with loved ones.

Meanwhile those who don't receive financial advice were:

- **22 per cent more likely** to have their sleep disrupted due to money concerns
- **15 per cent more likely** to feel stress and anxiety due to financial pressures
- **11 per cent more likely** to feel concerned about their finances.

* IOOF: The true value of advice (2015)

What's more, 83 per cent of clients surveyed endorsed the value of financial advice by saying it's also important for their loved ones to have good financial advice!

Even if you have your financial house in order, a financial adviser provides the comfort and peace of mind of a well thought out plan, a plan that ensures you are better prepared for the future. Furthermore, advice extends beyond measurable financial gains, to improved physical health, stronger relationships and personal happiness.

Now is a good time to seek financial advice. Contact AMA Financial Services on 1300 763 766, email finservama@amawa.com.au, or head to our website at www.amafinancialservices.com.au

That's the true value of advice.



Your mortgage or your super?

Despite surging prices, the ever-buoyant housing market shows the great Australian dream of owning our own home is as strong as ever. For most of us, it will be the largest asset we'll own and the foundation of our retirement nest-egg.

The current low interest rate environment also means there's never been a better opportunity to get ahead on our mortgage repayments – and that's exactly what we've done. According to the Reserve Bank of Australia Financial Stability Review released earlier this year, Australians are, on average, 2.5 years ahead on their home loan repayments.

However, with such low interest rates and a healthy buffer built up to protect against economic shocks, are extra mortgage repayments the best place to put your money?

We take a look at the case for making extra mortgage repayments versus salary sacrificing into super.

The case for extra mortgage repayments

- A paid-off mortgage allows you to better weather any economic storms – such as losing your job – and in case of an emergency, the wealth in your home may be more accessible than super.
- Mortgage repayments often have home loan offset accounts and redraw facilities which let you access your repayments. Super, on the other hand, is generally locked away until preservation age.
- Increasing your payments increases your equity in an appreciable asset. The equity in your home can also provide access to a line of credit which can be used for such things as renovations.
- Savings made by paying off a mortgage are locked in. The returns on super aren't.
- Super legislation is never set in stone, and the rules around super in five or ten years could be very different.



The case for superannuation



- The generous tax concessions for super mean you pay just 15 per cent tax on concessional contributions up to \$30,000 annually if you're under age 49, or \$35,000 for those 49 or over.¹
- For those earning between \$37,001 to \$80,000 the following table shows the benefits of salary sacrificing into super:

	Regular salary	Salary sacrificed into super
Gross contribution	\$1,000	\$1,000
Tax rate %*	34.5	15
Tax payable	\$345	\$150
Net benefit	\$655	\$850

*Including Medicare levy

That is, people are \$195 better off for every \$1,000 they choose to salary sacrifice. What's more, money invested in super funds over the last five years has returned, on average, eight per cent² – against mortgage interest rates of closer to five per cent.

- For those on the highest marginal tax rate of 49 per cent, contributions to super are even more advantageous (for those earning less however, the advantage diminishes and if you are under the tax-free threshold the advantage even reverses).
- The older you are, the closer you are to accessing your super so it won't feel so much that your money is 'locked away'.
- If you wait until you have paid off the mortgage before making extra concessional contributions you may find you are restricted by concessional contribution cap limits.
- Super lets you diversify your investments out of one sector – the property market.

There are many reasons, both financial and emotional, for investing your extra money into your mortgage or superannuation. To find out more, a good place to start is your AMA financial adviser.

¹ Figures in this article are based on the rules current at the time of the 2016 Federal election. They do not include any of the changes proposed in the 2016 Federal Budget.

² SuperRatings: Super Funds – median returns for balanced investment option (latest returns to 31 May 2016)
Past performance is not a reliable indication of future performance.



You're worth protecting

While most of us would never drive a car without insurance, many of us fail to insure our most important asset – our ability to earn an income.

35 per cent
of Australians
have no disability
insurance at all.

Those in the **45-64**
age group are the
most underinsured.

Employed members
of Australian families
are underinsured
by **\$304 billion**
against disability.

Source: KPMG – Underinsurance: Disability Protection Gap in Australia – 2014

There are many reasons for not having the right insurance, including a lack of understanding of the different types of cover, thinking it's too expensive or the age-old 'it won't happen to me' mentality. If this sounds like you, it's worth taking a few minutes to consider your insurance. The peace of mind is priceless.

What cover is right?

With different types of cover, definitions and terms, insurance may seem complicated. To help make things clearer, here are the main types you may typically need:

Type	What is it?
Income protection	This provides a regular income if you're temporarily injured or unwell and cannot work. Income protection is available inside or outside super and this may affect the terms of your policy.
Death cover	This pays a benefit to the beneficiaries when the life insured dies.
Total and permanent disablement (TPD) cover	This covers a person who, because of sickness or injury, is unlikely to ever work again. Depending on your policy, this may be paid depending on whether you can work in your own occupation, or any occupation.
Trauma insurance	Trauma, or critical illness, insurance helps with expenses associated with the diagnosis of a critical illness, such as cancer.

How much do you really need?

A new job and salary increase, marriage, children, a new mortgage or divorce – these are all occasions that might drive a change in your financial position. And whenever there's a change in your finances, it's a good idea to consider your type and level of insurance cover. Is it keeping pace with your lifestyle and personal circumstances?


To help you find out how much you really need, we've put together a handy insurance calculator. Simply log onto your account at www.mapsuper.com.au and go to the insurance tab.



The thought of understanding insurance shouldn't stop you in your tracks and you're always better off knowing more. Speak to your AMA financial adviser to get the advice you need, and prepare for the unforeseen.

talkingsuper – bringing you super insights

At MAP Super, we believe those who stay engaged with their super have a better chance of making their retirement dreams a reality.



Get online for your chance to win a \$10,000 travel voucher!

With great new features and intuitive design, we make staying in control of your super easier than ever. Log in at least twice before 30 November 2016 and you'll be in the running for the holiday of a lifetime. [Get started now](#)



Hawaii. Fiji. Santorini... Super!


2016 Federal Budget – changes ahead

On 3 May, Treasurer Scott Morrison delivered his first Federal Budget. We've cut out the boring bits to bring you all the information that's most important to you and your family. [Find out here.](#)



Uncovering the mystery of tax in super

The rules regarding super and tax are complex and, for many, the tax paid when putting money into super, its earnings while invested, and when benefits are finally paid can be a mystery. We take a look at how super is taxed. [Read more.](#)



Choosing wine like an expert

The best label? The easiest to pronounce? They're both ways you've probably chosen wine, however there's much more to selecting the right drop with your dinner. We ask an expert for some top tips to stand you in good stead next time you're choosing wine.

That's why we're pleased to bring you 'talkingsuper' – a quarterly e-newsletter with interesting and helpful articles to help you build your super and understand the current super environment. talkingsuper includes links to fund performance, market commentary and even the opportunity to ask us questions directly about your super.

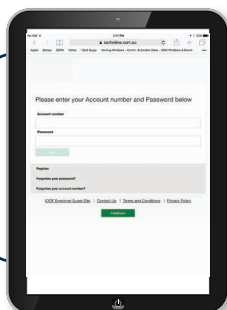
We even include the occasional lifestyle article to get you thinking more about your retirement dreams!

talkingsuper can be found at
www.mapsuper.com.au/talkingsuper

**Hawaii. Fiji.
Santorini...
Super!**



Take control of your super and you're in the running for a **\$10,000 travel voucher**.



To be in with a chance to **WIN a \$10,000 travel voucher**, simply log in to your account at **www.mapsuper.com.au** at least twice before 30 November 2016.

Promoter: IOOF HOLDINGS LTD ABN 49 100 103 722, Level 6, 161 Collins St, Melbourne, VIC 3000, Australia. The draw for the prize will take place on 05.12.2016 at 12:00 PM AEDT at Plexus, Level 2, 35 Little Bourke St, Melbourne VIC 3000 by computerised draw system or selection. The winner will be notified in writing within two business (2) days of the draw by telephone to the phone number provided by the winner; and in writing via mail to the address provided by the winner.

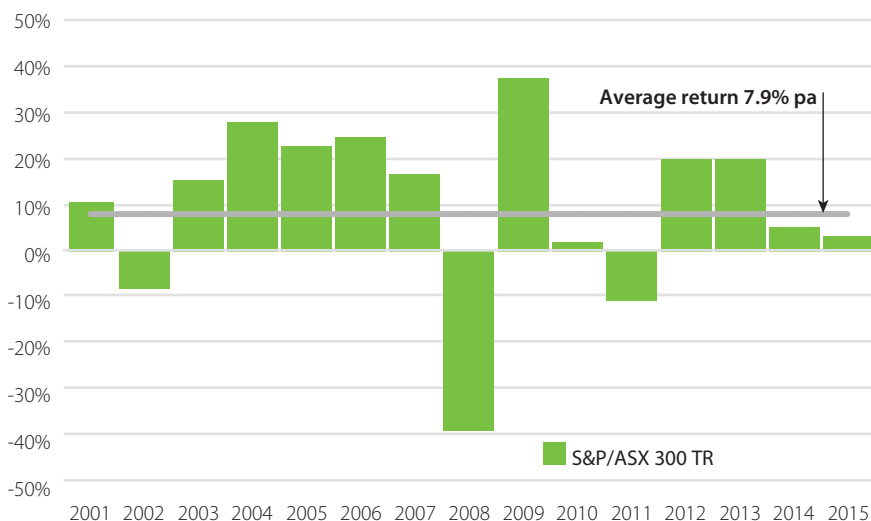
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Investing in volatile times

Shares have, over time, outperformed other asset classes. The best returns however come with risk, and when the ride gets a little bumpy you wouldn't be alone in wanting to sell. While emotion-driven selling is understandable, it's also dangerous for your portfolio.

The following graph demonstrates why investors should focus on the big-picture rather than short-term volatility. Investing in 2008 and 2009 was highly volatile and saw large swings between losses and gains, however looking at the 15 years to 31 December 2015, the average return was 7.9 per cent.



So what steps can you take to prepare yourself for stock market volatility?



1 Don't try to time the market

If you try to consistently sell high and buy low, you'll more likely achieve the opposite – not to mention eat into your portfolio with transaction costs.

One strategy designed to minimise volatility is dollar cost averaging. This involves making small regular contributions to a portfolio and, in a declining market, lowers the overall average cost of an investment.



2 Diversify your investments

Predicting which asset class – shares, property, fixed interest, cash or alternative investments – will outperform others in any one year can be as difficult as trying to pick the best time to invest.

Diversifying across different asset classes is a risk management strategy designed to ride out volatility in one specific asset class.



3 Stick to your strategy

Having a clear strategy which matches your risk strategy will help you keep sight of your goals and navigate the market cycles. Investors who remain focused on their investment approach and look beyond short-term have a greater chance of achieving their goals.

Investment markets by their own nature are volatile and patience in investing to protect against volatility is essential. That's why investors should always seek professional financial advice and be prepared to invest for the long-term (ie five years or more) to ride out periods of volatility.





Market commentary

The 2016 financial year was characterised by periods of volatility. Overall, domestic shares rose 0.9 per cent, while international shares gained 1.3 per cent. Share markets faced headwinds from a range of factors including a slowing Chinese economy, while other geopolitical issues also contributed to a challenging investment environment. Interest rates around the world remain in very low or negative territory as central banks have adopted monetary policy easing to revive their domestic economies. Despite interest rates being at record lows, both domestic and international fixed income markets outperformed equities in the 2016 financial year. This reinforces our view that a diversified and balanced portfolio will reduce risk and assist investors in achieving their goals even during periods of increased volatility and uncertainty.

Australian shares

The Australian share market is dominated by energy, financial and materials companies – sectors which faced the largest declines over the year. While the market as a whole was expected to deliver lower returns than in recent years, significant falls in commodity prices, including oil, dragged the market down further as Australia's economy rebalances from being materials driven to one based on services. Top performers were utilities and health care as investors sought more defensive names throughout the financial year.

The Australian dollar (AUD) had a choppy performance over the financial year after an initial fall from US\$0.77 on fears of a Chinese economic slowdown, but then staged a rally from January onwards as these fears dissipated. Diminishing expectations of a 2016 US rate hike also supported the AUD but we expect the AUD to trend lower, assisted by divergent US Federal Reserve (FED) and Reserve Bank of Australia monetary policies.

International shares

The international share market performed marginally better than Australian shares despite Government and central bank attempts to spur growth. Emerging markets underperformed developed markets but challenging investment conditions across the globe were reflected in the negative returns of both.

US shares were the stand-out performer this year as the US economy continued to show glimpses of improvement with the Fed raising

interest rates in December 2015, the first time in seven years. European shares recorded a negative performance as the economic outlook remained sluggish and geopolitical fears became more of a concern for investors. The UK's decision to leave the EU created a significant amount of volatility and signalled a period of ongoing uncertainty. Additionally, other nations will likely express interest in holding similar referendums which will add to the downside risk in Europe. Asian markets also recorded a negative performance as commodity prices fell and concerns over China's economy intensified. Risk appetite stabilised somewhat in the second half though as commodity prices rose off 2016 lows as concerns over China's growth eased.

Property

Property performed well and continued to provide stable returns over the financial year. Whilst valuations look stretched and the sector appears expensive, lower interest rates have supported property and will continue to do so in this environment.

Fixed interest

Fixed interest markets performed well as investors shied away from volatile equity markets with Australian bonds returning 7.0 per cent and international bonds returning 9.3 per cent. Cash returned 2.2 per cent over the financial year reflecting the rate cut by the Reserve Bank of Australia in May to a historical low of 1.75 per cent. Further rate cuts are expected and this will likely push Australian bond yields lower.

Source: Bloomberg

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