Your money Your future

FINANCIAL PLANNING NEWSLETTER SUMMER 2007

Introducing the mortgage review service

We are pleased to introduce the free mortgage review service an initiative to support you, our valued client. Through Alliere Financing Solutions we are now offering you a complimentary mortgage advisory service, as part of our ongoing commitment to you.

As a result of interest rate changes, we have identified that many of our clients are paying too much on their current home loans and investment loans. Together with Alliere Financing Solutions, we now have the ability to identify and secure the most appropriate loan for you from a range of lenders – whether you are a first time home buyer or looking at refinancing your current home loan.

We would be pleased to examine your financial situation and objectives to make sure that your loans actually work to support your investment strategies.

Please call (03) 9803 1414 and make today the day that you start planning for all of tomorrow.

Striking superannuation gold

Sometimes, achieving greater gains from your superannuation can be as simple as just doing things a little differently.

One example is the option for working Australians over 55 years of age to purchase a non-commutable allocated pension (NCAP).

The NCAP advantage

It is possible to implement an NCAP strategy without reducing your current take-home income. By simply restructuring your superannuation contributions and purchasing a non-commutable allocated pension, it's possible to boost your retirement savings.

An NCAP advantage emerges because of the lower rates of taxation generally applied to superannuation, compared with the marginal tax rates on income. This advantage is further increased because any investment earnings within an NCAP will be tax-free.

Importantly, NCAPs do not require you to change your current work hours, so they're the perfect retirement strategy for non-retiring types. However, they can also help you progressively transition towards retirement if desired.

For more information on how using an NCAP might help you strike superannuation gold, talk to your financial adviser.

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AXA Financial Planning

It's not too late to start your Christmas budget

With Christmas and the holiday season just around the corner, now may be a good time to think about how to manage your spending over this period. Left unchecked, the financial hangover from the festive season can put real pressure on your budget well into the next calendar year.

One way to reduce this is to develop an annual savings plan and it's not too late to start now. We have outlined some ideas you may want to consider below.

Don't overspend

Set yourself a budget and stick to it. Evaluate your current financial situation and how much money can you afford to spend. Aim to shop with a list to avoid impulse buys and overspending on single items.

Think about establishing a family Kris Kringle (where everyone buys a present for just one other person) or set a limit on the amount spent for presents.

Shop smart

Shop around for the best deal. Price comparison sites such as au.shopping.com and myshopping.com.au allow you to research prices on goods such as cosmetics, electronics and home furnishings before buying online or in person. You can also avoid paying a retailer's premium by buying direct from the manufacturer at sites such as Ebay, d.store and wholesaleshopping.com.au.

If you are purchasing retail, pay cash if possible (some stores offer a discount for cash purchases), or ask if the store provides a lay-by service. Interest-free promotions allow you to spread your spending over a longer period. However, ensure that the purchase is not at the expense of buying an item you don't really need, and that the price is not 'loaded' up with the apparently 'free' interest cost. Check for establishment and monthly fees and pay within the interest-free period to avoid paying interest charges.

To help keep track of spending, use only one credit card and avoid high-interest store cards. Avoid interest rate charges on your cards by paying your account in full by the due date. Otherwise, use a credit card with a low interest rate.

Plan ahead

- Open a dedicated savings account to be better prepared next year – putting aside $10 each week (less than the cost of a coffee each day) will give you over $500 by next Christmas.
- Use post-Christmas clearance sales to snap up some bargains for next year. Be careful not to buy things you don't need, even though they may seem like a bargain at the time!
- Christmas hamper companies such as Chrisco allow you to pay a little each month toward a produce hamper delivered to you in mid-December.

For more information about establishing a detailed budget that takes the stress out of holiday spending, talk to us today.

Interest rates – should I go with fixed or variable?

In any discussion about interest rates, it's worth remembering that the Reserve Bank of Australia (RBA) controls only short-term interest rates, not long-term rates. Therefore while the RBA can move variable interest rates (by altering the cash rate), it is unable to control the rate applicable to fixed-rate mortgages (since these are determined by the actions of professional investors in the bond market). This is an important consideration when thinking about whether to use a fixed or variable rate mortgage.

When the RBA lifts the official cash rate, there is a direct impact on the cost of funds in the short-term money market and these changes are quickly reflected in higher variable mortgage rates. The rates offered on fixed-rate mortgages however, change much more frequently, in line with the prevailing rates in the bond market.

The major issue for the direction of future interest rates is the extent of economic growth and the implications that this may have for future levels of inflation. Currently, the future of interest rates appears to be slightly on the upside. Rising rates may bring about increases in mortgage repayments, causing some financial stress for many Australians.

An easy way to avoid this problem (particularly for those with large mortgages) is to lock in a proportion of the loan on a fixed rate. By locking in part of the mortgage, investors and property owners can limit their exposure to future rate increases. Importantly this would still allow additional repayments on the variable part of the loan. Finally if fixing turns out to be a poor strategy (because interest rates fall instead of rise) this may be offset by an increase in the value of the home. From this viewpoint fixing part of the mortgage is a classic hedge.