passionate planning

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Global technology wars

Every day, we are bombarded with news about incredible breakthroughs in the technology sphere. What was once a long way into the future, maybe in a different world, is coming closer and at a faster pace.

Self-driving cars, drones with shopping parcels, big data and 3D printing are just a few of the recent innovations to grace our lives.

Start-ups that were in their infancy less than a generation ago, now bestride the global economy, battling each other for supremacy. The market value of the 'big 4' – Google, Amazon, Facebook and Apple – alone totals well over $1 trillion and employs around a quarter of a million people, more than Ford or GM individually, and generating far higher profit per employee.

But it is not just about these headline grabbing firms. As technological advances permeate, we're seeing a world where companies that are able to obtain an information edge are increasingly moving ahead of their rivals.

Sometimes, the speed of change and technological advances not only give these companies an edge but create binary outcomes – creative destruction at warp speed.

For Australian investors, this does raise more than a few issues. In 1992 the big four banks were valued at between 5.0 per cent or 6.0 per cent of GDP.

Today, they now trade at a collective valuation of around 25 per cent of GDP. That is a tremendous expression of faith in the value and sustainability of profits in the face of change.

Whilst the fully franked bank dividend is a beloved icon, especially amongst the DIY investor set, so was the Holden. The banks are at the vanguard of the franking frenzy. Barclays recently reported that about 36 per cent of household assets are tied up in our national banking system, a record high. High dividend payers like Woolworths, Wesfarmers and Telstra aren't far behind in the heart and mind of the SMSF trustee. But, if China's financial wobbles aren't enough to give domestically entranced investors pause, they

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In This Issue

Four tips on what to do with a windfall

We've all had those 'what if' moments, where thinking big gives us a rush of adrenaline. But seriously, before you rush off on that long dreamed of holiday, what should you do if you were lucky enough to land a windfall? Here are four practical options to consider:

Pay off debt

Paying off debt is one of the most financially sensible things you could do. In today's debt-fuelled world, it's wise to pay off loans which charge you the highest rates of interest, such as credit cards, car or personal loans, store cards or short term loans, before you think of doing anything else with your cash.

Only then should you consider paying off your mortgage, in full or in part, because your mortgage is likely to be charging you the lowest interest rates. Apart from the savings you'll make from lower interest payments, getting rid of debt could also eliminate financial stress and allow you to focus on smarter financial decisions for your future.

Build up your super balance

You should consider taking advantage of non-concessional contributions and build more of your wealth within super, rather than having it all invested in your own name in the bank. Non concessional contributions refer to after-tax amounts which are indexed each year.

Diversify your investments

Keeping large sums of money in the bank at current term deposit interest rates may not be the best investment in the long term. You could work out what large capital expenses you may have over the next three years and leave this sum in the bank, but the remainder should be invested in a more growth oriented manner, depending on your appetite for risk.

If you have already purchased an investment property, you could consider building up investments in Australian shares, international shares and other asset classes to diversify your investment portfolio.

You could also look at a managed fund that is appropriately diversified across a number of asset classes, but a good portion should be in Australian shares to deliver the growth that can be achieved over the long term with this asset class.

Seek professional help

You should seek professional help about your current situation. It doesn't matter what stage of life you're at, how much money you have, or how much advice you need, it could be beneficial for you to sit down with a professional and work out your short and long term financial goals and aspirations.

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need also to consider the big new shift towards digital wallets and 'P2P' (person to person) financial services.

Apple recently signed a deal with the major credit card providers for their new Apple Pay system, potentially cutting the big financial services firms off from their clients. Richard Goyder, CEO of Wesfarmers, has said he doesn't worry about Woolworths so much anymore as he does Amazon. Global high-tech business, especially those based in the US, are penetrating deep into the heart of formerly impregnable business models around the world and delivering bumper profits to its shareholders with their smart phones, e-commerce platforms and ecosystems.

As the Australian dollar stubbornly holds onto levels well above where it should be, this may be a great time for investors to think globally.

Pay

What is Apple Pay?

Apple Pay is Apple's system for making purchases at many major retailers or through in-app purchase. With Apple Pay, you'll be able to hold your iPhone up to a credit card terminal, then use Touch ID -- Apple's fingerprint tech -- to make a purchase. You'll also be able to buy stuff within applications just by using Touch ID at the appropriate time during checkout.

To ensure security, Apple have introduced a two-part hardware-based security solution for Apple Pay. The first part lies in your fingerprint, which is required for each transaction. The second part is a built as a chip and available only in the iPhone 6 and iPhone 6 Plus, the secure element is where your financial information is stored. The secure element found in the iPhones is also safe from hardware attacks. In fact, if a thief dismantled your phone, the secure element would sense tampering and immediately shut down.

A SMSF trustee decision for the long, long haul

One of the longest-term decisions many investors will make is whether to setup a self-managed superannuation fund (SMSF) with individual trustees or a corporate trustee.

It is a decision that could have financial and personal implications for as long as the SMSF remains in existence including when a member leaves the fund and/or a new member joins.

Indeed, some SMSF members would not fully recognise the key differences between having individual trustees or a corporate trustee until a member dies. Of course, this consideration is particularly pertinent given the ageing of the population.

Under superannuation law, all members of a SMSF must be either individual trustees or directors of a corporate trustee of the fund. A SMSF with individual trustees must have at least two individual trustees yet a corporate trustee can have only one director.

The tax office's latest-available SMSF annual statistical review records that 92 per cent of the SMSFs established in 2013/14 had individual trustees – a rise of two per cent over three years.

As the tax office observes, 'there has been a consistent shift away from corporate trustees'. This could partly be attributable to some investors focusing on what may seem the easiest and most hassle-free way to setup a SMSF –perhaps without weighing-up the long-term differences between the two types of trusteeships.

Others planning a SMSF would no doubt carefully compare the features of each type of trustee – perhaps in consultation with their financial planners – and then choose the best perceived course for their circumstances.

Interestingly, 77 per cent of SMSFs in existence on 30 June 2014 had individual trustees. In other words, 23 per cent have corporate trustees against 8 per cent for new SMSFs.

A proportion of SMSFs would have begun with individual trustees and later switched to a corporate trustee, perhaps after the death of a member.

The tax office, as regulator of self-managed super, urges would-be SMSF members to understand the differences between the two types of trustees. It could be worthwhile gaining advice about the issue from a SMSF specialist.

On one hand, individual trustees – with each member acting as a trustee – can cost less to establish because a company is not setup to act as a trustee. However, the Australian Taxation Office points out that there are other considerations apart from initial cost.

A SMSF with individual trustees must hold its assets in the name of all those individuals as trustees of the fund. If an individual trustee is replaced, the names on the funds' ownership documents must also change. 'This can be costly and time consuming,' the tax office warns.

By contrast with a corporate trustee, assets are held in the name of a company as trustee. If trustee directors change, the assets remain in the name of the same company.

If a fund has two individual trustees and one dies, the fund must appoint another trustee to continue as a SMSF. (This is because of the requirement that a fund must have at least two individual trustees.) Yet if a SMSF has a corporate trustee, a deceased trustee director may not have to be replaced because a corporate trustee can have a single director.

In other words, a corporate trustee will continue to control a SMSF and its assets after the death or incapacity of a member.

To find out more about establishing a SMSF or to discuss your current SMSF trusteeship, speak with your financial planner.

Make sure your estate ends up in the right hands

Each year, large numbers of Australians die without a Will. As our lives become more complex, it is an oversight that can be as costly as it is heartbreaking.

None of us like to contemplate our own mortality but unfortunately the adage about death and taxes being life's two certainties is absolutely spot on and it's worth putting plans in place for what happens when we die.

Dying without a Will – known as dying 'intestate' – may not be a problem if you have few assets, have been married to the same person all your life and have no kids. In that situation everything you own passes to the surviving spouse.

But many of us have significantly more complicated lives.

Our high divorce rate means an ex, a new spouse or partner and even stepchildren can enter the inheritance scene. Our assets are also more complex, with superannuation often ranking as the second most valuable asset after the family home.

It all adds up to make having a formal Will more important than ever before.

Intestacy can leave a trail that leads to court

Essentially, a Will dictates who will receive each of your assets when you die. Without a Will in place, your estate will be divided up according to the laws that apply in your state or territory. While these statutory decision trees are set in stone, they are unlikely to be in line with your wishes.

This is especially the case if you have separated (though not formally divorced) from a former spouse, who could potentially inherit everything you own if you die intestate, leaving a new partner with nothing.

The bottom line is to speak to your financial planner and lawyer about arranging a valid Will. All the hard work invested in following a tailored financial plan could unravel in the blink of an eye if you die intestate. The reality is none of us know when we will pass away, so the merits of having a current Will apply equally to everyone.

Not every asset is covered by a Will

One of the benefits of discussing your estate plans with your financial planner is that they have a clear picture of your asset position.

This is important because not every asset you own forms part of your estate.

Many people are surprised (and often just a little unnerved) for instance, to discover that it can be left to their super fund trustee to decide who inherits their super.

There is a way to have a say in how your super is bequeathed, and it involves completing some paperwork called a 'binding nomination'. This spells out to the fund trustee who you would like to inherit your super and any life insurance held through super.

Only certain people can inherit your super tax free – notably your spouse and dependent children, or a person with whom you share an interdependent relationship – such as two aged siblings sharing a home together.

Your financial planner can help you make important decisions about who inherits your super and guiding you through the possible tax pitfalls to ensure the best outcome for everyone involved.

The critical thing is to take action today. None of us know what lies around the corner. Once your estate plans are in place, be sure to review those plans annually or following any major change in your life or asset holdings.

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