passionate planning

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The Star Wars' guide to investing in volatile times

The Star Wars epic may be one of the greatest movie series ever created, but it can also offer us some lessons on how to manage our investment behaviour when the market is volatile. Yoda said it best when he told a young Anakin, "patience you must have."

For some investors, the recent market volatility has resulted in anxiety and concern. In this article, we've outlined some of the common pitfalls that lead to harmful investment decisions and explain that the most important variable in your investing success – and the only thing you can control – is your behaviour.

Don't be a Darth Vader driven by emotions

Darth Vader is the ultimate example of someone who started off on the right track but, motivated by emotion, ended up on the dark side. Many of us have common emotional behaviours which can threaten our financial security. Fear, greed, indecision and regret are the emotions most frequently linked to harmful investment decisions.

In the case of planning for your future, there is at least one tendency that we've all succumbed to on occasion. It's the feeling of instant gratification that causes people to overemphasise immediate rewards at the expense of long-term needs.

You may recognise your own past decisions in a handful of other frequent behavioural tendencies.

1. Overconfidence in your prowess as market prophets can also be detrimental to making market profits. When markets advance enough to get the casual investor's attention, many often start to think their success is the result of skill, rather than cyclical luck.

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2. Obi-wan Kenobi was smart in his advice to a young Luke Skywalker when he told him, “your eyes can deceive you, don’t trust them.” Many investors have a tendency to overweight recent events. It causes misguided decisions at both good times and bad, as fear and greed override long-term prudence. It’s reactive, not proactive, and the response often causes people to buy high for greed’s sake and sell low out of fear.

3. Investors often also fear loss more than they seek gain. Loss aversion makes it difficult to put your money to work outside of a “safe” investment (eg term deposits), even if that perceived safety means inflation may destroy your purchasing power over time. Loss aversion causes people to plan for worst-case scenarios to minimise losses rather than trying to maximise wealth.

How to become a super Jedi and avoid dark side behaviour

1. **Determine your risk tolerance.**
   Are you an aggressive investor? Or more conservative? Can you tolerate wide swings in the market, or are you willing to accept potentially lower returns for lower volatility? Determining your risk tolerance is one of the first steps you should take in setting out your investment plan.

2. **Stay diversified.**
   The very point of diversification is to limit downside losses in difficult markets. If a market correction happens (such as what we’ve seen recently) and you’re properly diversified, you’ll be less likely to lose a substantial amount – and thus less likely to sell at the bottom.

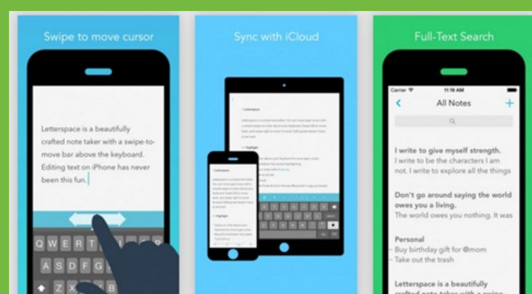
3. **Think long-term.**
   Shmi Skywalker (Anakin’s mother) was on to something when she said, “you can’t stop change any more than you can stop the suns from setting.” It’s good to remember that markets will always change and to realise that in the history of share markets, very few individual events have had a meaningful impact on long-term returns. Not the assassination of President Kennedy, not the fall of the Berlin Wall, not 9/11, not the start of the wars in Iraq and Afghanistan. In each of these cases, the US share market (S&P 500) stood higher two years after the event occurred. Broadly speaking, in time, markets tend to recover from events that may seem overwhelming in the near-term.

4. **Get advice. Find yourself a Yoda.**
   With bumpy markets, fear is a natural reaction. One of the best ways to deal with it is to seek advice from the specialists. Having a plan in place means you’ll be less likely to deviate from it – even when markets test our emotions with wild swings. Much like Yoda, your financial planner will help to guide you in the right direction.

Application Review:

Letterspace – Swipe. Edit. Note

Letterspace is a beautifully crafted note-taking app that is a pleasure to use. It features a minimal yet elegant look and feel to it, so the app is fairly pleasing to the eyes. The default colour scheme is a white background with light blue text and accent buttons, which works well.



The default typeface is Avenir, but there are eight other fonts to choose from. You can also tweak the font size to be smaller or larger. Your notes will be neatly organized in the list view, complete with line previews, and everything can be further organized with hashtags (#) and mentions (@). It’s easy to get around in Letterspace too, since the app feels natural with swiping gestures.

Letterspace uses iCloud for syncing all of your notes between devices, so as long as you are logged into your account on both iOS and Mac, then your notes will always be available.

One of the best things about Letterspace is the blue cursor bar that sits above the keyboard. On the iPhone, this is just the cursor bar, but the iPad version has a full blown keyboard extension with quick Markdown shortcuts. Just swipe left or right on the bar and the cursor moves quickly in that direction.

This is one of those things that you will fall in love with once you try it out, and you’ll wonder why this isn’t more common with writing apps. Fixing typos has never been easier! A double tap on the bar will select the current word that the cursor is on, and you can adjust the text selection as needed. A swipe down on the cursor bar will hide the keyboard, allowing you to go back to the note list and the side panel menu.

Changes to aged pension— Will you be affected?

From 1 January 2017, Government changes to the age pension are likely to reduce pensioner entitlements. It's important that you understand how the changes could affect you.

Increase in the assets test threshold

The assets test threshold is the amount of assets pensioners can hold before their pension starts to reduce under the Centrelink assets test. The table below shows the new thresholds from 1 January 2017.

Family situation	Assets test	Estimate assets
Single, homeowner	$250,000	$547,000
Single, non-homeowner	$450,000	$747,000
Couple, homeowner	$375,000	$823,000
Couple, non– homeowner	$575,000	$1,023,000

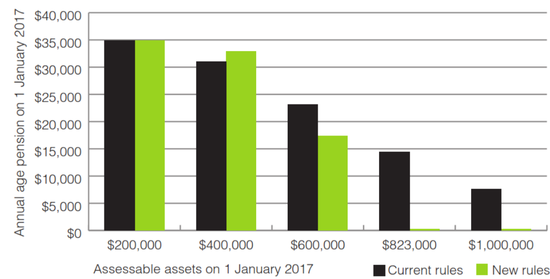
Increase in taper rate

If you are an age pension recipient, the increased taper rate and higher assets test thresholds will likely mean:

- an increase in your age pension entitlement if your asset value is 'around' the threshold, or
- a reduction in your age pension – in some cases to zero – if your asset value is above the threshold.

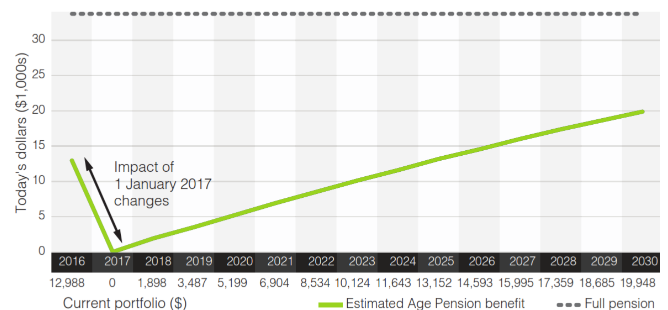
As an example, retired couple Betty and John are both 68 years old and own their home. They have $823,000 in total assets and currently receive a part age pension of $500 per fortnight. If their assets remain unchanged on 1 January 2017, their age pension is estimated to reduce to zero (see Chart 1 and Chart 2).

Chart 1– The effect of a couple homeowner's age pension as at 1 January 2017 [1]



1. Based on information released by the Government available from http://www.liberal.org.au/latest-news/2015/05/07/fairer-access-more-sustainable-pension. The chart also assumes all assets are financial assets subject to deeming.

Chart 2 – Projection of future entitlements



Source: Challenger Age Pension Calculator.

Assumptions: 68 year old couple, homeowners, personal assets at $15,000, financial assets that are deemed at $808,000 and CPI at 3 per cent (any earnings are spent each year).

Speak to your financial planner to find out more about the likely impact of these changes on your entitlements and to explore strategies to help reduce the impact.

Warning over 'phantom interest rate' deals

HOME loan customers are being warned not to get sucked in by "phantom interest rates" which turn up being higher not long after signing up. There are a number of lenders in the market using phantom rates to capture market share, and it is possible that these rates are now not sustainable due to the cost of funding. During December to March alone, there have been 18 variable home loan rate hikes[3] despite the RBA not making a chance to interest rates.

[3] Source: Finder.com.au

Approaching retirement? Protect your plans.

You have taken a long and varied pathway to get where you are, but you have finally reached that point in your life where you are confident about who you are and what you want. Whether it's the satisfaction of a successful career or the joy of parenthood, it's likely you have much to be proud of, so while you're not over the hill yet, the time to start planning for a comfortable retirement is now.

HSBC's recent Future of Retirement study reveals that while Australians expect to spend 23 years in retirement (that's more than half the time many spend in the workforce), money will run out for many after only 10 years, leaving them reliant on the age pension. [2]

Maximising your retirement savings and protecting your income during your last few years in the workforce should be a fundamental financial priority. You may not be as healthy as you once were and have limited sick leave and annual leave to fall back on. You may have transition to retirement arrangements that rely on regular super contributions. For example, you may still have a mortgage on your own home or perhaps on an investment property or holiday home.

You've got a lot at stake and you've come too far to not protect it, which is why life insurances still play an important role. So what are types of protection that might be important for you?

This is a question without a simple answer, although it's likely that your income is central to your plans – so protecting it should be a priority.

Once you hit 50, the chances of suffering serious illnesses like cancer or heart attack increase. Trauma like this can leave a big dent in your savings, and trauma cover is designed to help you meet all those out of pocket costs that come with such conditions, so you can concentrate on recovering. The downside is that in your fifties, this type of cover can become expensive, so you really need expert help to determine the best way to protect yourself in these circumstances.

Income protection and life cover can both be funded through superannuation, which can obviously help with cash flow but will draw down on your superannuation balance.

When it comes to funding cover, longer term certainty versus shorter term affordability is also often a major decision criteria and unsurprisingly, many life insurance customers (usually buying cover at a time that coincides with their peak indebtedness) find the short term cost savings of a stepped cover level too tempting. This is especially true when the point at which level premiums put you ahead can be 10 years or more in the future.

Whilst it is a given that some sort of protection is still important at this stage of life, the best mechanisms to achieve this protection will vary depending on your personal circumstances, which is why it's important to speak with your financial adviser about protecting your retirement plan.

Speak to your financial planner below for more information about protecting your retirement.

[2] HSBC, The Future of Retirement Life After Work?, 2013, www.hsbc.ae/1/PA_ES_Content_Mgmt/content/uae_pws/pdf/en/future-of-retirement.pdf.

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