newsletter

Boston One Wealth Managers

IN THIS EDITION

Time is on your side

Remember the old adage 'time heals all wounds'? We don't always think of it in relation to investing but by taking a long-term approach we allow our investments to recover from the downswings that are a natural part of any investment cycle, and reap the rewards of the inevitable upswings.

More importantly time allows compounding returns to work their full magic. In fact, the power of compounding becomes profound over time, and it's quite startling to discover how much of a difference a long-term approach can make.

Let's imagine for example that you're back in your twenties. We'll say that at the age of 21 you decide to invest $5,000 adding an extra $1,000 each year until you turn 30. From here you stop investing altogether. We'll also assume that as the years go by your money earns an average return of 8% pa (after fees and taxes) which is always reinvested. To keep things simple, we'll assume inflation is zero, so your real return remains at 8%.

By the time you celebrate your 65th birthday, your investment would have grown to a massive $332,413. And remember, you only invested $14,000 back in your youth.

It's an amazing result. But to see just how extraordinary compounding can be, let's look at a very different scenario. We'll say you wait until age 31 to invest $5,000, adding $1,000 a year to your investment until age 65. So over time, you personally contribute $39,000 to your savings pool. If we follow the same assumptions that your money earns 8% annually and inflation remains at zero, under this second scenario your investment would be worth $227,077 when you reach 65.

The dramatic difference is solely due to the effects of compounding. Remarkable isn't it? No wonder Albert Einstein called compounding the most powerful force in the universe. Forget market timing, few get it right. Time doesn't just make your money work harder, it means you don't have to work at picking the right moment to invest.

Plenty of people study investment markets, looking for that elusive signal that says 'buy now' or 'sell now'. Few everyday investors get it right. Rather than worry about market timing, aim for time in the market. It's a lot less hard work, and a much more successful strategy.

Boston One
Wealth Managers

How long can the bank of Mum and Dad stay open?

The Global Financial Crisis (GFC) has put family balance sheets under intense strain. The Baby Boomers have seen their asset values decline and many are being forced to delay retirement by up to five years.

Generation X is buckling under the pressure of doing the balancing act of managing families, friends, work and finances. For the first time Generation Y's are facing the fear of losing their jobs, dealing with high credit card debit and looking at the prospect of moving back in with their Baby Boomer parents.

Even though it appears we are over the worst of the economic crisis, investors are still feeling the strain on the family finances. This sentiment has been validated in a recent research report conducted by St George Bank. The Bank of Mum & Dad research reveals that Baby Boomers and their Generation Y children are under financial pressure and need help. According to the research results:

- Over 70% of Baby Boomers said the GFC has caused the value of their assets to erode
- 75% of Baby Boomers are paying more attention to their personal finances compared to a year ago
- For Baby Boomers with Generation Y adult children, nearly half are no longer willing or able to provide the same financial support and feel guilty when their adult children ask for help or support
- 80% of parents of adult children wish their children planned for their future better. They want their children to spend less on non-essential items, save more, be more financially independent and not to expect as much financial help
- Key issues for Generation Y are that they don't know how to budget or save. 24% have never had to budget and save and just 36% rated themselves as experienced at budgeting and saving

How to manage a budget – more money and less debt

For many families the answer lies in developing and maintaining a budget. Drawing up a budget will enable you to:

- Establish a bottom line budget to determine your income, expenses and investments
- Reduce your spending and increase your savings
- Pay off debts quicker
- Work out the goals you want to achieve
- Knowing your bottom line helps you make better financial decisions

It boils down to good financial planning. Sitting down together and working out the goals and needs of everyone and devising a plan that will ensure everyone meets their goals.

The aim of any good financial plan is to make both generations financially secure. For parents it means ensuring their finances are in order – debt paid, wills and estate planning in place. For young adults it often means both generations working together to instill good financial habits – like debt management, saving and investing.

THE RULE OF 72

This simple financial planning rule helps to quickly estimate the time that it will take to double an investment. To apply this rule, you divide 72 by the return you expect to earn each year or other period of time. This will provide you with the number of years that it will take to double your investment. For example, if your expected return was 9% per annum, it should take 8 years (72 / 9) to double your initial investment.

Pasta Salad with Haloumi & Lemon

- 5 tbs olive oil
- 2 tbs white wine vinegar
- 1 tsp finely grated lemon rind
- 1 x 250g punnet cherry tomatoes, halved
- 55g (1/3 cup) pitted black olives
- 1 zucchini, ends trimmed, coarsely grated
- 1/2 cup firmly packed torn fresh basil leaves
- 2 tbs chopped fresh continental parsley
- 250g dried spaghetti pasta
- 2 tsp olive oil, extra
- 1 x 250g pkt haloumi, cut crossways into 8 slices

Whisk the oil, vinegar and lemon rind in a bowl. Season with salt and pepper.

Combine the tomato, olives, zucchini, basil and parsley in a bowl. Cook pasta in a large saucepan of lightly salted boiling water following packet directions or until al dente. Drain and return to the pan.

Meanwhile, heat extra oil in a large non-stick frying pan over medium-high heat. Cook haloumi for 2 minutes each side or until golden and heated through.

Add oil mixture and tomato mixture to pasta. Toss until well combined. Divide among serving bowls. Top with haloumi.

Photography by Steve Brown

Make your refund work for you!

Even when we expect our tax returns to bring a refund, we all dread preparing for tax time. The arcane forms, instructions few can decipher and our increasingly complex financial situations make each year's return seem more painstaking than the last.

But wait! If you don't have a plan for the money when that refund cheque comes, it could be all too easy to spend it. Instead of succumbing to impulse, consider these options for letting the savings you accumulated last year bring you greater financial security and peace of mind in the years to come.

Pay off debt—If you have high-interest credit card debt, putting your tax refund cheque towards paying it off will likely give you greater returns than any other option. That's because when the balance you owe to credit card companies goes down, the interest you have to pay on that debt also goes down. Depending on your interest rate, you'll be saving interest on any portion of your balance that you manage to wipe out.

Fund your emergency savings—If you're fortunate enough to not have any credit card or other high-interest debt, put yourself in a stronger position to stay that way by putting your refund cheque into your emergency savings account. This special savings account will allow you to cover any expenses in case of an emergency, such as being laid off from work or faced with unexpected expenses.

Save for retirement or create an investment—To strengthen your financial position even further, consider putting your tax refund cheque into your nominated superannuation fund or create some investments.

Invest in Real Estate—If you don't yet own your own home but would like to some day, now is the time to start working toward that goal. If you're already a mortgage holder, paying off your mortgage principal early can help you save money in interest.

Get healthy - and save!

In Australia, we're lucky enough to have one of the best lifestyles in the world. Plenty of sunshine, beautiful parks and beaches, and an abundance of good and healthy food. There's no reason for Australians to be out of shape.

Unfortunately, despite our blessings, and a pretty good awareness of health and wellbeing, the general state of the Australian population does not seem to be improving.

For a number of years, the most common killers in Australia have been heart disease and cancer. Believe it or not, they're actually becoming more common.

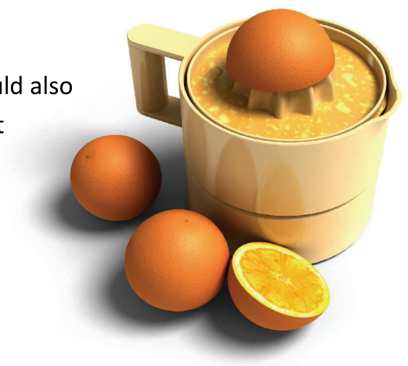
- Cardiovascular disease affects 1 in every 6 Australians, or 67% of Australian families. By 2051, that's expected to increase to 1 in 4 Australians[1].
- Diabetes is Australia's fastest-growing chronic disease, with 275 Australians developing the disease every day[2]. While some of this can be attributable to our ageing population, it's also largely due to the fact that many Australians live with a combination of poor diet and a lack of physical activity. According to the heart foundation, around 80% of cardiovascular disease is largely preventable[3]. Likewise, Diabetes Australia estimates that up to 60% of cases of type 2 diabetes can be prevented[4].

Lifestyle changes could save your life... and your wallet When a life insurance company calculates your premiums, they take into account a number of risk factors – some of these include your age, gender, blood pressure, smoking status, your Body Mass Index (BMI), cholesterol and blood glucose levels.

If you fall into a high-risk category for some of these risk factors, it can be reflected in how much you pay for your insurance each year. These additional costs are called 'loadings'.

By making changes to improve your lifestyle, you could reduce your high risk factors for serious illness. You can also ask your life insurance company to re-assess your insurance premiums – potentially reducing or removing your loadings.

Not only are you giving yourself a better quality of life now and in the future, you could also be saving yourself money. More importantly, you'll be starting some good habits that could stay with you for a long and happy lifetime.



1. 'The shifting burden of cardiovascular disease' – Report by Access Economics to the Australian Heart Foundation, 2005
2. 'Diabetes in Australia' – Diabetes Australia website, www.diabetesaustralia.com.au
3. Media release – the Heart Foundation, 18 March 2009
4. 'Diabetes in Australia' – Diabetes Australia website, www.diabetesaustralia.com.au

Contact Details

Level 2, 10 Short Street, SOUTHPORT QLD 4215

PO Box 2202, SOUTHPORT QLD 4215

Phone 07 5537 6711

Email admin@bostononewealthmanagers.com

Boston One Wealth Managers