

Tougher times ahead?

We look at how the recent drop in commodity prices is affecting the economy.

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Helping you achieve financial success and peace of mind by providing you with a personalised financial strategy



Welcome to our latest edition of Insight

Through this newsletter we hope to provide you with relevant insight into the areas which affect you and those around you.

In this edition I would like to discuss a common misconception regarding our industry. I often hear that, “you have to have a lot of money to invest to need a financial planner”. Nothing could be further from the truth.

All areas of your financial life can benefit from the professional and objective input a financial planner can provide. Whether it be debt management, life insurance strategies, creating wealth or a full strategic plan to map out how to achieve your financial independence, we can provide experienced, cost effective advice to help you achieve your goals.

So if you know someone who would benefit from our services or you feel you would like to review your own situation please contact our office or your adviser directly. Alternatively you can contact us via our website and Facebook page where you will also find other great resources with relevant and interesting information.

Lastly I would like to introduce you to our newest staff member Kloe Hynds. Kloe has recently joined our customer service and administration team and will be working closely with clients and our advisers. We're excited to have Kloe on board and I'm sure you will hear from her next time you contact our office.

Once again thank you for your continued support and have a fun and safe summer.

Kind Regards
Chris Hockey
Director
Innovative Financial Solutions (QLD) Pty Ltd

Protecting your passwords



The world's biggest ever online security breach shows how important it is to keep your passwords safe. Here are three essential tips to keep you safe online.

The internet has made all of our lives easier and more convenient. But it can also have its risks.

Recently, a Russian gang was reported to have stolen over 1 billion user names and passwords, using a network of infected computers to break into more than 420,000 vulnerable websites with substandard security¹. If proven, it will be the world's biggest ever online security breach.

Incidents like this show how important it is to protect your passwords and personal data. Fortunately, a few simple precautions can make a big difference.

Tip 1: Use a unique password for every site

If you re-use the same password across sites, a breach at one poorly secured site can give fraudsters an entry point for stronger sites guarding important financial information. That's why it's good practice to create a unique password for every site.

One popular approach is to take a standard 'base' password and vary it with extra letters or symbols for each site. Another option is to use password manager software to automatically create unique, secure passwords for every site you log into. That way, you only ever need to remember the password for your password manager – it takes care of the rest.

Tip 2: Create strong passwords

Another favourite technique for online fraudsters is to try and guess user ID and password combinations with automated software that can crunch through thousands or even millions of combinations every second. The stronger the password, the harder it is for them to guess.

For example, PC World's nomination for worst password of 2013,² 123456, might only take an attacker 18.5 minutes to guess. Whereas a stronger password like pas!sWOR\$D123456 could take them as long as 14 million trillion centuries.³

Here are some tips for creating stronger passwords:

- Make it long. The longer it is, the harder it is to guess.
- Use a mix of upper and lowercase letters, numbers and symbols (for example, \$, # or !). Adding an extra letter makes your password 26 times harder to guess, but adding a symbol makes it 1,530 times more difficult.³
- Avoid dictionary terms (including foreign words), since hackers use dictionary tools to get a head start.
- Don't share your passwords with anyone.
- Don't use your browser to automatically remember passwords.

Tip 3: Beware suspicious emails

Even the strongest password is no good if you voluntarily surrender it to a fraudster. Smart but trusting people still get caught out by hoax 'phishing' emails asking them to click a link, open an attachment or visit a website to 'update' their log on details.

The hoaxers are getting better all the time, so it pays to be cautious. Don't follow links in emails unless you are very sure where they came from. When you want to log on to a secure website, use your browser to navigate there directly, rather than following an emailed link.

And remember – we do not send emails requesting you to confirm, update or disclose your confidential investment information.

¹ BBC News, 'Russia gang hacks 1.2 billion usernames and passwords' 8 August 2014. ² PC World, 'The 25 worst passwords of 2013', 20 January 2014.

³ Estimates from Gibson Research Corporation, www.grc.com/haystack.htm

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The drop in commodity prices

It's something of which many Australians are aware but perhaps people fail to appreciate the extent that it could reach into their everyday lives. It's the recent tumble in commodity prices. The decline in the price of our biggest exports such as coal (15% of our exports) and iron ore (25% of foreign receipts) has such consequences that it could end Australia's 22½-year stint of unbroken economic growth.



The industrialisation of China in recent decades benefited Australia in many ways. The most potent was by the tripling from 2004 to 2011 of the prices at which we could sell our main commodity exports. Now China faces an economic crisis. Its appetite for the steel that iron ore makes and the power that coal generates is dimming, just as extra supply is hitting the market thanks to all the investment in recent years that expanded production.

Lower demand and more supply are a textbook situation for lower prices. Iron ore prices have plunged from US\$140 a tonne in January to below US\$80 per tonne in September, a decline heading towards 50% and the lowest level in more than five years. (Thermal) coal prices have more than halved over the past three years. The Reserve Bank of Australia's commodity price index, which tracks Australia's biggest material exports, slumped 16.0% in Australian dollars in the 12 months to September.

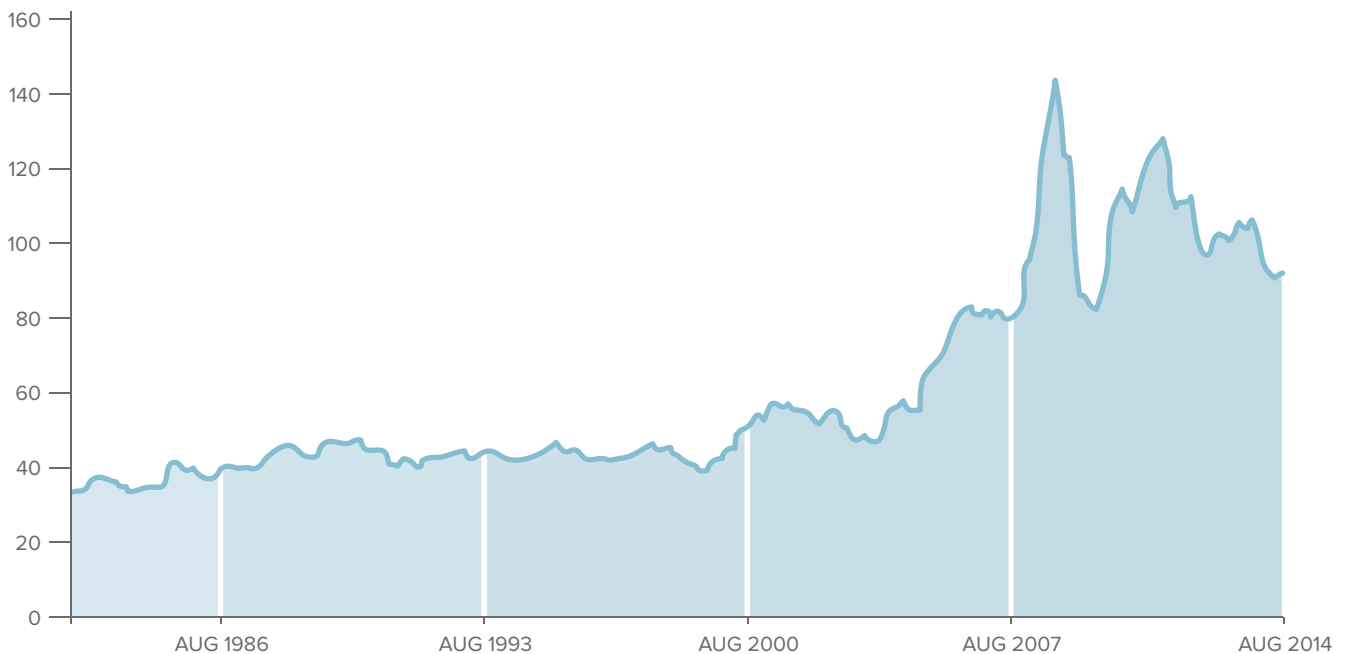
A drop in commodity prices is having the opposite effect to what the more-than-doubling in Australia's term of trade did from the late 1990s to their peak in 2012-13. (The terms of trade measures the price of our exports against imports and is the broadest indicator of where the prices of our exports sit.) Our terms of trade have slumped 25% since their record high in 2011 for not only are iron ore and coal prices slipping, so too are the prices of wheat, sugar and even gold.

Lower demand and more supply are a textbook situation for lower prices.

Back in the glory days of rocketing commodity prices, the Australian dollar soared to as high as 110 cents to the US dollar. Investment and employment boomed as companies expanded mining capacity. The jobless rate fell as low as 3.7% in 2008 (compared with 6.3% in August just gone¹.) Rising company profits boosted the government's tax receipts, allowing it to spend more on services and to cut taxes without running a deficit. The higher Australian dollar boosted the wealth of all Australians and, via lower import prices, kept inflation under control. Naturally, the stock market boomed. (If you think the mining boom bypassed you, it didn't once you allow for its indirect effects.)

Now the Australian dollar is dropping – on October 3 it reached a four-year low of 86.82 US cents. Mining companies are holding back on investment, shedding jobs and even going bust. Lower company profits are putting more pressure on the federal government's budget. The last two consequences are not conditions favourable for fast economic growth. (You can expect Canberra's finances to dominate politics for a while yet!)

RBA index of commodity prices since 1982 in \$A



Not all is gloom, however. The Reserve Bank of Australia has cut the cash rate to a record low of 2.5% to help the economy, which hopefully will do more than just ignite a housing boom. The lower Australian dollar helps our exporters or local businesses that compete with foreign ones – tourist attractions in Australia, for instance, are better placed. The investment in recent years that boosted mining capacity means that our commodity export revenue has held up fairly well because we are selling more commodities even as we get less for them. Outside Australia, the US economy is improving while countries such as India and Japan are making big efforts to turn around their economies.

But China's economic outlook appears to be worsening and could even result in export volumes being hit. The pessimism surrounding China's outlook could hit consumer sentiment and household spending, which is behind about 50% of Australia's output. Some commentators are forecasting that the Reserve Bank may even cut the cash rate to as low as 2% in 2015 to prop up economic activity (and that the dollar's decline has a way to go yet².)

The broadest government report on Australia's economy, known as the national accounts, that was released in

China's economic outlook appears to be worsening and could even result in export volumes being hit.

September showed that real net national disposable income per person fell for the two years to June this year as prices for our exports dived.

Net national disposable income adjusts gross domestic product to allow for changes in the terms of trade, real net incomes from overseas and the depreciation of fixed assets used in production. It is considered a broader measure of national wellbeing than changes to gross domestic product.

The worrying thing is that the two-year drop in this measure on a per-capita basis was the first time this has happened since the recession of the early 1990s. It doesn't mean a recession lies ahead but it warns of tougher times in coming years than perhaps to which we have become accustomed. Such is the hold that export prices hold over an economy.

Source: RBA. August 2014. Information on commodity prices in this article largely comes from the Reserve Bank of Australia's index of commodity prices. <http://www.rba.gov.au/statistics/frequency/commodity-prices.html>. Terms of trade and net national disposable income data comes from the Australian Bureau of Statistics release 5206.0 "Australian national accounts: National income, expenditure and product". 3 September 2014. [http://www.ausstats.abs.gov.au/ausstats/meisubs.nsf/0/4D57FAE7569ECB7FCA257D4700123D88/\\$File/52060_jun%202014.pdf](http://www.ausstats.abs.gov.au/ausstats/meisubs.nsf/0/4D57FAE7569ECB7FCA257D4700123D88/$File/52060_jun%202014.pdf). Share of iron ore and coal in exports comes from the ABS' publication 5368.0. International trade in goods and services". 4 September 2014. [http://www.ausstats.abs.gov.au/ausstats/meisubs.nsf/0/004C390F1A733602CA257D480011B2CB/\\$File/53680_jul%202014.pdf](http://www.ausstats.abs.gov.au/ausstats/meisubs.nsf/0/004C390F1A733602CA257D480011B2CB/$File/53680_jul%202014.pdf). Other financial information comes from Bloomberg unless stated otherwise. This article is issued by FIL Responsible Entity (Australia) Limited ABN 33 148 059 009, AFSL No. 409340 ("Fidelity Australia"). Fidelity Australia is a member of the FIL Limited group of companies commonly known as Fidelity Worldwide Investment. References to (\$) are in Australian dollars unless stated otherwise. Innovative Financial Solutions (QLD) Pty Ltd recommends you obtain professional financial advice specific to your circumstances.

¹ The Australian Bureau of Statistics. 6202.0 – Labour Force, time series spreadsheets. Table 02. Labour force status by sex – seasonally adjusted. The jobless rate fell to 3.7% in February 2008. <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6202.0Aug%202014?OpenDocument>

² The Sydney Morning Herald. "Dr Doom' Nouriel Roubini's firm warns of 20% Australian dollar slump." 22 September 2014. <http://www.smh.com.au/business/the-economy/dr-doom-nouriel-roubini-firm-warns-of-20-australian-dollar-slump-20140922-10kc2e.html#ixzz3E17C9tvv>.

Life Insurance for business owners

Because it all depends on you.



Small business. Big risks.

When you run your own business, a lot rests on your shoulders. Business debts, running costs, employee wages – they all depend on your ability to keep working.

Then there's your household expenses. And, most importantly, your family. With your family's financial security so closely linked to your business, you need to think about what would happen if something happened to you.

You need a plan that covers it all.

- Cover for you
- Cover for your business
- Cover for your family

It could happen to you

You only have to know someone who's been struck down by sickness or injury to know it can, and does, happen.

Did you know?

Every year, serious illness and injury forces about 17,000 working-age parents to stop working either permanently or for an extended period of time.

(The Lifewise/NATSEM Underinsurance Report, February 2010)

Get the cover you need

We have a range of insurance options to suit you. To make sure you have the right insurance cover, in the most tax and cost-effective structure, speak to a financial adviser.

Strategies for your business...

Debt repayment strategies can help ensure your existing debts are repaid.

To help you cope with a significant reduction in turnover due to your inability to work, your **fixed business expenses** – like rent, non-income producing staff wages and electricity – may be covered.

If a **key employee** dies, suffers a critical illness or becomes totally and permanently disabled, an insurance policy can help cover the financial impact on your business.

By taking out life insurance on yourself and a business partner, you can ensure a **buy/sell agreement** is triggered if something happens to either of you.

your family...

Protect your family's lifestyle by covering against the **loss of your income** – on a temporary or permanent basis.

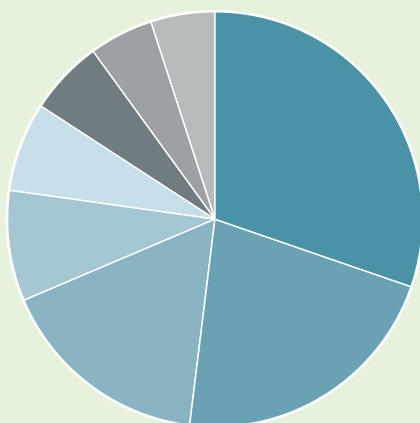
You can cover yourself, your spouse, and your children against **increased medical expenses**.

Personal **debt protection** can ensure your family is not left with unaffordable debt if you are unable to work.

...and your wallet

You can often claim income protection and business expenses premiums as a **tax deduction**.

You may be able to take out lump sum Life and TPD cover **inside super** – effectively reducing the cost of insurance by your marginal tax rate.



Why do people claim?

Reason for Income Protection and Business Expense claims*

- Accidents 31%
- Musculoskeletal disease 22%
- Mental illness 17%
- Cancer 9%
- Other 7%
- Diseases of the circulatory system (inc heart disease) 6%
- Diseases of the nervous system and sense organs 5%
- Diseases of the digestive system 3%

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Super guarantee increases frozen: what it means for you

As part of a deal to repeal the mining tax, the Government has frozen super guarantee increases until 2021, costing Australians around \$128bn in lost super savings.¹



What's changing?

The super guarantee contributions that most Australian workers receive from their employers were set to increase by half a percent a year from 2014, up to 12% of each worker's annual salary by 2019.

But on 2 September 2014, the Federal Government announced that, as a result of its deal to scrap the Minerals Resource Rent Tax, those increases will be delayed for seven years². Instead, super guarantee contributions will be frozen at the current rate of 9.5% of salary until 1 July 2021. After that, they will gradually increase to reach the target of 12% per annum in 2025.

By taking action to boost your super now, you can offset the effects of the changes and make a positive difference to your financial wellbeing in retirement.

What does it mean for you?

Put simply, the changes mean less super for millions of Australians – around \$128 billion less by 2025, according to the Financial Services Council³. As a result, many will struggle to save enough for a comfortable lifestyle in retirement.

According to the Association of Super Funds of Australia, even with a super guarantee rate of 12% per annum, a typical worker earning \$50,000 a year might expect to save around \$244,000 over 30 years – just a little over half the

\$430,000 lump sum required for a comfortable retirement lifestyle, assuming a part pension³. Now Australians can expect to save even less.

Here are some examples of the potential impact of the changes:

Age	Salary	Current super balance	Projected Balance at age 65		
			Before changes	After changes	Difference
25	\$50,000	\$20,000	\$491,660	\$474,274	-\$17,413
35	\$70,000	\$80,000	\$554,452	\$536,072	-\$18,380
45	\$85,000	\$150,000	\$505,964	\$489,135	-\$16,828
55	\$85,000	\$250,000	\$428,190	\$415,890	-\$12,300

What can you do about it?

By taking action to boost your super now, you can offset the effects of the changes and make a positive difference to your financial wellbeing in retirement. For example, according to ASIC's MoneySmart Superannuation Calculator, the 45 year old in the table above can increase their super balance on retirement by more than \$56,000, simply by using salary sacrifice to boost their annual contributions by another 3% of salary each year, or around \$212 a month.⁴

A financial planner can help you work out the best way to increase your super savings. Remember – the sooner you act, the better off you're likely to be

¹ Financial Services Council media release, 'Super guarantee delay will mean \$128 billion less in savings for working Australians', 2 September 2014. ² Media Release, Senator Mathias Cormann and JB Hockey, 2 September 2014. ³ Association of Super Funds of Australia, ASFA Retirement Standard, June 2014. ⁴ Source: MoneySmart Super Calculator at www.moneysmart.gov.au

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At Innovative Financial Solutions (QLD), our aim is to help you achieve financial success and peace of mind by providing you with a personalised financial strategy.

About us

We are a boutique financial planning practice providing strategic financial advice solutions for clients in areas such as wealth creation, superannuation, risk management and retirement. We strive to provide you with a plan that will create and protect your wealth over the long term, while dealing with your day to day financial needs.

We are committed to service excellence and ongoing adviser education. All of our advisers are qualified, financial experts with the experience to ensure the best financial outcome for you. Our quality financial advice puts you in control.

Our advisers

Our highly accessible and expert professional advisers are the key to our first-class client service. They will provide clearly communicated, tailored solutions and practical recommendations to ensure you grow and succeed in today's challenging environment.

Their capability is constantly improved through training, professional development and workplace programs.

The value of advice

Making the right decisions about your finances has never been so important. A financial planner can help you do this by understanding your financial situation and helping you develop a financial plan to meet short and long-term goals.

The right financial planner has the potential to provide outstanding value for money - creating a benefit that reaps rewards far in excess of the cost involved.

Of course, 'value' often goes beyond dollars and cents. It can be the peace of mind and security that comes with being prepared for the future. Or it may be the helping hand that arrives at a time of personal upheaval. Sometimes it's the clear sense of direction an expert can provide when we arrive at one of life's crossroads.

Whether you have definite personal goals, like saving for retirement or funding your children's education, or you're facing a raft of financial challenges, a financial planner can make a difference. Put one of our financial planners to the test and you will be offered sensible, achievable solutions that identify opportunities and help you avoid costly mistakes that could derail your future plans.

Our Services

Personal insurance
Superannuation

Retirement Planning
Investment Strategies

Small Business Planning
Estate Planning



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