Connect

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Consultum
Financial Advisers

European Debt Update

Sovereign debt concerns in Europe continue to be the focus of global investors.

Many European sovereigns (Governments) have excessive debt as does the banking system.

High trade imbalances and labour costs in peripheral Europe are structural issues that need to be addressed.

On 9 May 2010, Europe's Finance Ministers approved a rescue package worth £750 billion aimed at ensuring financial stability across Europe by creating the European Financial Stability Fund (EFSF).

In October 2011, eurozone leaders meeting in Brussels agreed on a package of measures designed to prevent the collapse of member economies due to their spiralling debt. This included a proposal to write off 50% of private Greek debt, increasing the EFSF to about £1 trillion and requiring European banks to achieve 9% capitalisation by mid 2012.

Neither of the above packages has appeased markets, as reflected in continually rising sovereign bond yields in some European countries. As interest rates rise, it makes it increasingly difficult for some countries to service their debt.

The three most affected countries to date, Greece, Ireland and Portugal, collectively account for six percent of eurozone's gross domestic product (GDP). Others including Spain are joining the list of concerns.

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7 handy rules for investing

Investing successfully in the sharemarket requires patience, clear goals, a long-term view and sound financial advice. When markets are volatile, it can be easy to forget the basics and make hasty decisions you may regret later.

These 7 handy rules aims to give you a better understanding of how sharemarkets work, help you put the current market volatility into perspective and make sound decisions about your investments.

Rule 1: Diversify your portfolio

Rule 2: Earn returns on your investment returns

Rule 3: The long term trend is up

Rule 4: Plan for the long term; don't react to the short term

Rule 5: React now and you might regret it later

Rule 6: Keep yourself informed

Rule 7: Get some financial advice

Source: Colonial First State

What is healthy eating?

Healthy eating ideals are based on a number of key messages to ensure ease of understanding, and to provide flexibility to personal tastes.

- Enjoy a variety of foods from all of the food groups.
- Increase your intake of plant foods: wholegrain breads.
- and cereals, fruit, vegetables, nuts, seeds and legumes.
- Include healthy oils daily.
- Decrease your consumption of animal fats.
- Drink plenty of water.

Eating this way will provide plenty of fibre, low saturated fat, loads of vitamins and minerals, adequate healthy fats, protein and carbohydrates.

AND this way of eating is relatively low GI – making it suitable for almost anyone!

Source: Healthwise

European Debt Update

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France wants the European Central Bank to print money, Germany does not. Officials from these countries need to find some middle ground.

In recent months, the crisis has spread closer to the core of Europe. Italian bond yields have spiralled above 7% and a new Prime Minister has been appointed, but not elected. Italy is the 3rd largest economy in Europe. The consequences of Italian debt being written down in a similar manner to Greece are significant. While not as high as Italy and other sovereigns, bond yields are also rising sharply in France, the 2nd largest economy in Europe.

European finance officials urgently need to come up with a package that is supportive of Sovereign debt. To do this, we believe they must print money. However, gaining approval from the 17 members of the Euro is proving difficult. If approval is not gained, there is a high probability that some current members will leave the Euro, though this is dependent upon who defaults and the mix of debt held in the banking system of that particular nation.

Were this scenario to eventuate, there would be considerable negative consequences for European banks and the European financial system as a whole, which in turn has markets gripped with concerns of contagion beyond Europe.

New capital requirements, an element of the package introduced to stabilise the European debt issues, have been introduced for European banks that come into effect in mid 2012. As a result, banks must shore up their capital bases. This is leading to the financial system deleveraging at a time when the European economy has slowed sharply. At the same time, European banks are selling sovereign bonds, which are compounding the issue of rising bond yields.

Confidence and sentiment is critical, thus immediate action is required. We presently view the Italian issues as a crisis of confidence. We do not consider Italy as being insolvent, yet. While Italy does have high debt levels and bond yields have risen, Italy has a structural budget surplus compared to other countries that have continued to run deficits. Italy also has a much larger economy, but cannot afford to pay current interest rates on its total debt.

The recent rise in Italian Bond yields to over 7% is of concern. At face value, if remedial action is taken soon, confidence could improve resulting in bond yields falling back to levels that allow Italy to service its interest payments.

The crisis has also been the downfall of some European leaders including Berlusconi who has been replaced by Mario Monti. Monti and his cabinet have not been voted in by the Italian electorate. They were installed to implement the cost cutting measures and to help bring increased stability and confidence the beleaguered country. They face a difficult task.

In summary, Germany and France need to come to an agreement which is likely to see the European Central Bank printing money to backstop sovereigns and banks. Longer term, peripheral European countries must seek to address trade imbalances and high labour costs which are likely to see continued social unrest, though this will improve their competitiveness and provide a longer path to sustainability.

The process of deleveraging in Europe will be long and not without casualties.

Source: IOOF

What is your most important asset?

Many people would say their house, if they own one; but have you thought about the effect of losing your income? How would your family cope with everyday bills and expenses, let alone education costs or any holidays you've planned?

You may have house and car insurance in place, as well as mortgage protection insurance and life insurance, but have you protected yourself against the possibility of being unable to work for a significant period of time?

If you are unable to work because of illness or injury, salary continuance insurance (also called income protection insurance) generally pays you a monthly payment of up to 75% of your income while you're not working.

Having salary continuance insurance means you can rest easy, knowing that if something did happen to you and you were unable to work for a period of time, your family could still manage and continue their current lifestyle.

Without your income, you'd have to find money to pay not just the normal everyday expenses like your mortgage or rent, food, clothing and bills, but you may also have additional expenses such as medical and rehabilitation costs.

Source: IOOF

Did you know: *A third of the world's people live on less than $2 a day.*

Source: www.didyouknow.org

Eyes on the East

In an uncertain economy, many investors are starting to take note of the booming markets in Asia for diversification in their portfolio. But how do you know where to start?

It's no secret that Asia is today's global growth story. It may still be a developing set of economies, but it looks a lot more attractive than investing in the United States or Europe with the issues currently plaguing these regions.

The US and Europe are much more mature markets than Asia. They are also mired in a whole lot of problems like excessive bank and government debt, and budget and trade deficits. And naturally if some countries are running deficits, others have to be running surpluses.

From rags to riches

Fifteen years ago, Asia had the same sorts of problems that are now plaguing Western economies—high currencies, too much liquidity, inappropriately low interest rates and poor lending practices. But in the late 1990s, the International Monetary Fund imposed some austere and controversial measures on Asia to deal with those issues, including stabilising the currencies in the region.

At the time it was difficult for Asia to recover, but years later it is paying off. Not only is Asia the most rapidly growing region in the world, but it has been working longer at improving its economic issues to now be in a position of relative strength.

An economic melting pot

Asia is also an extremely diverse set of economies. David Bryant, chief executive officer of Australian Unity Investments, explains, "There are mature economies like Japan and Korea, where the population may be ageing but the economic capacity is still extraordinary. Then you have large but still growing economies like China, and independent, developed economies like Singapore, Hong Kong and Taiwan. And of course there are the emerging economies of Indonesia, Vietnam and other ASEAN countries.

"Collectively these economies are developing their own value chains in a lot of industries, and this is where it becomes clear that Asia is not simply a China story. China has certainly established itself as the centre of the Asian economies and will do so for some time to come, but it still needs technology from the mature economies and imported production and services from the emerging Asian countries."

This mix of economies provides a balanced portfolio in itself, whereas in Europe the collective economies can be defined very closely. Some of the European countries have more legacy issues than others, but generally they have a lot of lending activities between banks, are very dependent on each other, and are more mature economies.

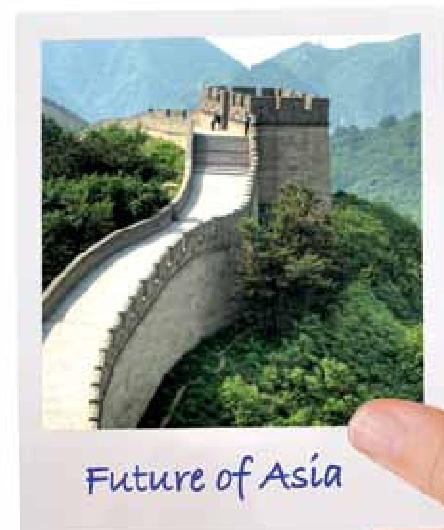
"Asia is not yet at the point where its own consumption can solely drive its activity, so it does still rely on a degree of Western consumption," adds David. "So it isn't immune from the issues of the West, but it is much less affected—its growth prospects are stronger, its self-sufficiency is now greater, and it has fewer legacy problems."

Proceed with caution

Of course, being able to keep growth at a regulated and sustainable pace is always a challenge.

In any economy that goes through rapid growth, bubbles will emerge—look at the US and its current problems as an example. Then it comes down to the capability of government to address and manage those issues, where David says a country like China has both benefits and disadvantages.

"The challenge is the sheer scale and complexity of the country. However, the matrix of Chinese government, which is both regional and national, is structured in a way that it may well be able to juggle the needs and growth of the country. It is definitely a test—but I'd choose that over the current problems of any of the Western economies!"



One for the experts

So with this interesting set of economies, which markets should investors access and when?

"The main thing to understand is that Asia is many different economies, cultures, languages, industries and political scenarios," David warns. "It's highly complex, and the only way to invest well is to have an intimate understanding of all those factors. Also given the many different dynamics, things change at a faster rate than in Australia. Knowing when to buy and when to sell is critically important.

Source: Australian Unity

Did you know: *The average age of Forbes's 400 wealthiest individuals is over 60.*
Source: www.didyouknow.org

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Estate planning – essential for everyone

When you think of estate planning what comes to mind? For most of us, it immediately conjures up thoughts of death. Who wants to think about death when you have a whole life to live? Understandably, we often push estate planning to one side and focus on more pressing concerns such as looking after our family, paying our bills and generally living life.

If you change your view slightly, however, it's easy to see estate planning in a more positive light. If you have loved ones that depend on you and if you want to ensure that they are properly cared for, estate planning should be important to you.

Estate planning basically ensures that the wealth you have worked hard to build is protected. It reduces the stress on your loved ones or beneficiaries by ensuring that when you pass away or become incapacitated, your wealth is transferred to them smoothly, tax effectively and according to your wishes.

Essential for everyone

The word estate can conjure up images of vast properties and millions of dollars, but you don't have to be wealthy to have an estate plan.

You also don't have to wait till you're older to get your estate affairs in order. Estate planning is essential for everyone, particularly if you:

- are the parent of minor children
- have family members with special needs
- have recently bought or sold major assets
- have a family trust, self-managed super fund or business
- care about your health care treatment.

Why estate planning is important

Estate planning is vital if you want to:

- avoid probate – this is often a lengthy process where your assets are frozen and cannot be transferred to your loved ones until the courts determine if your Will is valid and enforceable
- minimise tax
- protect your beneficiaries and your assets
- avoid beneficiaries fighting over who gets what.

More than just a Will

Estate planning is also more than just having a Will. If you already have a Will, then you're off to a good start. Most people, however, make the mistake of believing that their Will covers all of their assets. In reality, jointly held assets, trust assets and superannuation are excluded from Wills and should be considered as part of a comprehensive estate plan.

A comprehensive estate plan should include:

- having a valid and up-to-date Will
- nominating your beneficiaries for your super
- listing beneficiaries for your insurance policies
- naming guardians for minor children
- setting up testamentary trusts to reduce tax liabilities for your beneficiaries
- choosing a power of attorney to look after your financial and personal affairs if you become incapacitated.

Get your affairs in order

The best time to get your estate affairs in order is now. Your financial adviser can guide you on your estate planning needs, ensuring you have a valid Will and enough insurance. They can also help you find the most financially and tax effective way to distribute your assets after you pass away.

Source: IOOF

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