



Newsletter

Spring 2009

Latest News

Welcome

Welcome to the Spring issue of our newsletter.

In this issue we look at the rising costs of educating your child. Second only to your mortgage, school fees can cost you dearly if you don't have a proper strategy in place. We consider some tips to help get you started.

We also introduce you to the basics of dollar cost averaging and show you how this investment strategy can be your ally especially in a volatile environment.

Finally, with the holiday season upon us in the coming months it's time to start thinking about those vacation destinations. One great option is to "house swap".

Enjoy!

Kind regards,

The Financial Spectrum team

> It seems that with the warmer weather there has been an emerging quiet confidence in the economy over the past couple of weeks. The data seems to point to signs of a recovery, with "marginally stronger" economic growth lifting from -4.1% to a still dire -3.7%*. There is still some way to go. The restoration of confidence is a key requirement for a sustainable global recovery. Business and consumer confidence is improving, with some financial institutions releasing better than expected profit announcements.

> With increased consumer confidence, there is talk of an early interest rate increase by the Reserve Bank (RBA). Many economists are predicting that whilst the emergency may be over, interest rates should stay on hold until early 2010 whilst the RBA assesses changes in key indicators such as retail trade and employment.

> While the general consensus is that the worst may be over, volatility still remains near an all time high. There are still talks of "aftershocks" but it is likely that growing confidence will provide at least some level of stability to help us sail through the choppy waters ahead.

* Commonwealth Research: Economic Perspective 04/09/2009



> Too cool for school

Winning strategies to afford those expensive school fees

Being a parent and affording school fees isn't always easy. A survey conducted in 2006 found that 55% of parents heavily underestimate the costs of educating their children. Over the past decade, the number of students attending private schools in Australia has risen by more than 25%. And with this is the increased cost of education. On average, the cost to privately educate a child through primary and secondary school is around \$155,000— that's per child! - and the cost continues to rise. The Australian Bureau of Statistics (ABS) found that between 1982 and 2003, the cost of education grew on average by 7.8% per annum (compared with an average increase in inflation of 4.4%). Based on the current CPI secondary education figures, a child born today will cost almost \$40,000 to send to a private school for Year 12 alone!

Save it or make it?

You should think of the task of affording school fees like any other investment. It's a matter of balancing risk and return, and thinking about the time frame which you have to work with. When it comes to affording to educate your children, there really are two options: you have to save it, or make it, or even better a combination of both.

> Save it

This strategy is all about finding the most efficient form of savings possible. This could mean a savings account, regular savings into a more aggressive investment, paying down your mortgage, or even reducing your credit card debts. It's about discipline and efficiency. As an example, if you have a personal loan at 14% interest, for every one dollar that you pay off this loan, not only are you 14% better off, but unlike the interest that you would be earning from a term deposit, you don't have to pay tax on this.

Tips for saving it:

- ✓ Knowledge is power. Understanding your current financial position, especially your budget, will result in you being able to take affirmative action to get the results you need.
- ✓ Effective : choose the right strategy and make sure that where your savings goes maximizes your benefit as far as possible but within your comfort levels.
- ✓ Efficient : once you are effective, and are doing the right thing for your situation, do it as best as you can.

> Make it

Most people are tempted to jump straight into the 'making' side before becoming experts in the 'saving'. But be warned, in the same way as a building needs strong foundations, your financial future requires you to have perfected the effective and efficient use of what you've got before making the transition to generating greater returns from these foundations. The options and possibilities are almost infinite when it comes to investing and generating returns for the future. For this reason, it's important to understand what your capacity is in both a monetary sense as well as an emotional sense.

Growth assets such as Australian and international shares and property may be the first port of call as these types of investments tend to generate the highest long-term returns. If you start early and have a longer time-frame to work with, you probably have the time to ride out the volatility waves which are common to these types of investments.

If you don't have the luxury of a lot of time, you may have to be more cautious. One idea is to establish a savings plan through a flexible mortgage. This way parents can pay off the home loan as fast as possible and re-borrow funds at the beginning of each school year.

Tips to making it:

- ✓ Time : start as early as you can. Time is your biggest ally in investing. Start thinking about your investment strategy as early as possible—preferably when your child is born.
- ✓ Stay in your comfort zone : we're all different. Make sure you choose an investment tool that you're comfortable with. It has to pass the "sleep at night" test.

Saving and investing for your child's education is something that deserves thought and planning for success. Your Financial Spectrum financial adviser can help you find the right strategy for your circumstances.

Call your adviser today on 02 8238 0888



> Dollar Cost Averaging

A little... often can be a recipe for success

We've certainly seen first-hand over the past 18 months, the impact of volatility on investing. Look at a chart of the performance of the All Ordinaries over that time frame and you'll see so many mountains and valleys that you'd be forgiven for thinking you're looking at you're at an elevation map of the Himalayas.

Forget market timing

Correctly timing your entry into and out of the markets is the elusive Holy Grail of investment and virtually impossible to do repeatedly without a crystal ball. There are hazards in trying to time your movements into and out of the markets. Unless luck is on your side (or you really do have a crystal ball!), you're likely to be out of the markets when you should be in them and vice versa. As they say, "you've got to be in it to win it" and be prepared to ride the inevitable ups and downs.

Dollar Cost Averaging

One of the principles of successful investing is to make regular contributions. This way, you buy when asset prices are low and you also buy when they're high. You don't have to agonise over picking the right time in the market, and best of all your buying price will be lower over the long term. This concept is known as "dollar cost averaging". Dollar cost averaging is a very straightforward concept: you decide to invest a set amount, on a set schedule and you stick to it! When you're investing a little, and often, market timing becomes less relevant—you just keep on investing on the basis of the idea that being invested long term is better than not being invested. Dollar cost averaging should be seen as a way to minimise risk for investors who would usually be reluctant to invest over the long term due to market uncertainty.

An Example:

Mary decides to use dollar cost averaging at wants to invest \$250 on the last Friday of every month for 4 months into Australian shares. Below is what happened after 4 months:

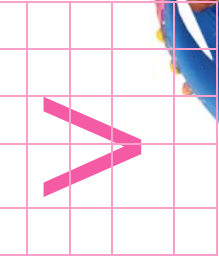
Month	Contribution	Price/share	No. shares purchased
1	\$250	\$1.00	250
2	\$250	\$0.85	294
3	\$250	\$1.10	227
4	\$250	\$1.20	208

At the end of this period, she had purchased 979 shares, for a total investment of \$1000, with an average dollar cost per share of \$1.02. Because she was able to average out the price per share, it is likely that she ended up paying a lower average cost per share than if she had tried to pick the market timing and bought \$1000 worth of shares at the one time.

Of course, dollar cost averaging isn't suitable for everyone so it's very important that if you're interested in this strategy that you discuss it with your Financial Spectrum financial adviser.

In an ever-changing and complex world, seeking professional advice can help guide you through the maze. We invite you to contact us to explore the opportunities available to you.

Call your adviser today on 02 8238 0888



Trading Places

Have your next holiday on the cheap

If you're bored with spending your budget holidays in a tent, or you just don't like camping at all and are looking for something new and affordable for your next holiday, have you thought about house swapping? With the downturn in the economy over the last 18 months or so, many people have turned to house-swapping as a great alternative on a tight budget.

If you've seen the movie "The Holiday" starring Kate Winslet and Cameron Diaz, you'll know exactly what this is all about. You find someone willing to swap houses with you for a change of scenery, and you both save on expensive holiday accommodation. You get a fully furnished home, in a new and exciting destination of your choice, and best of all it's free!

There are many websites aimed at matching up prospective house swaps both within Australia, and for the more adventurous, internationally. Imagine living the life of a local in dream locations such as Tuscany or perhaps your very own Parisian apartment!

For the uninitiated however, house swapping with strangers arranged over the internet might bring worries about insurance, thefts, damage, and even unlawful tenants! The most common problem with house exchange holidays however is miscommunication and misunderstandings about replacing food and cleaning. The risk of experiencing problems can mostly be managed by establishing clear communication and understanding with a prospective house swap partner, prior to any agreement taking place.

To reduce the risks of problems, here is a checklist of things to consider before handing over the keys to your castle:

- ✓ Allow plenty of time to find the right house swap for you. There's no point in rushing into an agreement until you're sure about your prospective house swap partner and their house
- ✓ Gather as much information as you can from your prospective swap partner. Make a list of questions of things that concern you. Are you prepared to swap with a smoker? What about pets? There is a lot to think about.
- ✓ Make sure when you've decided on a swap that you get everything in writing. Get an agreement of each party's expectations of the other and make sure you've both got a copy and agree.
- ✓ Check your insurance to make sure you're covered for each other's guests. You don't want to have any nasty surprises should anything happen while you're away.

For more information or to find your very own swap partner for your holiday this year browse some of the listings on these websites:

- > www.aussiehouseswap.com.au
- > www.homeexchange.com



Important Information: This document has been prepared by Financial Spectrum Pty Ltd (ABN: 57 134 661 706) as is current as of September 2009 but may change without notice.

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