

Hales Douglass Herald

How to avoid the financial wilderness

In the wake of the global financial crisis, editors at The Sydney Morning Herald wondered what lessons might be learned by investors and put forward a '10 Commandments of Investing'. The resulting list is very similar to Hales Douglass Financial Services own approach. Follow these 10 commandments and thou shalt not be lost in a financial wilderness, writes Lesley Parker.

1. *Remember the link between risk and return; keep it holy*

If there's an immutable law in investing it's that high returns always mean higher risk, always. Unfortunately, people start to covet the higher returns promised in advertising or boasted by friends, whether the risk associated with chasing those returns matches their investment profile or not. They bite into the apple. That's when it all comes unstuck. Determining your risk profile, and therefore what's an appropriate investment, involves thinking about why you're putting this money away and when you'll need it again.

2. *Thou shalt remember that leverage is a double-edged sword*

It wasn't that long ago that people looked at you sideways if you weren't geared up to the eyeballs but leverage is the highest risk you can take. This strategy might suit a young professional who's got the time and the cash flow to ride through market cycles but retirees probably shouldn't take such risks with their life savings.

3. *Thou shalt diversify*

The people who have suffered the most are those who had a lot, even all, of their money in the one place. For their sins, they may have lost the lot. Things can go wrong, the unexpected can happen, that's why it pays to diversify across and within asset classes, to spread risk.

4. *Honour thy asset allocation*

Having decided on an appropriate mix of investments, stick with it. When greed takes over, people start to forget about risk profiles and time horizons and pile into the "next big thing", regardless of how it fits within their investment strategy.

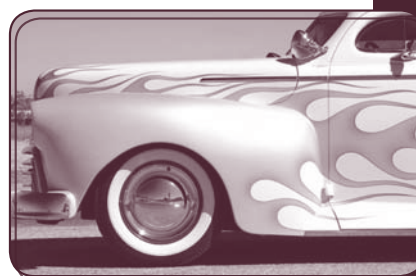
5. *Thou shalt not invest in anything thou doth not understand*

During the boom years, investors' hunger for yield took them into exotic terrain, whether they realised it or not. The high yield promised by product promoters often was generated by exposure to opaque, engineered products such as collateralised debt obligations. While ordinary investors may not have put their money directly into such instruments, they were unwittingly exposed to them through things such as supposedly AAA-quality "enhanced cash" vehicles.

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ATO motor vehicle crackdown

1. The ATO is cracking down on motor vehicle use. For example, they are sending people to check vehicles with signage at sporting grounds, and checking again within a four week period to ascertain whether the work vehicle is being used for personal use.
2. The ATO is targeting Motor Vehicle Fringe Benefits. As an employer who may be providing fringe benefits to your employees, you need to know how fringe benefits tax (FBT) works. To understand how FBT works, you need to know:
 - what is FBT
 - who pays FBT
 - the different types of fringe benefits
 - what to do if you provide fringe benefits.



Ensure your motor vehicle complies with ATO regulations

Please contact Juanita Sharp on 4455 5333 for further information.

IMPORTANT DATES

B.A.S.

11th November 2009.
Business Activity statements are due for the September quarter.

Superannuation Guarantee

28th October 2009. 9% Super guarantee due for the September quarter.

Changes to Employer Super reporting

Under changes to tax law from 1/7/09, employers must include reportable employer superannuation contributions (RESCs) on payment summaries (formerly group certificates). Payment summaries for the 2010 financial year and beyond will include a label to show RESCs. Individuals must include RESCs on tax returns. RESCs will be included in income tests for some welfare payments, tax benefits, and tax obligations.



What should employers do?

- Check with their payroll administrator that their system will comply with Commonwealth tax law. They may also need to discuss compliance issues with their payroll software provider
- Issue a payment summary where a RESC is made even if the employee has not been paid a salary or wage
- Bring this Circular to the attention of employees
- Not provide financial advice.

What should employees do?

Employees may wish to review their pay as you go (PAYG) withholding arrangements to ensure the tax withheld from salary or wages is sufficient to meet any changed liability.

The introduction of reportable superannuation contributions does not alter an employee's assessable or taxable income, however it may affect an employee's tax liability if they lose eligibility for a tax offset.

The changed income tests will also affect a range of Centrelink, Family Assistance Office and Child Support Payments.

For further info please contact Juanita Sharp on 4455 5333, or the ATO on 132866 (business enquiries) or 132861 (individual enquiries).

STOP PRESS 26/8/09 Youth Allowance change delayed

We've received a number of enquiries about the overhaul of the Youth Allowance and how it will affect regional students. We can report positive news today.... the SMH reported Julia Gillard bowed to pressure from country students and delayed the controversial element, so that students who made plans based on the current rules will not be disadvantaged by the proposed changes.

Labor had planned to lift the amount of money students can earn in a fortnight without affecting their payment from \$236 to \$400 from Jan 2011, but this change will be delayed by 18 months.

Planning for success

Planning for the year ahead is the best way to get on top of what you need to do. Here are three months of planning to help you prioritise important elements in your business.

October

The first quarter of the financial year is now behind you.

- Now is a good time to review your budgets and cash flow. Are you seeing some trends as to how the year is shaping up for you? Do you need to consider changes?
- BAS reporting is due at month end as is your quarterly Super Guarantee payment.
- Christmas will be here before you know it, so prepare your business for the busy season. Don't leave it to the last minute to prepare! Involve your team in working out the preparations too – you'll be pleasantly surprised by the results!

November

- Consider any training that your employees may need prior to Christmas.
- If you are hiring casuals, they will need training too. Do you have all your procedures written out to help with this training? Call us to find out about the business procedures manual available to tailor to your business.
- If you're thinking of hiring new people, what system will you use? Do you have a written induction process? Do you have an induction manual? Do you have a written employment agreement for them to sign? What award will you be paying them under? Call Rob Douglass for help with your recruitment processes.

December

- Christmas is here again. Make the most of it. If it's your peak season, you will be completely swamped with customers. • Take some time out to see how your business is travelling from an outsider's perspective. Ask a friend to 'secret shop' at your business to assess how efficiently your team are handling the busy season. Make changes if necessary or give us a call for help with team training or for us to conduct a Customer Diagnostic.

For further info, please call Juanita Sharp, on 4455 5333.

ATO crackdown on SMSFs

The ATO is focussing on self managed super fund regulatory matters such as loans, in-house assets, borrowings and arms-length transactions. They are also monitoring closely the income tax compliance of the funds. If your self managed super fund is managed by us (our new dedicated Your Super Solutions team) your fund is in safe hands.

For further info, contact Juanita Sharp, or go to www.yoursupersolutions.com.au

Small business tax break

Don't forget to take advantage of the Government's Investment Allowance Business Tax Break. It's effective for purchases to 31/12/09, and businesses can receive an additional 50% tax deduction on eligible assets. So if you're thinking of buying a car for your business or any other asset, now's the time to save some \$\$\$\$. Contact Juanita on 4455 5333, or the ATO on 132866, for more info.

How to avoid the financial wilderness

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6. *Thou shalt not buy tree investments. Money does not grow on trees*

There's no point abstaining from tax only to lose your savings. Where people lose their way is by being hypnotised by tax, he says. But a tax deduction should only ever be regarded as a fringe benefit to a viable underlying investment.

7. *Thou shalt pay heed to fees and taxes*

In the end, you have no control over how investments will behave, but what you can control is the money you pay for access to those investment markets. A "sleeper" issue is the impact a fund manager's practices have on the tax people have to pay. A fund with high turnover of stocks, for instance, can generate unwanted capital gains tax liabilities for the end investor.

8. *Thou shalt discern an adviser from a salesperson*

Failures such as Westpoint and the timber schemes, where advisers and accountants took commissions of 10 per cent have only highlighted the longstanding concerns about whether such payments colour advice. The ASIC says on its consumer website (www.fido.gov.au) that important clues as to whether an adviser is dodgy or dedicated are whether they make you feel comfortable about asking questions, encourage you to take your time and want to understand your situation.

9. *Thou shalt not worship false gods*

Funnily enough, Bernie Madoff didn't like to answer questions. The Wall Street financier guaranteed a sizzling return in all markets but wasn't keen to talk to people about how he achieved that. Those who got through the door to ask the right questions were the ones who said "thanks, but no thanks".

10. *Thou shalt not expect bull runs, nor bear markets, to last forever*

Everyone's an optimist when returns are high and expect the good times to last forever. The trouble is that's an unrealistic expectation. Analysis of nearly three decades of data by fund manager Dimensional Australia shows that the average bull run in fact lasts about 2 years. By the same token, everyone's a pessimist when returns are poor, let alone negative. Yet the average bear market lasts about 10 months.

Not even the professionals are able to consistently pick the turning points, which is all the more reason to follow the 10 commandments of investing.

For further information on this story, or any other investment matter, please contact Adam Passwell on 4455 5333.



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ATO interest-free payment offer

Businesses with an annual turnover of less than \$2 million and an activity statement debt can apply for a GIC-free (general interest charge) payment arrangement from now until 30 June 2010.

For more info, contact the ATO on 13 11 42.



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Team Happenings

Partner Rob Douglass will be sailing with his daughter in the Tasar World Championships in Japan in September. As 2007 World title holders and 2008 runners up, they will be putting all they can into securing gold for the Aussies. Congrats to Partner Juanita Sharp for receiving her Self Managed Super Fund Professionals Association Specialist accreditation.

Getting his text books out is Peter Pepperell who has commenced his Chartered Accountants program, with Bob Richards commencing his CPA Program. And we welcome aboard Lesley Ryan, our new administrator, who has replaced Katrina Robinson.



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