fluid financial planning

SECURING YOUR FUTURE

Spring 2014

The start of spring has brought with it some familiar themes – the Aussie dollar is still too high, budget uncertainty has dragged on and speculation about higher interest rates continues to hang over the United States.

But there is some optimism. Australia's low interest rates combined with rising house prices have reinvigorated consumer confidence despite an unexpected rise in unemployment. The ANZ-Roy Morgan weekly survey showed confidence rose 0.9 per cent to 113.5 in the week ending August 24, which augurs well for consumer spending in the lead-up to Christmas. These latest figures, combined with strengthening business surveys, suggest a broader upturn in non-mining sectors.

This has helped offset shaky resources stocks. Iron ore tumbled below $US89 a tonne to a fresh two-year low in August amid increased competition and concern for China's economic outlook.

In the US, the Federal Reserve hinted at an inevitable rise in interest rates from current levels of between zero and 0.25 per cent. Some analysts believe this could happen next year after the Fed's stimulus program evaporates, having been reduced by $US10 billion per month since late last year.

Locally, the outlook is less certain. The Reserve Bank of Australia's August meeting minutes revealed concerns about the high dollar "offering less assistance than it might in achieving balanced growth in the economy". The Australian dollar rose to 93.38 US cents after the RBA minutes were released to the market.

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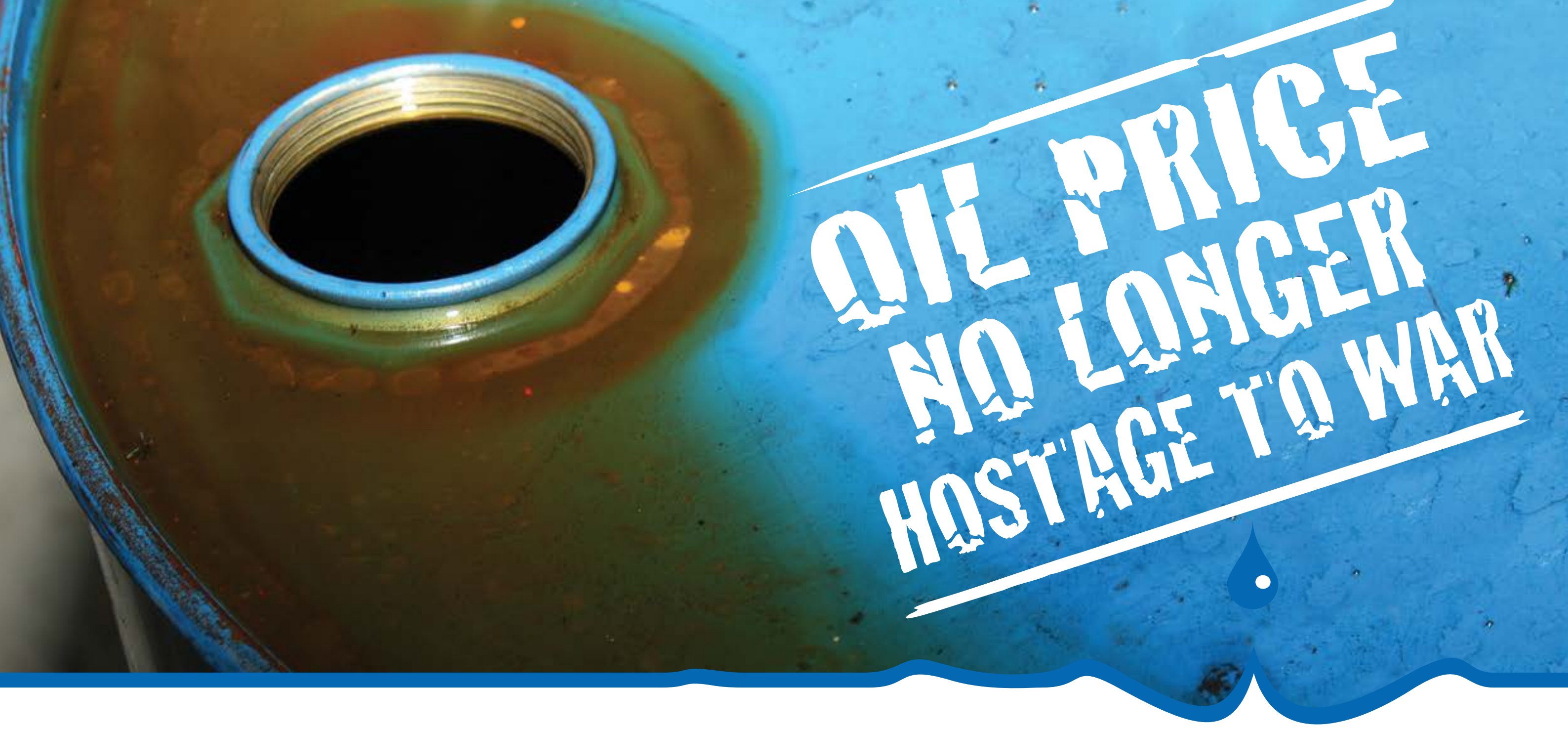
Disclosure: Peter Small is a Representative of Fluid Financial Planning Pty Ltd ABN 85140515680, holder of Australian Financial Services Licence number: 389518, Suite 4a, Level 1, 5 Ridge Street, North Sydney NSW 2060 General Advice Warning: This advice may not be suitable to you because it contains general advice that has not been tailored to your personal circumstances. Please seek personal financial advice prior to acting on this information. Investment Performance: Past performance is not a reliable guide to future returns as future returns may differ from and be more or less volatile than past returns.



OIL PRICE NO LONGER HOSTAGE TO WAR

If ever there was proof that nothing stays the same, it is the current state of the global oil market. While armed conflicts rage in oil-producing regions of the Middle East and Ukraine, it seems someone forgot to tell the people who set oil prices.

Wars in the Gulf States have traditionally led to oil price spikes due to fears about possible fuel shortages and, inevitably, higher petrol pump costs have followed. The decade-long Gulf War between Iraq and Iran and later the invasion of Kuwait were two key episodes that sparked oil price shocks from the 70s through to the 90s.

But zoom ahead to 2014, a year in which the two former Cold War superpowers – Russia and the United States – have been sabre-rattling in regional conflicts in oil-rich nations, and energy pricing is in retreat.

Crude prices fall

Crude has been at record lows during the fighting in Libya, the Ukraine and Iraq, all of which make significant contributions to world energy supplies.

Even the Organisation of Petroleum Exporting Countries (OPEC) which sets benchmark prices is sanguine, declaring after its latest meeting that: “Everything is in good order. Supply is good. Demand is good. The price is good”.[i]

There are a number of reasons why some traditional factors do not influence oil pricing as strongly today. OPEC nations are no longer the only ones capable of exporting massive amounts of oil. Today, economies can buy oil from a number of new entrants in Africa, the Americas and Asia.

In the past decade, for instance, Australia has reduced its reliance on Middle East crude to 37 per cent, with the remaining imports shipping in from The Congo, Gabon, Nigeria, Russia, New Zealand and half a dozen South-East Asian countries.[ii] Market competition is a great price and risk leveller.

US pumping gas

Just a few years ago, the US was dependent on imported crude. But the rapid development of its shale oil industry is pumping fuel furiously, displacing imports and forcing down prices in the US market.

A lift in Saudi output and the International Energy Agency’s recent downward revision of global oil demand forecasts for 2014-2015 has also taken the heat off crude’s wholesale price.

It spells good news for motorists, too, because discounting upstream does affect petrol pump prices. Australian petrol prices follow the TAPIS crude price out of Singapore which has been falling along with global oil prices.

Less reliant on oil

Increasingly, alternative energy sources to oil are also being tapped. The aggressive development of liquid natural gas fields and methane production from seams in subterranean coal deposits have chipped away at the over-reliance on oil for energy.

Australia has one of the world’s densest concentrations of such deposits. Spurred on by investment dollars from the world’s largest energy companies, this decade’s massive rollout of new LNG facilities on and off the nation’s coasts has positioned our nation as a major supplier of fuel.

As global energy supply and demand diversifies, possibilities are created for investors. Whether it is a direct investment in oil and gas stocks or buying into other financial products that track the energy sector’s ebbs and flows, opportunities to benefit are available.

If you would like to discuss your investment portfolio in the light of issues raised in this article, please do not hesitate to call.

i OPEC Bulletin Commentary, “Reasons to be cheerful”, June 2014. http://www.opec.org/opec_web/en/press_room/2878.htm

ii Crude Oil Peak. June 24, 2013. http://crudeoilpeak.info/australian-oil-and-fuel-dependency-on-the-middle-east-is-37

FUTURE PROOF *your* FAMILY

Life has a habit of throwing us curve balls. Every day in Australia 18 families lose a working parent and a chunk of their future income. That's a strong argument for protecting your loved ones with adequate life insurance.

And it's not just the main breadwinner's life that needs insuring. If a homemaker dies, it is estimated that the family income will drop by half. Even if the homemaker is not working, the spouse will have to fund extra childcare and or/housekeeping help or perhaps work fewer hours, all of which would squeeze the household budget.

How much cover?

The simplest way to work out how much cover you need is to subtract your current financial resources from your future expenses. And when you do so, remember that your debts don't die with you.

It's not just your mortgage you need to take into account but also your credit card and any personal loans as well as your day-to-day living expenses. Actuaries Rice Warner believe you need 15 years' income to be fully covered.[i]

Yet Rice Warner found that the median level of life insurance cover across the working age population only accounts for 64 per cent of basic life insurance needs and only 42 per cent of the amount needed to fully maintain the standard of living of remaining family members.[i]

Insurance within super

For most working Australians, a basic level of life insurance is available automatically through your super account. This can be useful if cash flow is an issue, as the money will come out of your superannuation contributions or balance.

However, life insurance within super is often not enough to meet your needs. The industry average for benefits payable from super is about $70,000, nowhere near the amount needed to provide ongoing support and security for your family.[ii] And if a payout is made to a non-financial dependent, they will pay capital gains tax on amounts over $50,000.

The solution could be to top up your cover in a retail product outside super. The major difference between the two products is the underwriting process.

When you apply for a retail policy your risk is assessed via underwriting. By comparison, most policies within super are not underwritten and cover is automatically granted without any individual risk assessment.

While at first glance automatic acceptance may seem attractive, it does make sense to have an underwritten policy where the insurer assesses your risk through a medical examination or questionnaire as the cover will be tailored to your individual needs. Interestingly, industry statistics show that 93 per cent of people who go through the underwriting process will be accepted at standard premium rates.[iii]

The younger, the better

If you think you are too young to worry about life insurance, think again. The younger you are, the cheaper it will be. That's because you will be deemed low risk and once the policy is in place the insurer can't cancel it.

Next, you need to decide on stepped or level premiums. While stepped premiums start off cheaper, over time level premiums are more cost effective. If you are young and expect to hold the policy for a long time, level premiums are worth considering.

It is estimated that a 35-year-old non-smoking male seeking $500,000 cover will pay $30 a month in premiums while a female with the same profile would pay only $25 a month.[iii]

It's always wise to know exactly what your policy includes. Some policies will pay out before death if you are diagnosed with a terminal illness. Others may cover suicide although they generally have a 13-month exclusion from the date the cover starts.[iv]

Making sure you have the right cover for your needs is vital. If you would like to discuss your options please contact us.

i http://ricewarner.com/newsroom/2013/december/02

ii https://www.amp.com.au/wps/portal/au

iii http://www.lifewise.org.au/insurance-101/how-does-life-insurance-work

iv http://www.lifeinsurancefinder.com.au/post/insurance-types/life-cover-death-benefit/suicide-is-it-covered-by-life-insurance/

TRAVEL TIPS TO STRETCH YOUR DOLLAR FURTHER

It takes more than a dip in the dollar to get between a determined Australian and an overseas holiday. With a little bit of planning, savvy travellers can overcome an expected fall in the Aussie dollar by traveling smarter, not less.

Our dollar has been trading around the 93 US cents mark for much of 2014 after hitting a high of US$1.10 in July 2011. However, most economists expect the Aussie dollar to settle closer to 80 US cents sometime next year.

If the Aussie dollar is knocked off its perch, there are a number of strategies you can put in place before heading offshore that will ease the pain on your hip pocket. You could begin by investigating travel destinations where your purchasing power is increased.

Japan

The land of the cherry blossom tops the list of best value for money for Australian holidaymakers in 2014, according to travel booking site Expedia. But these days, visitors are more likely to be heading north in search of snow not cherry blossoms.

Australian skiers have taken to Japan's powdery snow in their droves. If temples, sushi and quirky fashion are more your style, Japan has a rich cultural heritage that is hard to beat.

Indonesia

Next on Expedia's value list is Indonesia. Australians have adopted Bali as their own, but why not take a side-trip to Java's ancient Buddhist temple of Borobudur next time you visit? Or do some island-hopping to Lombok, Flores or Komodo, home of the eponymous dragon? You can learn to dive, explore the forests or just sit by the pool.

Greece

Lonely Planet knows a thing or two about budget travel, and top of its list for 2014 is Greece. Visitor numbers have fallen in the wake of the financial crisis which turned Greece into the economic basket case of Europe. But the ancient Acropolis and the lazy charm of the Greek Islands are timeless, and all the more enjoyable while prices are low in an attempt to lure back the tourist dollar.

Portugal

Portugal has always been a hit with the budget-conscious but it tends to be overshadowed by its brilliant, noisy neighbour Spain. The once-great seafaring nation offers quaint seaside villages, great food and wine, ancient architecture and the surf's not bad either.

Argentina

They lost to Germany in this year's world cup and now they are in the thick of a currency crisis after defaulting on part of their foreign debt for the second time in 12 years. The proud Argentinians may be down on their luck, but they sure know how to live. In Buenos Aires, the 'Paris of South America', hotel prices have fallen. So tango, shop and eat your fill of grilled meat at recessionary prices.

Plan ahead

Once you choose your destination, think about booking and paying for at least part of your trip up-front to lock in the favourable exchange rate.

And if you are worried that the dollar may fall before you depart, you could start making progressive cash transfers to a pre-paid travel card. Most major banks, airlines and foreign currency specialist offer travel cards that can be loaded with up to 10 currencies.

By shifting cash in stages, you are effectively taking advantage of the investment practice known as dollar cost averaging. Not only do you stand to get more foreign currency for your dollars while they are high, and limit purchases when the dollar is low, you also get to sleep at night without the anxiety of trying to time volatile currency markets.