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Lifestyle Matters

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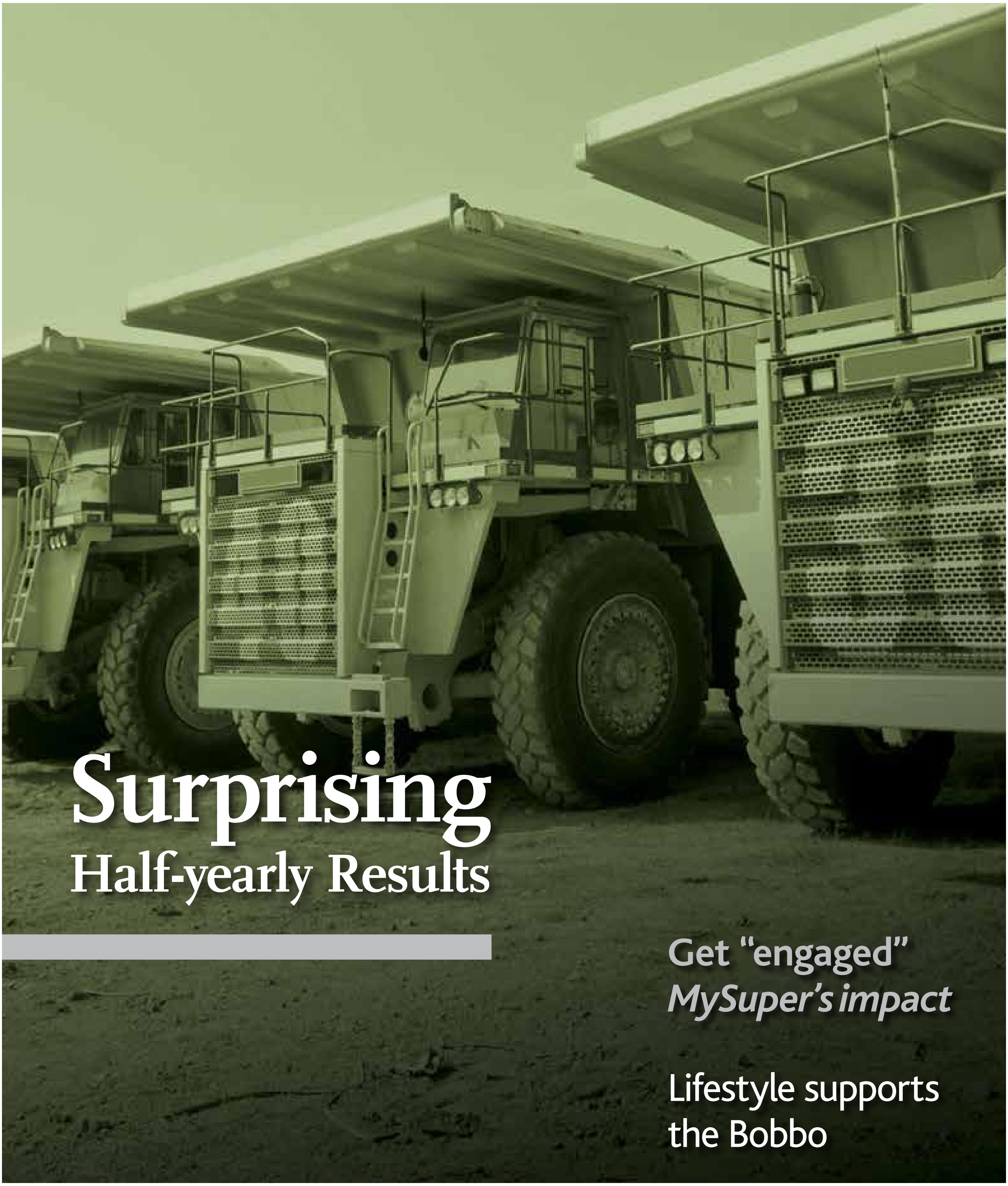


Surprising Half-yearly Results

Get "engaged" *MySuper's impact*

Lifestyle supports the Bobbo

> "... market forces push Australian companies to adapt and re-invent..."

Aussie Company profits surprise on the upside

If you are comparing asset classes, Australian Shares are in a class of their own. Why? Because the income (dividends) they pay out, just keeps rising.

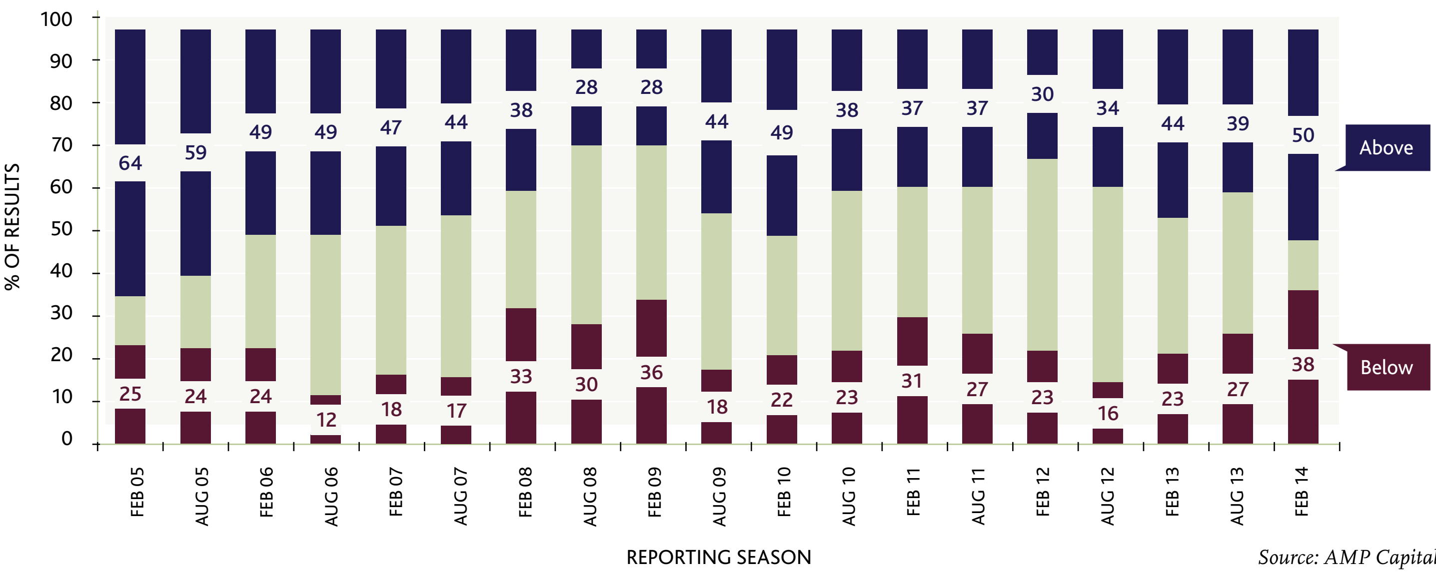
Most companies have now reported their half year results and about 64% of these have raised their dividends, with a further 23% maintaining their dividend and only 13% reducing their dividends *(Source: AMP Capital)*.

Increasing dividends are only sustainable if they are paid from increasing profits. The recent December profit reporting season was a little more keenly watched than normal following 2 years of flat profitability. Encouragingly, the profit cycle has improved right on cue, albeit led by the large miners and the banks, so market expectations (for a circa 13% uplift in profits) look to be on track.

Overall, results were solid with:

- 50% of companies exceeding expectations (compared to a norm of 43%);
- 66% of companies seeing their profits rise from a year ago, with strong results from miners and banks seeing overall earnings rise nearly 15% over the year to December, with a near 40% gain for miners. This compares to a 0.5% fall over the year to June;
- dividends rising nearly 14% over the year to December; and
- 56% of companies seeing their share price outperform the day they released results.

Australian profit results relative to market expectations



Source: AMP Capital

So, where to from here?

Investing, as opposed to speculating, is all about focusing on buying quality assets for the long term. A financial asset has the potential to pay an income and a quality asset will generally pay out an increasing income (above inflation) year after year. Strong dividend growth is usually a good sign of a healthy share market but growth in earnings is the key.

According to AMP Capital, consensus earnings expectations for 2013–14 rose slightly through the reporting season with earnings now expected to gain 15%, led by 40% from resources. This is expected to slow to 7% in 2014–15 with resources slowing and non-resources picking up.

Lifestyle's Comment

Overall, we are surprised by the positive earnings season just passed. After attending numerous economic briefings in early 2014, our expectations were low. For us, it is a timely reminder of how market forces push Australian companies to adapt and re-invent themselves. This is good news for most Australians who have at least some of their wealth and future wellbeing tied up in the Australian Share Market.

What's happening with Superannuation?

Lost Super & the ATO

The Australian Federal Government has creatively found a way to deal with lost super - by claiming it themselves.

Under current legislation, inactive superannuation accounts of $2,000 or over will be transferred to the Australian Taxation Office (ATO). New legislation will increase the threshold to $4,000 and then to $6,000. Whilst endeavouring to motivate people to find their lost super, this "move" is expected to raise $815 million in additional revenue.

The ATO has also changed the definition of a lost super fund account. A member's super is lost if: a super fund has not received a contribution or rollover for a member in the past 12 months, and either the fund did not have an address for the member or two pieces of correspondence have been returned unclaimed. This is different to unclaimed super when a member meets eligibility requirements to withdraw but the super fund cannot contact them.

Once a member's account is deemed "lost", super fund trustees are required to transfer those funds to the ATO. Those who have changed addresses on multiple occasions and have worked for various employers are at increased risk of losing their superannuation.

If you realise that you have lost track of your superannuation, you can either contact the super fund trustees or utilise the ATO's online service SuperSeeker. The ATO's service will allow you to: check your super accounts, find any lost super, find any super held by the ATO which was transferred by a super fund because it was classified "lost", and then, transfer the super into your main super fund.

Another important point to note is that if your lost super is transferred to the ATO, you will lose any insurance cover (e.g life cover) you may have held through your fund and you may not be able to get it back.

Super contribution caps rise for the first time in five years

After a 5 year pause, the concessional super contributions cap will (subject to the May Budget) rise in July 2014, enabling those under 50 to boost their super savings by an extra $5,000 pa. The general concessional cap will rise from $25,000 to $30,000, while the cap for those aged 50 to 59 will increase to $35,000, bringing it in line with the cap for over 60s.

Changing concessional cap	2013–14	2014–15
General concessional cap	$25,000	$30,000
Concessional cap aged 50 to 59	$25,000	$35,000
Concessional cap aged 60 or more	$35,000	$35,000

My Super - It is time to get "engaged"!

From January 2014, thanks to the new MySuper regime, funds are now forced to direct all new super contributions from employees who do not actively choose a fund option, into a no-frills, low cost investment option which is universally called MySuper, despite each MySuper fund being different.

MySuper is designed to benefit the 50 to 70% of employees who do not actively choose a fund but settle for the employer's "default" fund which is generally an actively managed "Diversified" or "Balanced" investment option. However, in many instances, new contributions are going into a passively managed MySuper investment option that could have even higher fees than the default option and may have a vastly different risk profile.

The simple message is to "get engaged". If your super contributions have been redirected, it is time to do some research and ask some questions. As always, we, at Lifestyle, are happy to help explain how MySuper impacts you, your family and friends.

$1MIL in Super may not be enough!

At Lifestyle, we have been harping on about this subject for 10 years. In short, it is more likely that you will underestimate (rather than overestimate) how much you need in retirement.

ASIC's Money Smart Retirement Planner shows a home owning couple with $1MIL at age 65 could expect $61,000 after tax income per year until age 90. (Ed: Beyond 90, you may just have to rely on the Age Pension).

Is $61,000 enough? The Association of Superannuation Funds has just released their latest estimate of what would be required for a comfortable retirement. They say $58,000 per year.

Ultimately, everyone's goals in retirement are different. There is no "norm" and "comfortable" means different things to different people. Our suggestion is that you map out your goals in retirement and then estimate what these will cost "you". Only then can you determine if you will have enough.

What's happening at Lifestyle

Lifestyle supports the Bobbo

As part of our community support activities, Lifestyle sponsored the Bobbin Head Cycle Classic (The Bobbo) on Sunday the 23rd of March. A record 2007 cyclists rode in the event, which is organised by the Rotary Clubs of Ku-ring-gai, St Ives and Turramurra. All funds raised go to support their selected charities.

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