neo news
Financial Solutions
THE ONE for financial solutions

Third edition 2017

Risk for all shapes and sizes

Risk and investing are intrinsically linked. In fact, risk is defined as the chance you will lose money on an investment – however, crucially it is also the driver for making money.

As all investments come with varying degrees of risk, it is important to recognise your appetite for risk and build a portfolio that suits your risk tolerance.

There are several factors that measure risk tolerance.

Desire to take risk

Some investors enjoy the inherent uncertainty of investing and are inclined to take on high-risk investments. More common however is an aversion to the stress that a large fall in an investment's value can produce.

As a test, ask yourself how you would feel if you woke up and the value of your investment had fallen by 10 per cent? 20 per cent?

Financial capacity to take risk

A couple with a new baby and a mortgage will have a considerably different capacity to take risks than a single person just starting out in the workforce.

Your need to take risk

This is tied to your investment time frame. If you are 30 years old and planning 35 years ahead for retirement, you will probably be happy to accept greater risk, as short-term volatility is smoothed out, to achieve your goals.

On the other hand, if you are nearing retirement, you'll probably not want to risk losing your money as there isn't the luxury of time to recover from losses.

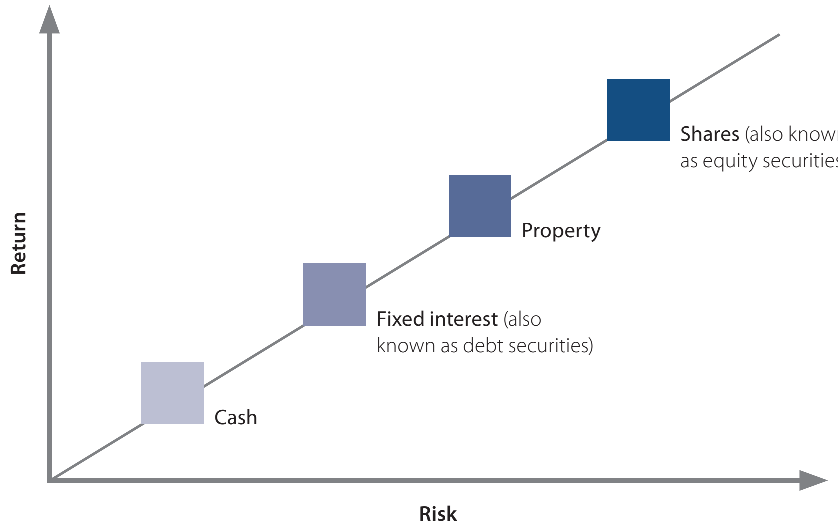
Risk and return comparison

With greater risk, there is the opportunity for greater returns. Different types of investments, or asset classes, have greater risk and the possibility of higher returns – as shown in the graph below.

There are four main asset classes:

- Shares (also known as equities)
- Property
- Fixed interest
- Cash

Each asset class has individual characteristics and carries a different level of risk and return to suit a range of investor types.



Risk and return comparison continued

Asset classes fall into two main groups: defensive and growth.

Defensive characteristics	Growth characteristics
Focused on preserving capital	Can produce income, however focus is on capital growth
Generate income for investors	Usually longer-term than defensive assets
Considered less volatile and safer than growth assets	Higher risk than defensive assets
Cash and fixed interest are usually considered defensive	Property and shares are usually considered growth

Minimising risk

While risk is an unavoidable part of investing, there are steps you can take to minimise your exposure to unintended risk.

Diversification

As the saying goes, don't put all your eggs in one basket. Different types of investments, such as shares and bonds, perform well at different times. With a mix of investments, if one part of your portfolio suffers losses, other investments may retain steady or even appreciate. Over time this will smooth out the returns of your portfolio and protect against the risk of catastrophic losses.

There are different levels of diversification to properly manage risk:

Between asset classes

Diversify across different asset classes – cash, fixed interest, property, shares

Within asset classes

Diversify across market sectors, such as cyclical (eg mining stocks) or defensive (eg healthcare, consumer staples)

Within market sectors

Diversify across different companies within sectors (eg Westpac and Commonwealth Bank within the financials sector)

Long-term investments

While your age, investment goals and financial situation will affect where you put your money, generally speaking longer-term investments present smoother returns as short-term volatility is smoothed out.

Research

The more you understand about an investment and the financial markets, the less likely you'll be to make an investment which doesn't match your financial goals.

What type of investor are you?

As a part of your financial plan, we help you understand what type of investor you are and what investments are most suitable for your financial goals and attitude to risk.

Speak to us today to make sure you have the right mix of assets for your investment goals, and you're ready for whatever tomorrow brings.

A super **opportunity**

Super is one of the most tax-effective ways to save. You could be thousands of dollars better off by making 'concessional contributions', into your super – and, putting more money into your super now, could make a big difference to your retirement lifestyle later.

Make the most of your before-tax contributions

Concessional contributions are contributions made to super, usually with your before-tax salary. For most people concessional contributions are taxed at just 15 per cent – not your marginal tax rate. That's a big tax cut and puts your money to work – in your super account. And because your salary is reduced by the amount you contribute, it may even move you into a lower tax bracket, saving you even more.

This financial year, you're allowed to make $25,000 in concessional contributions. Remember - your employer's 9.5 per cent compulsory contributions count towards this limit.

So, how much tax could you save?

If you earn $100,000 and put $10,000 into your super you can benefit by up to $2,400 per year, as the table shows.

Salary vs salary sacrifice

	Taken as salary	Salary sacrificed into super
Gross contribution	$10,000	$10,000
Tax rate (%)	39*	15
Tax payable	$3,900	$1,500
Net benefit	$6,100	$8,500

* Marginal tax rate on $90,000 (including Medicare levy)

$2,400 better off

Depending on your salary, the benefit may be even greater.

For people on the highest marginal tax rate of **47 per cent**, salary sacrificing into super will save you

32 cents

in every dollar from going to the tax man.

For people who earn more than $250,000 the concessional tax rate climbs to **30 per cent** but still saves

17 cents

in every dollar.

How can you contribute?

There are two ways you can take advantage of your concessional contributions.

Salary sacrifice – you can make an arrangement with your employer to place some of your before-tax salary into your super fund and it will be automatically taxed at just 15 per cent. You can make either a one-off contribution or an ongoing payment. Contact your employer's payroll department to discuss what you need to do.

Make your own contribution - if you'd prefer not to salary sacrifice or if you're self-employed, you can make your own contribution to super. By electing for the contribution to be treated as a concessional contribution into your super fund you will pay only 15 per cent* tax on the contribution rather than your marginal tax rate.

If you're considering taking advantage of your concessional contributions or want to understand more about super opportunities please contact us to discuss your options.

* if you earn more than $250,000 the tax rate is 30 per cent

An estate plan – **essential for everyone**

Completing a thorough estate planning review is crucial for your peace of mind as well as the comfort and wellbeing of loved ones. It is also much more than just making a Will.

From super to trusts and power of attorney, there are many aspects to consider when completing your estate plan. The following list will help you understand whether your estate plan is in order:

Family

- Have you had children or grandchildren?
- If you have had children — do you need to nominate a guardian if something should happen to you?
- Have you married, remarried, entered into a relationship or divorced?

Beneficiaries

- Do you have any beneficiaries in your Will that you no longer wish to provide for or who have passed away?
- Do any of the beneficiaries in your Will have special needs?

Estate administration

- Is the executor nominated in your Will still appropriate? If you have a complex family structure such as a blended family, a self-managed super fund or a family trust it is important that they are independent and impartial.

Trusts and funds

- Do you want to make a gift to a charitable organisation?
- Do you want to provide an education fund for your children or grandchildren?
- Are you worried that anything you leave to your children may end up going to their spouse in the event of a relationship breakdown? There are ways you can protect your assets by establishing a testamentary trust in your Will.

Legal documents

- Do you have the correct legal documents in place to nominate someone you trust to look after your financial affairs, make lifestyle and medical decisions on your behalf if you're unable to?

If you're concerned about any of the points above, it's time to review your estate plan. We're here to help.

Source: Australian Executor Trustees

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