Financial Directions

Spring 2008

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SENTRY

Welcome

Spring 2008 edition of Sentry Financial Directions Newsletter

Welcome to the latest edition of the Financial Directions newsletter. The newsletter has been provided by your Sentry Group financial adviser.

The start of a new season is a fantastic time to review your protection, investment and superannuation portfolios, and speak with your Sentry professional financial adviser.

A regular financial review can assist you to better understand your current financial situation and help to identify ways to maximize the potential of your earnings and savings potential.

In this issue we get back to basics with an article on understanding investment risk and why the biggest risk is to take no risk at all, and also give tips on how you can purchase insurance tax-effectively.

We also look at **estate planning** and need to act now while time is on your side to avoid any disputes or issues that may arise after your death.

It's no secret that Australians face unique challenges when it comes to saving for their retirement. ***Protecting your lifestyle and loved ones*** looks at what you need to consider when it comes to securing your welfare.

We hope that you find your copy of Sentry Financial Directions interesting and informative reading.

Risk versus return

It's important to understand a few investment basics before you start to invest.

Three major things to be aware of are:

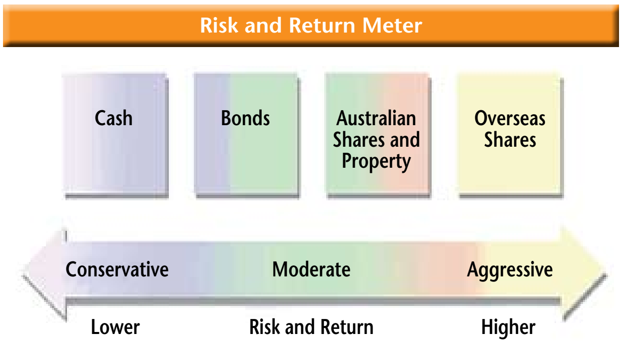
- **the different types of investments and how they perform**
- **the relationship between risk and return**
- **why diversification is essential for a sound investment strategy**

This article covers the relationship between risk and return.

All investments provide a certain level of return and are subject to a certain level of risk. Basically this means that as well as making money on your investment there's also a chance you could either lose money or not make as much as you expected.

As a general rule, the larger the potential investment return, the higher the investment risk, and the longer you need to remain invested to reduce that risk.

This chart shows the various types of investments and where they sit on the risk and return spectrum. Cash provides lower returns and has lower risk of loss, while overseas shares provide higher returns but they also carry a higher risk of loss.



Shows where the various investment types on the risk/return spectrum

How to manage investment risk

The amount of risk involved with an investment can be managed by matching it appropriately with the length of time you have available to invest and your tolerance toward fluctuations in returns.

For example, if you are saving for a house deposit and have only 12 months to go before you reach your goal, you would probably be unwilling to risk losing any of that money – it would make sense to avoid investing it in growth investments and consider income investments instead. If, however, you're investing your superannuation and you're not retiring for 15 years, you could ride out any short term losses in growth markets in order to achieve potentially higher returns over time.

All investments involve some level of risk. Even if you choose the least risky investment, cash could still run the risk of inflation eroding the value of your capital, which means your money will buy less as time goes by, or falling interest rates which will reduce the level of your return.

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It's tempting, for retirees in particular, to use defensive investments exclusively when you're worried about maintaining the security of your capital over a long period. However, unless you include a proportion of growth investments with those defensive investments, you could likely find that you're appreciably worse off five or ten years down the track, struggling to make your income stretch as far as it once did.

As you can see, the amount of time you have available to invest makes a significant impact on your true level of investment risk.

Apart from considering your investment time frame, another effective way to manage investment risk is to consider spreading your money across various types of investments rather than relying on just one type of investment to meet your goals.

This is called diversification and it is a strategy that is commonly used to reduce risk.

Your tolerance for investment risk

When selecting your investments, along with considering your investment time frame it's also important to reflect on your own personal tolerance level for investment risk. You need to make sure you'll feel comfortable with the amount of risk you're taking and the potential consequences of your investment decisions.

Some people can remain relaxed while their account balance fluctuates wildly, while others are nervous if their account shows even the tiniest drop in value. If you're going to be awake at night worrying about your investments, no matter what returns you earn they're not likely to be worth the personal cost.

There are many factors which affect your level of tolerance for investment risk:

- Your reasons for investing
- Your performance expectations
- How long you intend to invest (time frame)
- Your knowledge of investment markets and past experiences
- How you feel about sudden increases and decreases in the value of your investments

Keep in mind that your tolerance for investment risk may change as you gain investing experience and confidence.

Seek advice on the investments that will suit you

Whether you're an expert or novice investor, good advice is important. **Sentry Financial Advisers** specialise in helping you make the right investment decisions and will explain the risks of various investments and help you determine your tolerance for risk.

He/she will then work with you to develop an appropriate financial plan designed to achieve your personal financial goals.

Estate planning – important steps

Australians today are living longer and accumulating greater assets than ever before. It is now not unusual for people to marry more than once and have children or step-children from several relationships.

Unfortunately, disputes can arise after a person dies if they have failed to plan properly for death or incapacity. This can cause considerable financial hardship and lead to unexpected and sometimes quite inappropriate results, often leaving family members distressed about the outcome.

As a result, the need for appropriate planning and expert advice becomes even more important.

Now while time is your side, take the time to consult an estate planning professional, and together with your Sentry financial adviser and accountant, review your individual circumstances and implement an estate plan which meets your particular circumstances.

Following is a quick checklist of some of the things you to consider when planning for your family's well being after death.

Make a will.

A will allows you to distribute your estate according to your wishes.

You can also avoid the additional costs and delays that may result if you die without a valid will.

Choose your executor wisely.

Your executor is responsible for ensuring the administration of your estate is dealt with in a timely and suitable way.

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Execute a power of attorney.

This allows you to choose a person that you can trust to act on your behalf to look after all or some of your affairs while you are still alive.

An enduring power of attorney will continue if you lose your mental capacity and need someone to look after your affairs.

Establish a testamentary trust.

By including certain conditions in your will, a testamentary trust can be created after your death to protect your estate's assets and provide for your beneficiaries tax-effectively.

Complete a binding nomination.

If offered by your superannuation fund, a binding nomination may allow you to specify whether you want your death benefit to be paid to your estate and/or to your dependants.

Make sure you keep your nomination up-to-date, as nominations are generally only valid for three years.

Choose a superannuation fund that makes anti-detriment payments.

This could enable your dependants to receive a larger death benefit when your super is paid as a lump sum.

Choose a superannuation fund that can pay pensions.

Death benefits paid as a pension may be a tax-effective option for your dependants – particularly if you die with larger super benefits in the 2006/07 financial year.

Make sure you leave enough money.

To enable your family to pay off debts and meet their living expenses, you may need to take out extra life insurance.

This could be purchased through your superannuation fund or you can buy it separately.

Make the right ownership decisions.

When you acquire new assets, such as a house or an investment, it's important for tax and other reasons to consider whether you should invest in your name, your partner's name, in joint names or via another arrangement, such as a trust or company.

Seek advice.

Estate planning is complex and the laws change frequently. Your **Sentry Financial Adviser** (with the help of tax and legal professionals) can ensure you make the most of your opportunities and provide for your loved ones.

Protecting your lifestyle and loved ones

The importance of life insurance

Life insurance is an integral part of any wealth protection plan. After all, what's the point in working so hard to accumulate your wealth, if you don't protect it?

Just think about what would happen if you no longer had access to your income? Your income – that is your ability to work – fuels the lifestyle that you and your family enjoy now, and into the future, so your potential death or disablement can have serious financial impact on your family.

Despite the real need for insurance, Australians are seriously underinsured with a life insurance gap in excess of $1.6 trillion - or around $112,000[1] per person. And while 70% of people hold car insurance, only 38% of people hold any kind of life insurance[2].

Overcoming the myths

One of the main reasons people either don't insure themselves or fail to maintain their insurance, is the misconception that insurance is too expensive.
Yet in many cases life insurance costs less than the price of a take-away coffee a day!

In fact, the annual cost of insuring a $40,000 Holden Commodore in Sydney for a 40 year-old male is approximately $1,290 with one of Australia's leading general insurers. And the annual cost of $500,000 Asteron Lifeguard Life Cover insurance for that same 40 year-old male (non-smoker) is only $445.88[3].

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For further information contact your Financial Adviser

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What policies are available to protect what's most important to you?

Life Cover pays a lump sum upon death, enabling your beneficiaries to pay out debts and bills and create ongoing income.

Total and Permanent Disablement (TPD) pays a lump sum, which can be used to pay out debts and bills and create an ongoing income. It can also be used to fund disability related expenses, such as home modifications and special medical needs.

Recovery Products are targeted to pay the sum insured for a specific range of medical conditions (such as serious cancer and strokes) and pay a partial payment for things such as early stage cancers. This can be used to help reduce debt, change employment, pay medical expenses and fund recovery time.

Income Protection is designed to pay you up to 80% of your gross monthly income while you are unable to work due to sickness or injury. There are three types of cover available: Income Advantage is available to white collar occupations and offers additional benefits like our market-leading 10 Hours Plus definition; Income Protector and Income Shield are available to a wider range of occupations.

Business Expenses – if you own a business or become sick or injured, you may need to protect more than just your personal income. Business Expenses allows you to insure monthly business expenses (such as electricity bill, non income producing staff, net cost of your replacement and rent) on a monthly reimbursement basis to help keep your business viable until you return to work.

The Importance of Financial Advice

Obtaining expert advice from a Sentry professional Financial Adviser is important to ensure that your financial future is protected.

Your **Sentry Financial Adviser** can help you to identify your long term wealth creation, lifestyle and retirement goals and then assist you to implement a personal plan to achieve and protect your financial objectives.

It is most important to regularly review your situation with your Sentry Financial Adviser in order to –

- Ensure that your financial strategy is consistent with your goals and changing lifestyle and circumstances
- Ensure that you are protected from any unforeseen financial difficulty
- Make informed decisions
- Prepare for retirement.

Provided with the compliments of Asteron

[1] Metlife 'The Australian Market and learnings from Asia - Underinsurance in Australia' presentation, IFSA conference 2008

[2] TNS, IFSA 'Investing the issue of underinsurance in Australia' Topline Report June/July 2005

[3] Asteron Life Cover, Male, accountant, 41 next birthday, NSW resident, non-smoking, and GIO insurance Australia, Male 41 next birthday, 2008 Holden Commodore, Sydney Resident.