Helping you make the right financial decisions for both now & the future
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Spring 2016

Spring is here, time to put your winter woollies away for another year and get into our great outdoors.

In Australia, The Reserve Bank of Australia cut the cash rate to a record low of 1.5 per cent in August. While noting that ‘prospects for growth in economic activity are positive’, the RBA board believes ‘there is room for stronger growth’. This view was reinforced by the company profit reporting season just ended. If BHP Billiton’s large loss is excluded, an analysis by CommSec found that profits of the top 200 companies rose a solid 8.5 per cent in the year to June 30, while 92 per cent paid a dividend. After a year of cost-cutting and restructuring, the outlook for the corporate sector in 2017 is improving. With inflation running at an annual rate of 1 per cent, the RBA has room to cut rates further if needed.

At FM Financial, we are busy improving ourselves based on the results of our Client Survey undertaken in May. A brief snapshot of results can be viewed on our website. The link is in your email.
As always, we are here to discuss any queries, concerns or ideas you may have. Just contact us on 1300 763 544 or info@fmfinancial.com.au.

FM Financial

Burnie - Centrepoint Arcade, 59 Wilson St, TAS 7320
East Devonport - 29 Murray St, TAS 7310
Hobart - Level 4, 29 Elizabeth Street HOBART TAS 7000
Melbourne - Suite 2.14, Level 2, 202 Jells Rd, Wheelers Hill, VIC 3150
Launceston - L1/25 York St,TAS 7250 (In partnership with Parker Accounting & Financial Services)

P 1300 763 544
E info@fmfinancial.com.au
W www.fmfinancial.com.au

Facebook fmfinancial
Twitter fmfinancial1

ETHICAL INVESTING:
FROM BACKWATER TO MAINSTREAM

Today's consumers are increasingly demanding to know if their morning coffee is 'fair trade', their crispy-skinned fish is sustainably caught and their home can be run more efficiently on solar power. So it's not surprising that many consumers are also choosing to align their ethics with their money.

Over the last decade, ethical investing has gone from backwater to mainstream. The amount of money invested in ethical funds – sometimes called sustainable or socially responsible investments – rose 62 per cent in the year to December 2015, to $51.5 billion.

The sector has also grown in relative terms, doubling over the past two years to 3.8 per cent of total assets under management. This was the finding of the Responsible Investment Benchmark Report 2016, an annual survey now in its 15th year.[i]

But when it comes to investing your hard-earned cash, the feel good factor is not enough. In order to achieve your long-term financial goals, you need to earn the best possible return on your money.

Many happy returns

The numbers are in and they show that professionally-managed ethical funds have been performing strongly.

Ethical Australian share funds and balanced (or multi-sector) funds have outperformed their benchmark index and comparable mainstream funds over 1, 3, 5 and 10 years. Ethical global share funds have outperformed over 5 and 10 years but not in the short term.

Of course, past returns can't be relied on to predict future performance. But the figures do support the notion that it's possible to invest responsibly without sacrificing returns.

What is an ethical investment?

The definition of ethical comes down to your personal values and can be as broad or narrow as you want it to be. You may want to support the development of renewable energy while others might want to limit the spread of poker machines. Or you may want mainstream fund managers to encourage high standards of corporate governance from the companies they invest in.

Here is a summary of investment styles on offer:

- **ESG integration** – includes environmental, social and governance (ESG) factors into financial analysis and investment decision-making by fund managers. This is done in the belief that these factors drive returns and reduce risk.
- **Impact investing** – targets investments aimed at social or environmental issues while creating positive returns for investors.
- **Negative screening** – excludes specific industries, sectors, companies, practices or countries that don't align with ethical goals. Common exclusions are gaming, alcohol, tobacco, weapons and animal testing.
- **Positive screening** – selects investments with positive ESG or sustainability performance relative to industry peers. Sometimes called best-in-class screening.
- **Sustainability** – targets investments in areas such as clean energy, green technology sustainable agriculture and forestry, green property or water technology.[ii]

Investing for the long term

It's not just consumers who are driving ethical investing. Increasingly, professional investment managers are incorporating factors such as ESG practices into their mainstream investment products. And they are doing so for hard-headed financial reasons.

A recent US study found that 90 per cent of professional investors believe there is a link between corporate sustainability and long-term financial performance.[iii] According to managed fund ratings group Morningstar, a good ESG rating can be an indicator that a company is thinking seriously about the long term. This makes them a good fit for long-term investors and superannuation funds.

Nine out of 10 of Australia's largest asset managers have taken broad ethical principles on board.

How can I invest ethically?

The simplest way to put your money where your values lie is to select an ethical managed fund or investment option either inside or outside super. This will provide a diversified portfolio of investments even if you have only a relatively small sum to invest.

Ethical investing has come a long way from a standing start back in the 1990s. If you would like to include an ethical component in your investment portfolio, give us a call.

i http://responsibleinvestment.org/resources/benchmark-report/
ii Responsible Investment Association of Australia
iii www.morningstar.com.au/specialreports/funds/topicweek/the-values-of-sustainable-investing/7849?q=printme

How much life insurance is enough?

Australians enjoy access to a strong safety net, with universal healthcare and the new Disability Support Scheme. But will this be enough to protect your family's standard of living if you or your partner die or become too ill to work? The answer is almost certainly no.

Life insurance is designed to bridge the financial gap in difficult times. Yet even those of us who do have life insurance often don't have enough.

Not so super

First, the good news though. If you're a member of a super fund you probably have life insurance, total and permanent disability (TPD) insurance and possibly income protection insurance. Trauma cover can only be purchased outside super.

Super funds are able to negotiate group rates so insurance premiums are often lower. Premiums are deducted from your super account balance, not your bank account, which also helps when your budget is tight.

The not so good news is that the payout in the event of a successful claim is typically limited. According to a recent report by Rice Warner,[i] the typical default cover offered inside super meets only about 30 per cent of the basic life insurance needs of a family with children.

As a general rule of thumb, Rice Warner estimates that a couple with children needs life insurance cover of 10-15 times the higher earning partner's annual income to ensure the family can maintain its standard of living if the main breadwinner passes away.

Given the average full-time job in Australia pays $78,000, that translates to a payout of $780,000 – $1,170,000. Yet the payout from life insurance held inside super is generally closer to $100,000 - $200,000.[ii]

So how much cover do I need?

Of course, individual circumstances vary. A twenty year old without dependents requires a lower level of cover than a middle-aged parent with a $400,000 mortgage.

We can assist you to work out how much life insurance you and your family may need. Essentially, it comes down to subtracting your debts from your assets then determining how much money will be required to cover the ongoing outgoings. Think home loan payments, school fees, groceries, utilities, vehicle expenses and so on.

For example, if it's going to take a decade for your children to be self-sufficient and your current annual household outgoings amount to $80,000, you should aim for at least $800,000 of cover.

His and hers policies

If it's unusual in Australia for the main income earner in a family to have adequate life insurance, it's downright rare for the parent working part-time or not at all to have it. That person typically provides unpaid labour in the form of childcare, cleaning, shopping and meal preparation.

If the low or no-earning partner is no longer around or incapacitated in some way, their partner will most likely either have to take on those added responsibilities or pay someone to do so. So it's worth making sure both parents have adequate cover.

Purchasing peace of mind

It's human nature not to want to dwell on worst-case scenarios. Nonetheless, it's unfortunately all too common for people in the prime of their lives to pass away or suffer an illness or injury that prevents them from earning an income.

There's nothing you can do to guarantee that won't happen to you or your partner. But there is something you can do to make sure you or your loved ones won't experience financial distress if misfortune strikes.

So start by investigating how much and what type of life insurance your super fund currently provides. If you find that it falls short of your needs, you might consider topping it up by purchasing additional cover outside super.

If you would like some help working out how much insurance you and your family need, and what type of policies best suit your circumstances, give us a call.

i Addressing superanuation underinsurance', 28 April 2016, Rice Warner, www.ricewarner.com/addressing-superannuation-underinsurance/

ii 'Life insurance – inside and outside of superannuation', Canstar, 17 February 2015, www.canstar.com.au/superannuation/life-insurance/

BUDGET YOUR WAY INTO THE BLACK

$2.2 trillion. That's how much Australian households owe right now, according to the latest ABS stats.[i] Household liabilities grew by $1.2 billion in the last quarter alone. Real household debt per person has risen steadily by around 2 per cent per year, and now sits at around $79,000 per person.[ii]

Sound scary? The good news is, there are ways you and your family can buck this trend and ensure your finances stay out of the red and in the black. The key is good old fashioned budgeting.

Why a budget is important

Budgeting is simply the most straightforward, proactive way to ensure you will always have enough money for the things you need whilst allowing you to put a little aside for the things at the top of your wish list. That's the practical side of it. A budget can also help you reduce financial stress, improve your family relationships, redefine your personal values, and provide a good example for your kids or grandkids.

How to set up a budget

The first step is to do an audit of what you're spending. You may also need to do a round-up of what you're earning, if you have several income streams. Start by gathering as much evidence as possible; utility bills, receipts, bank statements etc. Make a tally of your outgoings. Be as accurate as you can; where you don't have a record to substantiate a line item, try not to underestimate it.

Then, compare your income to your outgoings. If you spend more than you earn, you've got work to do. If you've got a surplus, that's a great start, but there's always room for improvement.

The second step is setting goals. Choosing well defined goals – beyond just 'save more' or 'get rich' – is important for your long-term budgeting success. Try setting at least a few short, mid and long term goals. For example, in the short term, you might aim to reduce your spend on clothing by $100 a month. In the long term, you could aim to build up an emergency fund equivalent to six months' household income.

Why budgets fail

If all this sounds familiar to you, chances are you've tried and not succeeded at budgeting in the past. That doesn't necessarily mean you're 'bad with numbers' or lacking discipline. There are several common reasons why budgets don't stick. Many failed budgets had no defined goals. Others were too restrictive, allowing no room for spending on things like meals out or entertainment; anyone who's tried to completely cut 'fun' spending knows how unrealistic this is. Many budgets also 'break' after a short time because they fail to account for unexpected emergency expenses, from vet bills to urgent travel.

Once you're aware of why your last budget didn't succeed, you can start to build a better one.

The right technology can help make your budget more accurate, realistic, effective, and easy to stick to. You don't even have to create a spreadsheet from scratch, or use complicated software on your PC. Carry a budgeting solution in your pocket with a handy smartphone app:

Budgeting apps to make it easier

1. **ASIC MoneySmart's TrackMyGoals and TrackMySpend apps – FREE** These government-produced apps draw on tonnes of research to help you implement proven savings and budgeting strategies.
2. **Pocketbook – FREE** Pocketbook syncs with your bank account, automatically sorts your expenses into categories, and receive automatic alerts and warnings to keep you on track.
3. **You Need a Budget – US$5/month or US$50/year** In the case of YNAB, one of the world's most popular budgeting apps, it's a case of spending money to save money. According to their stats, the average user saves US$200 in their first month using the app, and US$3,300 in their first nine months – that's over $4,300 Aussie dollars.

Still need a bit of help creating a budget, getting your expenses under control, or increasing the rate at which you save? We're here to help. Give us a call today to discuss your household budget situation.

i ABS, 5232.0 - Australian National Accounts: Finance and Wealth, Mar 2016

ii ABS, 4102.0 – Australian Social Trends, 2014 (Final): Trends in Household Debt