



# fluid

financial planning

SECURING YOUR FUTURE

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## Autumn 2012

### Economic update

Now a year after the natural disasters of early 2011, the world seems in better shape than it was then.

Still, bank and sovereign debt issues in Europe remain unresolved, recession is likely in the Euro zone, and world oil prices are rising. On the plus side, the US and China, the world's biggest economies, are both showing positive signs.

In late February the S&P 500 index on the New York exchange reached its highest level since June 2008, while in Australia the ASX 200 is also up this year.

Prices for Australian commodities like iron ore and coal have fallen from their peaks but remain high. Citing uncertainty over Europe, the Reserve Bank has not eased interest rates since late 2011.

The local economy remains patchy but solid on the back of the resources sector and the business investment which it is driving. However, while inflation remains steady around 3 per cent, the strong resources sector adds pressure via the high Australian dollar and continued consumer caution.

These factors are driving some structural change, leading to an increase in unemployment in some sectors, though overall unemployment levels remain in the 5 to 6 per cent range.

As Autumn comes closer, we look towards Europe for signs of stability and growth.

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# Working out the future



News of job cuts is sharing the headlines with the debt crisis in Europe and domestic political machinations, but what lies behind the job stories is what really matters.

Thanks to some tough decisions taken over recent decades, Australia is far from the global doom and gloom scenario some commentators write about.

With risks hanging over the global economy, particularly from Europe, consumers and businesses are understandably keeping a tight rein on spending, debt and costs.

Retailers, along with the construction, aviation, manufacturing and finance sectors are finding things particularly tough. It is within these industries that many of the redundancies are occurring.

At the same time, unprecedented global demand for commodities, particularly from Asia, means much of the mining sector has the opposite problem; it is struggling to find the workers with the skills it needs.

## Good luck or good management?

Much of Australia's success in getting through several global economic downturns, including the Asian Financial Crisis of 1997-99, the dot.com boom and bust in 2000, and the recent global financial crisis, can be brought back to the decision in 1983 to "float" the Australian dollar and let it find its value in the world's currency market.

Once the dollar was floated, it was hard to turn back; Australia and Australians had to compete with the rest of the world, boost productivity and make some adjustments.

As a result, tariffs were reduced and trade was orientated towards the emerging economies in East Asia, well before China began to accelerate.

The end of protection shifted Australia from being an uncompetitive manufacturer in areas such as clothing and footwear, to being highly competitive and successful in the education and services sectors, especially while our dollar was well below parity with the US dollar.

Australia developed an education sector generating \$16.3 billion in export earnings in 2010-11, as well as a professional services sector which is internationally focussed and competitive in areas as diverse as architecture, engineering, accounting, design, business logistics and management.

It is no surprise that as Australia's fortunes grew so did the need for a sophisticated, efficient financial sector to fund the country's global expansion and engagement. Though still small, Australia has now made it into the top 10 securities exchanges in the world.

## Moving forward

Where Australia heads from here rests largely on its ability to remain competitive and innovative in key areas of the economy, particularly resources and education, and to learn from international best practice, with potential models in countries like Germany, the world's third largest industrial power.

The Department of Education, Employment and Workplace Relations is predicting all industries, with the likely exception of manufacturing, will increase their employment over the next three years.

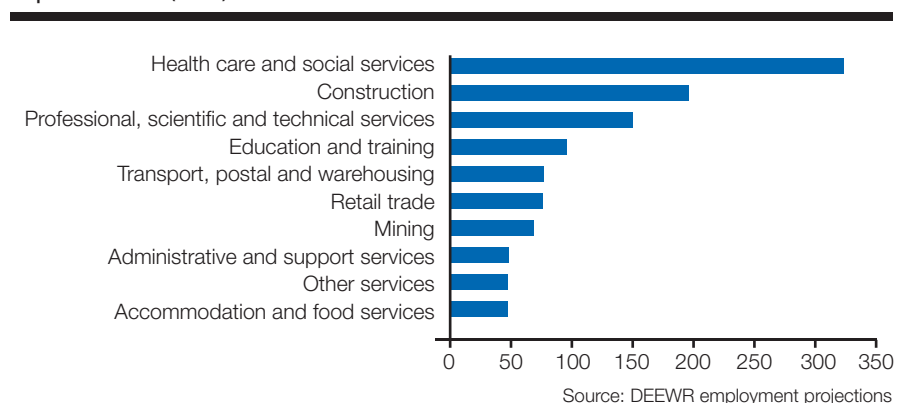
As the graph below shows, predicted areas of growth are in construction, health care and social assistance, and professional, scientific and technical services.

Boosting the employment options in manufacturing will depend on our ability to innovate and to utilise our strengths in education and resources. Governments can help set the framework for a productive economy but it is largely up to Australian businesses to increase productivity and drive economic growth.

If history is anything to go by, opportunities for Australia in the global economy today will be very different from the opportunities in a decade's time.

It is true that for people who have lost their jobs and struggled to find a new one, things might look bleak, but it is also true that the "lucky country" has a solid track record when it comes to changing with the times.

Projected employment growth to 2015-16,  
Top industries ('000)





# COVER THAT WORKS WHEN YOU NO LONGER CAN

▄▄ *TPD can deliver a lump sum to help pay off your debts, provide the money for medical costs and/or to invest so you have an ongoing income stream* ▄▄

It's bad enough to have an accident or become sick and find yourself without an income, facing hefty medical bills. It's even worse if you are not insured.

And yet by Financial Services Council estimates, some 95 per cent of Australian households are underinsured.

Of course insurance isn't just about life and death. What if you were to become incapacitated, for example? That's where total and permanent disability (TPD) insurance is important.

## WHAT IS TPD?

Depending on your specific policy, TPD pays out when you are unable to work in either your own or any occupation for which you are suited by training, education or experience. The policy can deliver a lump sum to help pay off your debts, provide the money for medical costs, and/or to invest so you have a future income stream.

You need to check what illnesses or injuries are included in the TPD policy as each one will be different. Policies may cover the impact from stroke, heart disease, cancer, motor vehicle accidents, musculoskeletal disorders, amputations and loss of eyesight, as well as mental illness which comes in many forms and affects many age groups.

And TPD differs from income protection insurance because you need to be permanently disabled to receive a payout.

## WORKING FOR YOU

Generally, TPD is bundled with term life insurance but in some cases it can be taken as a stand-alone policy.

This is particularly useful if you are single with no need to leave money to a beneficiary on your death but still want funds should you no longer be able to work.

On the latest available figures, one in every 2,022 people who have a TPD insurance policy made a claim over the period 2005-09. Add to that number those Australians who don't have cover in place and the number affected by no longer being able to work is significant. Clearly it makes sense to incorporate TPD insurance into your risk management strategy.

## BUILDING A STRONGER FUTURE

Many people take out TPD insurance through their superannuation as the premiums are tax deductible.<sup>1</sup> This means you can get more cover for your money than paying out of your post-tax income. But there may be issues when it comes to getting money out of the fund, which is why it is good to get advice.

This advice is important because not all TPD policies are the same. The first decision is whether your policy will pay out if you cannot perform your "own" occupation or if you cannot perform "any" occupation, although some policies do offer a combination.

This difference is significant. "Own" occupation is more specific than "any", invariably costs more, and may only be

available for professionals. Say you are a heart surgeon and lose a hand; clearly you can no longer operate. But perhaps you had previously lectured, a job to which you could return. If your policy is worded "own" then you could still make a TPD claim; if your policy is worded "any", then you might miss out as you can still work as a lecturer.

But while "own" appears to be a more favourable definition, it can lead to problems if you take your TPD policy through your superannuation. The law which governs superannuation funds restricts immediate payment to those claims meeting the "any" occupation definition, which could mean TPD proceeds remain in the fund until you meet a condition of release such as retiring on reaching preservation age (55). This may be an argument for holding some TPD insurance outside super.

## SUPPORTING ALL THE FAMILY

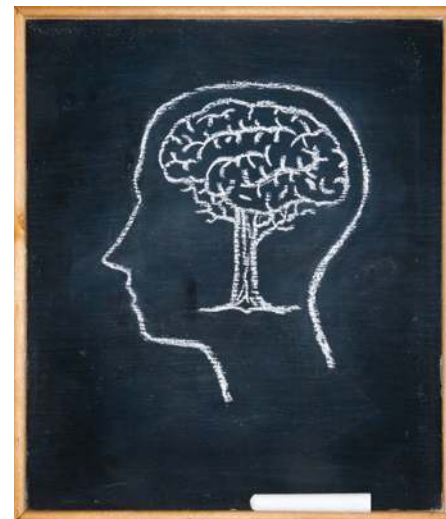
Unlike income protection insurance, you don't just have to be in the workforce to take out TPD so it is particularly useful for homemakers. After all, if you could no longer look after your family, your spouse might have to leave work or else employ somebody to take over your role. A TPD payout could cover these costs.

If you want to know which TPD insurance cover is best for you and whether you should hold it within or outside super, please contact us to arrange a time to discuss TPD and other insurance options with you.

<sup>1</sup> The tax deductibility of a TPD policy is dependent upon the specific policy and your individual circumstances.



# TWO BRAINS ARE BETTER THAN ONE



**Y**ou may have heard of the right brain–left brain theory that each side or hemisphere of the brain has different functions and processes information differently, and each of us has a dominant side so we are either “left brained” or “right brained”.

Those of us who are right brain dominant are supposed to be dreamy, creative, intuitive types, while the left brain dominant amongst us are the opposite: rational, analytical and better at language and numbers.

While there is a grain of truth in this distinction, it is an oversimplification of course. The wiring of the brain and the way it processes information are a lot more complex than this. For example, scientists now know that the right side of the brain can undertake certain functions, such as speech, that are supposed to be restricted to the left side, and vice versa.

We also now know that some important functions require both sides of the brain for optimum performance. Communication, for example, relies on the logical left brain for language but the intuitive right brain for the ability to talk and think in words, while recent research indicates that mathematical thinking is most powerful when both the right and left side of the brain are involved.

## USING ALL YOU HAVE

Left brain and right brain thinking are usually presented as diametrical opposites, but do we actually think one way or the other all of the time? One researcher has suggested the term “whole brain thinking” to describe the ability to combine both sides of the brain to make more balanced decisions.

Whole brain thinking could make a big difference to your personal relationships, the way you do your job, and make financial decisions. One educationalist has suggested that

individual children not only respond differently to lessons depending on whether they are instinctively left- or right-brained thinkers, but also that the very way a lesson is delivered depends on whether the teacher is a left or right thinker.

How can you train yourself to use your whole brain? Whatever side of the divide you fall on, you can ensure your thinking and actions are better balanced simply by making decisions more consciously, deliberately including the “other brain” impulses you might sometimes suppress, and assessing your decision as a whole.

## MORE BRAIN, LESS PAIN

Can whole brain thinking make a difference in finance and investment decisions? One of the most successful investment relationships of modern times, Berkshire Hathaway Chairman Warren Buffet and Vice Chairman, Charlie Monger, depends on a left brain–right brain relationship. Buffet supplies the left brain logic, while Monger believes that “people can calculate too much and think too little.” Together, they combine their thinking patterns to make major profits.

This kind of team thinking may not work for everyone or every business, but if you are one of those creative, happy-go-lucky right brain thinkers, a little more left brain discipline and long range thinking about your finances could save a lot of future money worries, without taking all the fun out of your more relaxed approach to life.

Similarly, if you are one of those rational, long term thinking left brain types, loosening up a little and spending a few dollars on yourself doesn’t need to send you to the poorhouse and may even make a positive difference to your personal life.

[Think about it!](#)