Combined Fund

IntheKnow

COMBINED FUND

Summer 2004/05, Vol. 25

Welcome to the Summer 2004/05 edition of IntheKnow – the Combined Fund's newsletter that keeps you 'in the know' on superannuation matters and how to make the most of your superannuation benefits.

Many people think that they need to see a financial planner when, quite often, all they really want is answers to a few pertinent questions.

In this newsletter, we look at financial planning and planners. How they work, what to look for and the pitfalls to be avoided.

Failing to Plan or Planning to Fail?

Most people don't plan for their retirement - it simply happens to them.

In our experience, many members of superannuation funds have little idea of:

- how much extra they need to contribute on top of their employer's contribution;
- the importance of time and compound interest for the growth of retirement benefits;
- the trade-off between risk and return on investments;
- how they can use unit pricing to their advantage; and
- the need for adequate insurance protection.

Increasing complexity

As the tax system has become increasingly complex, more and more people have sought specialist help with their annual tax returns.

Like tax, superannuation has become increasingly complex and we are seeing a move amongst superannuation fund members to seek specialist financial advice.

However, many are understandably suspicious of the financial planning industry and don't know who they can rely on for independent advice. Also, many are reluctant to pay for financial advice.

Combined Fund's Advisory Services

After almost two years of searching for a financial planner with whom we felt comfortable, we can now offer an endorsed financial planning service to our members.

Eleonor Klopsch, of Oracle Financial Services, is now operating out of Combined Fund's office. Eleonor has been involved in the financial services industry for over 20 years. She commenced financial planning services in 1992 whilst a partner in a public accountancy practice.

This strong background in accounting and taxation enables Eleonor to provide specialist advice in all areas of financial planning including superannuation, retirement planning, pension alternatives, social security, wealth creation, investment products, a direct share service, insurance and tax planning.

Eleonor generally works on a fee for service basis but can offer commission arrangements to those who prefer that alternative.

Her first "get to know you" meeting is free of charge and, if you then want her to undertake work on your behalf, including preparation of a full financial plan, she will provide written details of costs and services etc.

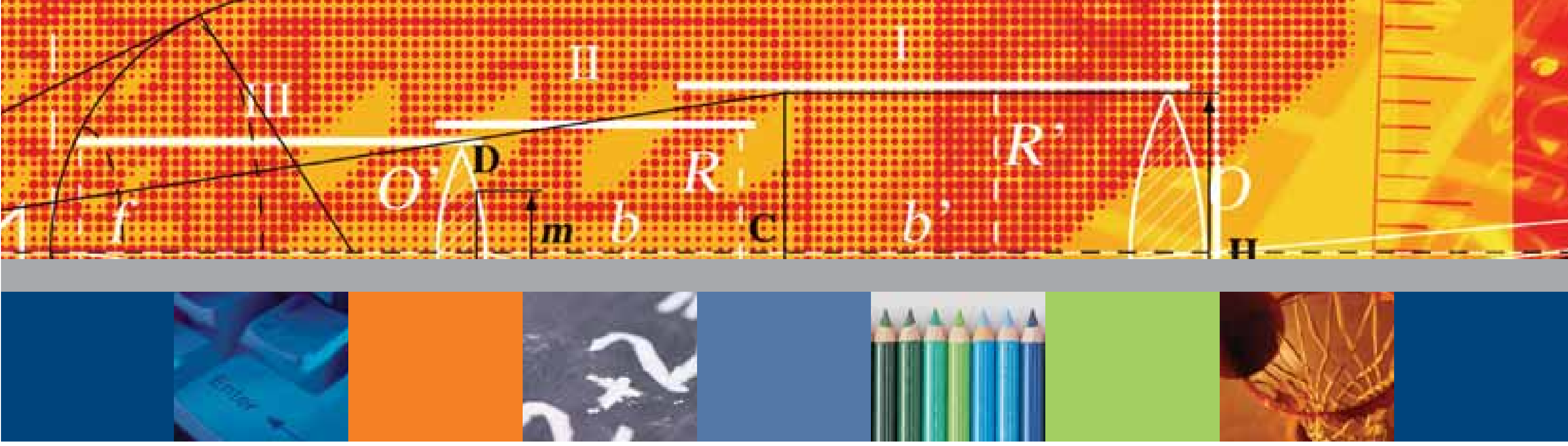
In addition to this financial planning service, we can assist our members in several other ways:

- our administrative staff can answer your specific questions about your Fund benefits or superannuation matters in general;
- our licensed staff can provide more detailed general advice on a range of superannuation, insurance and financial matters;
- our specialist presenter is readily available to present group sessions at your worksite on a range of specific topics including the most effective ways to contribute to superannuation, how to maximise investment returns, planning for retirement and more general topics like the A to Z of superannuation.

Each of these additional services is provided at no cost to members of Combined Fund. Please ring us on (03) 9691 2900 or Free call 1800 200 801.

Do you really need a financial planner?

As already mentioned, many people feel the need to see a financial planner when all they really need is someone to answer a few pertinent questions.



Do you really need a financial planner? cont.

Unless you require someone to provide written advice or a full written plan for your financial future that:

- takes into account all of your present circumstances;
- will be monitored in the future and changed as your circumstances change; and
- takes into account social security considerations

then you may not need a financial planner.

A comprehensive, properly constructed financial plan can take a lot of work by the financial planner and there will be a cost for it.

Choose the wrong financial planner and it can be extremely expensive – not just now but over the long term.

If all you need is general guidance or have some questions you want answered, Combined Fund can help. On the other hand, if you need to see a financial planner, we can now help with that too.

If you want to look elsewhere for advice, the following information might help you.

Finding a financial planner

Finding a planner is easy. Finding the right one for you can be extremely difficult and time consuming.

You could contact the Financial Planning Association or the Australian Stock Exchange for a referral but, as we all know, membership of an industry association is no guarantee of quality.

A search of ASIC's database (**www.fido.asic.gov.au**) will alert you to people to avoid eg. those who have been banned from the industry. However, ASIC is not permitted to recommend a particular adviser or dealer group.

A good start is to talk to friends, colleagues, relatives or any business associates. Often, their own experiences with a financial planner will be very helpful to you.

It's also a good idea to talk to a few financial planners. An initial consultation is usually free of charge and involves no obligation.

After all, it's your money and financial future and you need to feel comfortable with the person with whom you are dealing.

Put together a list of questions first. Here are some you may want to include:

- **How is the adviser remunerated?** If it is for commission only, the advice is likely to be biased and product driven. If it is for commission, the commission will be deducted from your investments and will often add up to a substantial amount over time. If the advice is "free", it's generally time to leave.
- **Is the adviser paid upfront or ongoing commissions and can they be rebated to you?**
- **Is the adviser licensed?** You may think that this is a given but usually the biggest scams are promoted by unlicensed advisers. Unless the person can demonstrate that they are licensed to provide advice under an Australian Financial Services Licence, you should not deal with them.
- **Is the financial planner's business owned by a fund manager or a financial institution which operates a master fund or wrap account?** If so, be wary of unjustified recommendations to invest in the owner's products ahead of others.
- **Ask for a copy of the adviser's Financial Services Guide.** This sets out details of the services the adviser can provide and details of all remuneration the adviser receives for those services.

The pitfalls of financial advice – what to watch out for

- If an adviser works only on commission, then they must sell you a product in order to make money.

  Rather than investing in a particular product, you may be better off by reducing debt, investing directly into the sharemarket or property, setting up a cash account in a non-working spouse's name for the kids' education or a range of other non-product strategies which you are quite capable of arranging yourself or through alternative means (eg. a discount broker).

  An adviser who works only on commission is less likely to want to advise on such non-commission producing strategies.
- Be wary of recommendations of personal superannuation products offered by financial institutions. It has been clearly shown in a number of independent reports that high fees, high commission retail products generally underperform the group superannuation offerings of Industry Funds and employer funds.
- Don't be swayed by claims of short term very high returns. Regularly, up to half of the top 10 investment funds for one year are in the bottom 10 next year simply because economic conditions change. A set of circumstances may reward an investment manager's style and approach this year and penalise it next year.

  Look for longer term outperformance. 3 to 5 years as a minimum.
- Do you understand the advice? Does it sound logical? Does it sound too good to be true?

  If you are unsure, seek a second opinion before going ahead.

  If you don't understand and think that you are being fobbed off, don't go ahead. Even the world's most successful investor, Warren Buffett, won't invest in anything he doesn't understand.

  If it sounds too good to be true, it probably is.
- Be wary of cold callers. As ASIC advises, if a dentist rang you out of the blue offering a free check up, you'd probably say no, or at least be a bit suspicious. Yet thousands of people each year are drawn into investment scams from unsolicited calls.

Generally speaking, if someone rings you offering a free financial planning consultation, they will be working on commission. As ASIC says:

"Commissions reward the adviser, not the consumer."

- Don't be sold an investment purely for its tax benefits. Any investment should make sense on its own merits. A tax benefit should simply be viewed as an added bonus.
- Watch for advisers who don't recommend products which are well recognised as being worthwhile.

  For example, many financial planners will not recommend Industry Superannuation Funds to their clients. Industry Funds don't pay commissions to advisers.

  Advisers will often argue that they cannot recommend a product because it is not on their licensed dealer's recommended products list. That doesn't mean that you can't or shouldn't use the product. It simply means that the adviser can't recommend it to you because it's not on their list.

  It's interesting to note that some licensed dealers are now beginning to include non-commission products (like Industry Funds) on their recommended product list – largely due to external pressure.

Should you pay for financial advice?

Some think that all financial advice should be free.

A lot of it is. For example, the general advisory services already mentioned are provided to Combined Fund members at no cost.

However, if you go to a financial planner expecting them to prepare a comprehensive financial plan or carry out work on your behalf, you should expect to pay for it (in the same way that you pay for other professional services eg. accountant, doctor, etc).

There is a considerable amount of work in the preparation of a financial plan and, depending upon the planner you use, there can be a significant difference in cost.

The planner is required to give you a written Statement of Advice which must detail any remuneration, including commissions, which might influence the advice given. Read this carefully to ensure that you understand clearly how the planner will be remunerated now and in the future, as well as the impact of that remuneration upon your investments.

Some "Golden" Rules

These may not strictly apply in every case but should at least be considered:

- It's your money and your decision. (The most golden of all rules).
- Don't be railroaded into something if you're not completely satisfied with it.
- If it doesn't sound right or you don't understand it – don't do it.
- If you have to borrow money to do it, be even more certain that you understand what you are doing and why.
- Get it in writing.
- If it sounds too good to be true, it usually is.
- Older advisers have generally done the things that they are advising you to do ie. they have learned from their own mistakes. They have also generally made their own fortune already and aren't as hungry for income (which you will generate for them) as those who have been in the industry for less time.
- You might have been told it's "right" for you and it might seem like the best advice but, if you're going to lose sleep over it, why do it?
- Understand how negative gearing works. Know that whilst it will magnify your gains, it will also magnify your losses. Also, unless you are certain of a sizeable capital gain from your geared investment, aren't you just reducing some of your loss with a tax deduction?
- If you borrow to invest, make sure that you have adequate insurance protection for you and/or your family against your death or inability to work.
- Negotiate. Nothing is set in concrete. In the same way that you can negotiate fees/commissions with car dealers and real estate people, you can negotiate fees with financial planners.

Fee Increase

We have managed to keep the Fund member fee for most members at a low 95 cents per week ($49.40 pa) for the past 5 years.

However, the increasing costs of meeting the Government's regulatory regime have increased the Fund's operational expenses and we are obliged to increase the member fee with effect from 1 January 2005.

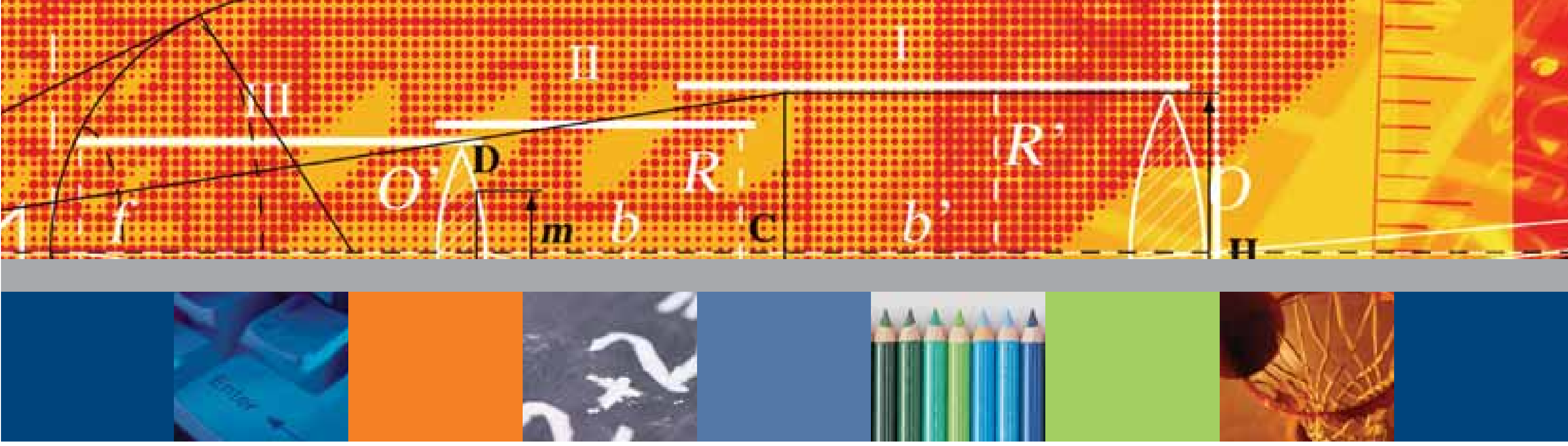
The good news is that the fee will only increase by 5 cents per week to $1 per week per member ($52 per annum).

This really only brings us into line with many of the very large Industry Funds but is still well below the member fee charged by most of the retail/master funds run by the major financial institutions.

For the inactive account members in the Personal Benefit Division, the current fee of 50 cents per week will increase to 55 cents per week.

For our Allocated Pension members, there is no change to the fee arrangements.

If you are withdrawing from Combined Fund, the benefit payment fee of $61 will increase to $67.



Combined Fund Wins Gold Rating!

In October 2004, Combined Fund was awarded a Gold Rating by the independent ratings group, SuperRatings. Only those funds in the top one-third of all of those rated are awarded Gold status.

Member Investment Options – Unit Prices

The following are the respective Unit Prices and returns for each Investment Option as at 31 October 2004:

	Unit Price	Returns – Increase (Decrease)	
	31/10/2004	10 months to 31/10/04	5 years to 31/10/04
Australian Shares	1.86186	17.96%	11.47%
International Shares	0.87460	2.74%	(3.62%)
Fixed Interest	1.31762	4.01%	5.90%
Property	1.64021	11.82%	9.77%
Balanced	1.38951	10.23%	6.34%
Capital Stable	1.35303	6.50%	5.83%
Ethical Shares	1.25586	9.46%	4.13%
Cash	1.25614	3.77%	4.01%

See our website **www.combinedfund.com.au** for more details.

Happy Christmas

All of us at Combined Fund would like to take this opportunity to wish you a Happy Christmas and a safe and prosperous New Year.

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Competition

The Spring Edition competition sought your prediction of the S&P/ASX300 index on 30 November.

As this Summer Edition went to print before 30 November, we can't tell you the winner yet, but will announce that winner and the winner of this Summer Edition's competition in our next newsletter.

The prize for the Spring Edition competition will still be awarded in December.

Now to the Summer competition.

To predict the index as at 28 February 2005, complete the details below and fax this page before 31 January 2005 to the Fund Administrator on (03) 9640 0787.

Combined Fund S&P/ASX300 Index Competition

Name:

Employer:

Phone:

My estimate of the S&P/ASX300 Index as at 28 February 2005 is:

The winner will receive a voucher for an all-inclusive "Dinner for Two" at a 5 star Restaurant of their choice and a one year subscription to Personal Investment Magazine.

Acknowledgements

We acknowledge the assistance of Investor Weekly, Money Management and Super Review magazines, the Australian Financial Review and "Fido" website of the Australian Securities and Investments Commission (ASIC) in the preparation of this Newsletter.