

Why good advice is a good idea

Seven good reasons
to get good financial advice

Macquarie Adviser Services



FORWARD thinking

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Remove emotion from investing

When it's your money at stake, it can be hard to let go. However, doing too much – trading too frequently or reacting to every new piece of information – can also be counterproductive.

Driven by fear or greed, many investors make their investment decisions sporadically, either to capitalise on an opportunity or in reaction to bad news. This often leads to a pattern of buying after periods of strong growth and selling when times are tough... buying high and selling low. Over time, that is a sure way to erode wealth.

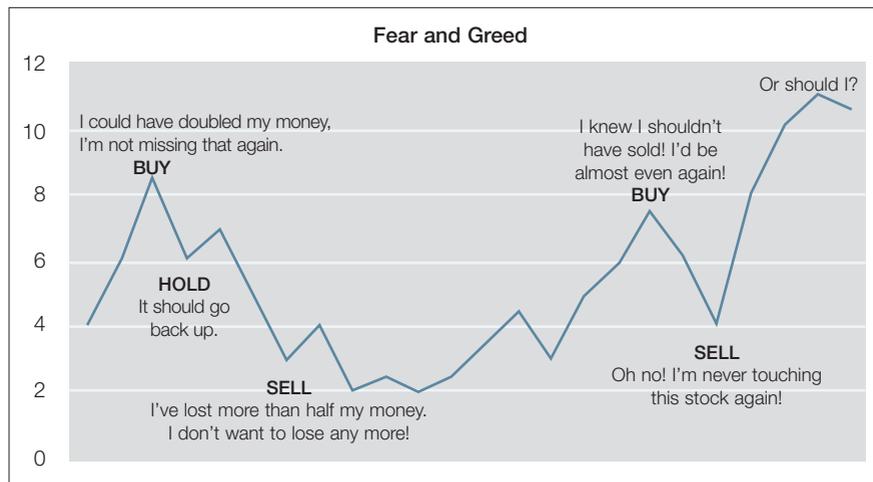
By helping you take a systematic and disciplined approach to investing, a financial adviser can help you avoid these knee jerk trades and concentrate on growing your capital over the longer-term.

Retirement and superannuation

Behavioural finance¹ – Certain human tendencies can be detrimental to building wealth. In 1985 Hersh Shefrin and Mier Statman identified a ‘disposition effect’ which described how investors would sell good performing stocks too early and continue holding falling stocks too long.

A recent review of eight Australian case studies showed that as much as \$1.7million in combined value was created through financial advice. The study² revealed that advice

regarding financial education, goal setting, budgeting, tax management and maximising government support offered considerable value to individuals.



“We know that the average age of Australians is increasing. Our Government has undertaken deliberate policy initiatives to encourage funding for retirement to achieve less reliance on social welfare. These initiatives include the superannuation guarantee levy and superannuation reform more generally. **Prudent investment for retirement has never been so important**².”

Recent Government changes making superannuation simpler mean it is now an even more effective investment vehicle for growing wealth over the long term.

Taking full advantage of these changes can generate significant tax savings which means greater returns and a larger retirement nest-egg.

Yet for all the benefits of the new Simpler Super rules, planning for retirement is still complex. That’s because it involves not only investment issues but factors such as:

- Your eligibility for Social Security
- Taxation
- Insurance – there can be significant benefits to holding insurance through your super – but you need to know the right approach.

- Estate Planning – do you plan to leave money to your children? Can you afford to?
- Your attitude to risk
- Your health
- Your work/life balance – do you want to retire completely, work part time, ease into retirement? Do you need to draw on your super savings as soon as you can? Or do you want to build them up by retiring later? How will you manage cashflow needs?

Because retirement touches every aspect of your life you need to make complex decisions about a whole range of factors. By taking a holistic approach, your financial planner can create the superannuation and retirement strategy which is right for you.

¹ SHEFRIN, H. and M. STATMAN, 1985. The Disposition to Sell Winners Too Early and Ride Losers Too Long: Theory and Evidence. *The Journal of Finance*.

² RICE, MICHAEL. *The Value of Advice*, Reviewed by Mark Griffins, February 2008. The report was prepared by Rice Warner Actuaries for the Financial Planning Association.

³ *The Financial Advice Industry in Australia: The Regulator’s Perspective*. An address by Jeffrey Lucy AM Chairman Australian Securities and Investments Commission (ASIC), Financial Planning Association 24 November 2006 Melbourne, Australia.

Ongoing monitoring of markets and managers

Global financial markets are always moving. But that doesn't mean that if you're an investor you need to lose sleep at night.

A financial planner can help you build a diversified portfolio of high quality investments that match your risk profile as well as your return objectives. Investments that help you achieve your goals and sleep at night.

Financial planners also help remove another source of worry – the constant agonising over which investment to use. They work very hard at researching

investments so that you choose high quality options. They also regularly review your portfolio, rebalancing allocations to different asset classes (shares, property, bonds, cash etc) after significant market movements and recommending different products and investment managers when better alternatives are available.

Intelligent and relevant diversification

These days, diversification involves more than allocating your money across a mix of shares, bonds and property.

Investment products have become more sophisticated, creating new ways of generating returns which are unrelated to the performance of traditional markets (eg shares and bonds).

At the same time many traditional markets which historically performed very differently (shares and Listed Property Trusts for example) now have broadly similar risk and return profiles.

There is also more to diversification than applying a generic balanced portfolio. The right diversified portfolio

will be a function of your risk and return profile, the amount of time you aim to invest for and your capital growth and income requirements.

A financial adviser can develop a truly diversified portfolio by harnessing the latest products, adjusting for the latest market developments and tailoring it all to your goals and objectives.

More options

From explaining the inner workings of the latest multi-strategy hedge fund product to reminding you of the many benefits of regular investing, your financial planner constantly offers you more ways to increase your wealth/ meet your financial goals.

As investment products become more and more complex, it is easy to overlook what may be a lucrative

investment opportunity if you are too busy. At the same time, even the most technically proficient people can lose sight of some of the most basic investment rules.

By allocating this task to a dedicated professional your portfolio can benefit from the very latest investment options while always reflecting your long-term investment goals and objectives.

It's not just about making money

A financial planner does more than grow your wealth. They also help you protect it.

By structuring your finances in the most effective way it may be possible to save tax and reduce transaction costs, fees and charges.

According to a recent study by Rice Warner⁴, advice from a planner regarding a single issue can have flow-on effects that change a person's saving and investing behaviour – leading them to set proper budgets, manage debt more diligently and build wealth more successfully.

Your financial planner can also recommend the appropriate insurance protection and discuss important estate planning issues – building a complete wealth and security package for you.

With the right insurance and estate planning in place you have the peace of mind knowing that what you value the most (your family and lifestyle) is secure no matter what the future holds.

'With wealth comes responsibility'

Opportunity cost

Price is only ever an issue in the absence of value.

A similar argument can be made when it comes to investing. You may be able to invest on your own, but that doesn't mean you should.

From doctors and accountants to mechanics and builders, specialists in different fields maximise the quality of the job and minimise the time it takes to do it. Consider a doctor who knows how to service her car but takes twice the time her mechanic can do it in. By servicing her own car the doctor may save the cost of a mechanic, but is wasting time and therefore the potential to earn more money practicing in her field of expertise.

In the same way, leaving the management of your investments to professionals frees up your time to concentrate on what you do best and allows you to potentially grow your income more rapidly.

In the legal profession they say 'he who represents himself has a fool for a client'.

⁴ RICE, MICHAEL. *The Value of Advice*, Reviewed by Mark Griffins, February 2008. The report was prepared by Rice Warner Actuaries for the Financial Planning Association.

How to get started

There are a number of things you need to consider before you seek advice.

- **Goals and objectives** – determine what you want to achieve from a financial plan. Is it to save for an upcoming holiday or major purchase, long-term wealth accumulation, saving for retirement or protection for the family?
- **Investment horizon** – think about how long you want to invest for. Is there likely to be any major events taking place which may alter this plan?
- **Assets** – try and determine where your money is. By tracking down lost superannuation and consolidating your savings and investments you can take better control of them as well as monitor any developments far more easily.
- **Liabilities** – it may be possible to save quite a bit of money through consolidating debts, rolling credit cards over to lower interest rates or prepaying interest on margin loans or other investment loans.

'There is no such thing as a self-made man. You will reach your goals only with the help of others.'

George Shinn

A financial planner can do more than recommend investments. Through a detailed, ongoing and structured assessment of your financial goals, risk profile and time horizon they can construct a complete financial and security solution – growing your wealth and protecting the things that matter to you.

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