smart TALK

SPECIAL EDITION - MARCH, 2011

FROM THE DESK OF PHILIP ENGER

Dear Reader,

Many people feel they just can't get ahead financially even though they work hard and live modestly. A routine visit to the supermarket constantly confirms their reason for feeling disconsolate. This is an all too familiar circumstance, and yet in many cases it may not need to be so. We don't have to put up the white flag, as there is much that can be done to improve the situation, however hopeless it may seem.

It's true interest rates went up four times last year, and despite a pause in recent months, economists are forecasting at least two more rises in 2011, the first likely to come some time between April and June. Electricity charges are also on a steep rise averaging some 20 per cent, and is one of the most significant contributors to inflation, which rose 6 per cent in the September quarter, nationally. (Remember inflation eats away the purchasing value of your hard earned dollar so it is a common enemy.) And so it goes on!

On the plus side of the ledger: even though home buyers are hurting, many depositors who rely on rising interest rates to supplement their pension, are grateful for the present trend. Let us also not forget that our unemployment rate is not only low, there are in fact serious skills shortages in the economy which must somehow be addressed to avoid debilitating structural imbalances, that could result in higher inflation and loss of purchasing power.

Mortgage Choice's annual consumer sentiment survey recently found that the biggest concern for 2011 was "other costs of living, such as utility bills, clothing etc", which worried 31 per cent of people, compared with the 12 per cent fretting about interest rates.

It's time to do something differently. It's time to act. With our help and partnership the **The Dollar Growth Advantage** will produce significant results for you. (See attached).

IMPROVE YOUR FINANCIAL OUTLOOK IN 2011 AND BEYOND

To get to where you want to be you need a plan for action and you definitely need to feel good about what you are about to do. Right at the start you need to do three things: assess your current situation (don't get phased by how bad it may look), cheer yourself up by setting out some desirable goals, and then-and only then-work out a budget/financial action plan that you feel you can relate to that will deliver real savings and a better financial future.

Remember, if you only have the budget, you can end up feeling like it's all about cutting back and it will inevitably wear you down. Having some goals gives you a reason to keep going.

ASIC has a budget planner at its consumer website at: http://www.fido.gov.au/fido/fido.nsf/byHeadline/Budget%20planner.

1. Compound Interest

When it comes to savings and investments, time is your friend. Compounding is a powerful investment principle that means the earlier you start to save the more your savings will multiply. Take for example a 30-year-old earning $70,000 a year who has $25,000 in super already.

Making a few assumptions, including an 8 per cent return, the balance for this person at age 65 would be $435,000 in today's dollars, relying on compulsory super contributions alone. If at age 50 it was decided to salary sacrifice 5 per cent as well, the outcome would be $513,000. But if salary sacrificing 5 per cent was begun at age 30 the person could retire with the equivalent of $632,000.

ASIC has a super calculator that estimates your final benefit, http://www.asic.gov.au/fido/fido.nsf/byheadline/Superannuation+calculator.

2. What Goes Down Can Go Up… and Vice Versa

It's easy to be an optimist when investment returns are high or interest rates low. But it doesn't pay to base your decisions on the unrealistic expectation that returns and rates will move only one way.

Stress test your mortgage by seeing if you could afford the repayments if rates were 2 percentage points to 3 percentage points higher. Some lenders do this when assessing application. Use the Infochoice calculator link under Point 4, below.

3. If it Ain't Broke, Don't Fix It

Fixed-rate loans surged in popularity last year as mortgage rates rose. They accounted for 11 per cent of home loans arranged by Mortgage Choice brokers in November, up from less than 1 per cent last January. But do your sums. By the time most people think about locking in, fixed rates are so much higher than variable rates it's not worth the switch.

In any case, the conventional wisdom is that you'll be better off over the life of a loan if you can afford to ride the swings and roundabouts of a variable rate. According to RateCity, the benchmark three-year fixed rate over the past eight years was 7.08 per cent, while the benchmark standard variable rate averaged 6.76 per cent. Of course,

peace of mind is priceless. If you think another rate rise will threaten your ability to make your repayments, fix at least part of your loan.

ASIC has a new mortgage-switching calculator where you can check whether a new loan will save you money, after costs such as fees. Go to: http://www.asic.gov.au/fido/fido.nsf/byheadline/Mortgage+switching+calculator?openDocument.

4. A Dollar Saved is a Dollar Earned

By not spending a dollar you not only have that money in your hand but also the potential to turn it into more.

Take for example, a person who planned to roll over his car lease, in all likelihood to drive away something worth $40,000 or $50,000. It was pointed out that, by lowering his taxable income, the Novated Lease reduced the amount of super his employer paid on his behalf by $2500 a year. He suggested the client use the $20,000 equity he'd built up in his existing car to buy a car outright, regaining his full super contribution while also diverting into super the money he'd have spent on the lease of an expensive vehicle. It is estimated the client could be $150,000 better off in five years' time as his tax-effective super grew.

As a first step, consider diverting part of your pay packet to a high-interest online savings account. Check rates at: http://www.infochoice.com.au/banking/savings-account.aspx.

5. Neither a Borrower Nor a Lender Be

Debt collector Dun & Bradstreet sees it all the time: people going to the wall not for a $500,000 mortgage but over relatively small credit card or mobile phone debt.

"In an environment of rising interest rates, people tend to understand what their mortgage commitment is but it's these smaller things they need to pay attention to." Be mindful when you use your credit card – think about whether that purchase, and the associated debt, is something you really need.

Check your credit report not just for blemishes but for accuracy. You can obtain your credit report online at http://www.dnb.com.au/Credit-Reporting/Order-my-consumer-report/index.aspx. An express report costs $30 but the standard service, which takes up to 10 days, is free.

Pay just an extra $100 a month and you'd clear the debt four years earlier, paying $2600 less interest. Or you could follow a strict personal budgetary practice and clear your card every month, paying no interest at all!

Work out how long it would take to pay off your credit card paying only the minimum at http://www.asic.gov.au/fido/fido.nsf/byheadline/Credit-card-calculator?openDocument. Then nominate a higher payment to see the change.

6. If the Cap Doesn't Fit, You'll Have to Wear It

Beware the dreaded 'capped' plan," says Elise Davidson, spokeswoman for the Australian Communications Consumer Action Network (ACCAN). A survey by the Australian Communication and Media Authority recently found that three out of five people had exceeded their mobile phone cap in the previous 12 months.

"Remember that a cap is a minimum rather than a maximum spend," Davidson says. "Make sure you understand what is and isn't included in your cap and if you use a smartphone, monitor your data usage closely, as excess data charges are notoriously high." To control your spending, consider a prepaid plan – they're much more generous than they used to be, she says.

Comparison service http://www.phonechoice.com.au can filter plans for you. If you suffer "bill shock" in 2011, ACCAN has a tip sheet on how to make a complaint, at http://www.accan.org.au/tip-sheets.php.

7. You Get What You Pay For

Insurance should be part of the picture when your review your finances. But whether it's income protection, life, health or even car and travel insurance, don't select a policy just because it's the cheapest. A cheap price is long forgotten after a bad claims experience. The first thing you should look for are the benefits.

Disability insurance that has an "own occupation" definition is more expensive, for instance, but you'll receive a payout if you can't do your job – a definition that's easier to meet than not being able to do "any" job. A cheap travel policy may seem a bargain until you find that you can't claim for stolen cash or the full value of your camera.

Do you need more insurance this year to cover increasing liabilities or perhaps less because you've paid off the mortgage and the kids have left home? The insurance industry's Lifewise website has a calculator at http://www.lifewise.org.au.

These 7 time-honoured tips will help you start the year in good financial shape.
(Based on an article written by Lesley Parker for the SMH, January 2011.)
You should have a look at some of these on-line calculators, but ultimately it is best for you to come and talk to us about the ramifications of specific strategies you may wish to pursue. Together we can do great things to improve your financial situation.

We at Dollar Growth Financial Planning encourage our clients to work with us to put in place financial arrangements and strategies that will produce best practice outcomes in the short and long term. Highly effective and proven strategies are invoked at crucial times to secure the peace of mind of our clients.

We are in the business of providing 'Advice for Life'.

Philip Enger
Managing Director, Dollar Growth Group

Est. 1989
DGG
Dollar Growth Group

Contact us:

PO Box 328
Kingsgrove 1480
phone (02) 9554 8555
www.dollargrowth.com.au
email clientservice@dollargrowth.com.au
Advice For Life