Newsletter

Quinn
FINANCIAL PLANNING

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Summer 2012-13

Economic update

Local and overseas equities investors have defrosted their wallets, pouring more than $10 billion into their favourite Aussie stocks over the past few months.

The value of Australian shares moved strongly, up nearly 3 per cent in October, outpacing nearly all major markets.

Looking abroad, Reserve Bank governor Glenn Stevens noted for the first time since August that on balance, international economic news was more positive, driven partly by a stabilisation in Chinese growth.

US growth continued to expand modestly, but on the flipside, European and Japanese economies were still weak.

Australian economic activity has moderated over the past few months, compared to early 2012. The RBA noted September-quarter inflation was higher than expected, which is mostly because of escalating power prices.

And while residential property markets are finally seeing better clearance rates, the number of workers out of a job grew in October.

The Aussie dollar has remained stable, a few cents above the Greenback, and may soon be classified an official reserve currency by the International Monetary Fund because of its strength.

Interest rate cuts throughout the year have seen more money in Australians' pockets and CommSec chief economist Craig James speculates if the Australian dollar firms further, it could signal more interest rate cuts from the RBA into 2013.

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THE CHINESE DRAGON

still feasting on metals

When the Chinese economy began to slow earlier this year, Australian investors had more reason to worry than most. Prices for mineral commodities soon fell and the mining boom was pronounced dead, along with the recovery in resources shares.

But the good news is that the Chinese Dragon is firing up and reports of the death of Australia's mining boom were exaggerated. Recent economic news out of China confirmed that recovery is on the way, led by investment in infrastructure.

Chinese spending on new roads, rail and power plants grew by 20.7 per cent this year, retail sales rose 14.5 per cent in October compared with the previous year and industrial production climbed 9.6 per cent. Plus, inflation continued to ease in October, down to 1.7 per cent, making it easier for the nation to increase spending.

Good news for shares

The importance of these numbers is that China appears to have avoided the hard economic landing some feared. That's great news for our economy.

China is Australia's biggest customer of mineral resources. When demand for resources increases, commodity prices climb, boosting capacity to fund new mining projects. This in turn creates more jobs, more consumption, more tax revenue and helps our economy grow.

China's decade of astonishing growth pushed commodity prices to record levels, but when demand for its products slumped after the financial crisis, even the mighty Dragon was forced to draw breath.

Economic growth in China slid to 7.4 per cent in the September quarter from 9.2 per cent in 2011. While growth of 7.4 per cent outpaces a euro zone in recession, a Japanese economy suffering stagflation or a United States with modest growth of 2 per cent, it represents a large fall in income for resource-rich Australia.

The perceived threat of a Chinese 'hard landing' sent commodity prices tumbling and halted the recovery in mining shares. The Reserve Bank of Australia's Index of Commodity Prices fell 16 per cent in the year to the end of October.

The power of one billion

This month, the Chinese Communist Party announced new leaders. In his first speech, incoming President Xi Jinping vowed to meet his people's aspirations for material wealth, personal happiness and national power.

To understand the significance of the potential economic power of China's one billion consumers, look no further than their love affair with the car.

In 2009, China assumed the crown as the biggest vehicle market on the planet. New car sales hit 18 million last year and experts predict this could double by 2018. That's a lot of raw materials being sucked into the Middle Kingdom every year from just one industry.

China's growth to continue

China's outgoing President, Hu Jintao, announced a target to double economic output by 2020, implying annual growth of 7 per cent. AMP Capital senior economist Shane Oliver says that figure is below recent record levels, but is still strong and China's catch-up potential remains immense. Whichever way you look at it, the Chinese Dragon still has an insatiable hunger. BlackRock Investment Institute recently forecast the country's consumption of copper, aluminium and nickel will double in the next decade and argues that current mines cannot hope to meet demand after 2015.

The challenge to meet demand for coal, gas and iron ore has sparked big plans for new mines, not just in Australia but also in Mongolia, West Africa and even China itself.

While this poses a risk of oversupply and depressed commodity prices in years to come, it is theorised that as under-developed nations modernise their economies, demand will remain constant for generations.

So, while the short-term outlook for commodity prices – and by definition Australia's economic growth – faces some risks from a sluggish global economy, the longer-term view for resources appears bright in what has been labelled the Asian Century.

Will it the way you want

It is easy to joke that you don't care what happens to your assets after you die. But if you care about your loved ones, it can be far less stressful on them if you leave clear directions on how you would like things handled.

Having a valid and up-to-date will is a great start to ensuring those left behind get the assets you would have liked them to have and that dependent children are cared for according to your wishes.

But a will is only part of estate planning, which should form part of any financial plan. Not all assets can be dealt with in a will and a will only takes effect when you die. Dying without a will or one that is invalid means dying intestate. When this happens, after debts are paid from the assets in your estate, the remainder is distributed according to a pre-determined formula.

This may mean certain family members receive more or less than you intended and any accumulated wealth may be at least partially destroyed through unnecessary taxes.

It is estimated that as many as 60 per cent of people die intestate and that of the 40 per cent who do have a will, many aren't even sure where it is or whether it is valid.

Just like a financial plan, a will needs to be reviewed and updated when your life changes, such as with the birth of a child or a divorce. It also needs to be signed and witnessed in a specific manner and kept in a safe place.

More than a will

The best way to make sure all your affairs are in order is to establish an estate plan with the help of a solicitor. This doesn't just involve a will. It also involves taking into account how you would like your personal and financial affairs handled if you lose the capacity to make decisions for yourself, due to age or illness. Appointing a trusted friend or relative under an *enduring power of attorney* gives them legal authority to look after your affairs on your behalf.

There are two main types of *enduring powers of attorney* for estate planning purposes: one to enable financial and legal decisions to be made on your behalf and a second to enable medical and lifestyle decisions to be made on your behalf.

Superannuation and insurance

With compulsory superannuation contributions and their generous tax concessions, it is little wonder superannuation has become one of the most valuable assets outside of the family home. What many families are not aware of however, is that both superannuation and life insurance policies (whether held inside or outside of super) are not covered under a will.[1]

Financial advisers can work closely with their clients to ensure these valuable assets outside a will are accounted for according to each client's overall estate planning requirements.

In the case of superannuation, it may be possible to make a *binding death benefit* nomination, which ensures the trustees have clear instructions as to the intended beneficiaries.

A person's death can be emotional and stressful enough without surprises. The best way of ensuring your assets, insurance and superannuation are preserved according to your wishes is to seek help from a trusted professional.

1 Unless super is paid to the estate or the beneficiary of an insurance policy is the estate.

Case study: Anthony's story

Take Anthony who has three children, two with his first wife and one with his second wife. His will stipulates his new wife to be the beneficiary of his estate. Rather than leave it to chance that she will give something to his older children, he directs the trustees of his superannuation fund to pay the death benefits equally to the two children. Anthony also has a life insurance policy outside of his superannuation and nominates the benefits to be paid to a trust within his estate, identifying his youngest child as the beneficiary when she turns 18.

Dig up your FORGOTTEN *FORTUNE*

In 1930, Harold Bell Lasseter claimed that when three decades earlier he rode on horseback from Queensland to the West Australian goldfields, he stumbled across a huge gold reef.

Over the next 80 years, scores of expeditions set off to the region near the border of the Northern Territory and Western Australia, but no-one ever found a sliver of evidence of the so-called Lasseter's Reef.

That may be about to change with Google Earth technology that Tamworth man Jeff Harris and three mates are now using to cross-match with sketches in Lasseter's original diary.

Like Mr Harris, we are all fascinated by the search for untold wealth. Hordes of us queued up recently to buy Oz Lotto tickets in a draw worth more than $100 million.

Yet Australians are sitting on a gold mine of unclaimed money well beyond the scale of anything Lasseter could have dreamed.

The amount of superannuation alone that is waiting to be claimed is a massive $17.4 billion. There's also $330 million in forgotten or unclaimed bank accounts, $295 million in unclaimed shares and $52 million in unclaimed life insurance policies.

If you have ever moved house or changed jobs, you could be among millions of Australian workers and retirees with lost super. Forgetting to update address details with a fund or switching funds when they change jobs are the most common reasons why Australians misplace their super.

Some workers also fall victim to unscrupulous employers who make late super payments or don't pay at all. If the law catches up with them, the late funds may be paid into accounts that have been closed and then the money is held by the Australian Taxation Office (ATO).

However, there are several mechanisms available to Australian workers to help them retain or regain funds that are rightfully theirs.

From 1 January 2012, super funds have used members' tax file numbers to help consolidate their accounts, whether they are in the same fund or across multiple funds. Once accounts are located, members have the option of rolling their super into a single account.

The ATO operates a free online tool called SuperSeeker, which is a secure, convenient service to help you track your super. It can be found at www.ato.gov.au/superseeker/.

Don't forget that you may also be entitled to some of the $677 million unclaimed in shares, bank accounts and the investment portion of life insurance policies.

Check out www.moneysmart.gov.au, a website operated by the Australian Securities and Investments Commission that will help you discover if you are entitled to misplaced or forgotten investments.

You could be entitled if you have forgotten about an old bank account. Or, in the case of life insurance policies (particularly with Whole of Life Policies taken out in the 1980s and 1990s), you may have overlooked a lump sum amount payable at the time of death or after the policy holder reached a certain age.

Whole of Life policies are no longer available, but Australians who once bought them are sometimes entitled not just to the face value of the policy, but also the cash value made up of dividend earnings. These can be withdrawn at any time.

If only Lasseter had modern day tools like Google Earth back in the early 1900s, he may have been able to locate untold riches as easily as SuperSeeker and Moneysmart can help people recoup unclaimed wealth today.