



THE COUNT REPORT

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Count

AUSTRALIA'S LARGEST INDEPENDENTLY OWNED NETWORK OF FINANCIAL PLANNING ACCOUNTANTS AND ADVISERS

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Wealth Protection? No worries.

The 2007 AXA Protection Report found that 2/3 of Australians are aware that their level of risk insurance is either inadequate or non-existent.¹ But when it's your well-being or your family's on the line, is Australia's 'she'll be right' attitude distracting us from properly planning ahead?

Are you one of the underinsured?

The average Australian earns more than \$2million in a lifetime – this is likely to be one of your largest assets and financially catastrophic to lose. Despite this, research tells us that only 36% of the population is adequately insured and just 4% of 30-something Australians with children have sufficient insurance cover.²

Can you afford to stay underinsured?

Statistically, one in six men and one in four women between the ages of 35-65 can expect a loss of work for six months or more due to a disability.³ The odds of losing your income are higher than the likelihood of something happening to your car or home.⁴ Graph 1 highlights the gap between the value of Wealth Protection insurance and its uptake rate versus that of lower value assets such as cars.

¹ AXA 2007 Protection Report, released 10 October 2007

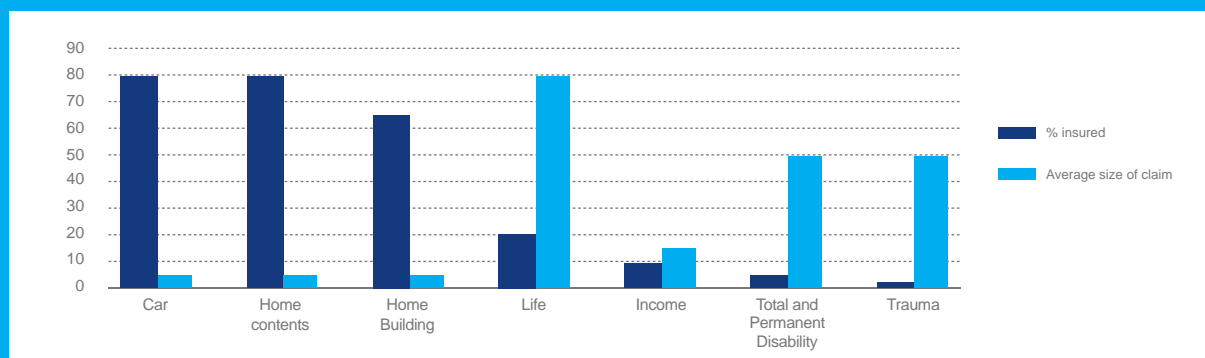
² Investment and Financial Services Association (IFSA), TNS Consulting and Rice Warner Actuaries 2007

³ Institute of Actuaries. Table IAD-89-93. White-collar males and females

⁴ BT Better Investor, March 07

(Continued from page 1)

Graph 1 – The value of insurance



Adapted from Commsec personal insurance portfolio

What sort of insurance cover is available?

Basic Wealth Protection starts with Income Protection insurance. Broader coverage will also protect your assets and investments. However, all of the following should be considered and regularly reviewed with your adviser as part of your ongoing financial plan.

Income Protection insurance – any person employed or self-employed as a full-time/part-time employee and working more than 20 hours a week should insure their income. This insurance will pay up to 75% of gross income if you suffer an illness or injury that prevents you from being able to work. The cover can last up to the age of 65 and is generally tax deductible.

Term Life insurance – will pay you a lump sum either on death or when diagnosed with a terminal illness.

Trauma insurance – will pay you a lump sum if you suffer from one of a list of specified medical conditions or injuries. Trauma insurance will cover you for possible illnesses such as cancer where Total and Permanent Disability or Life insurance may not.

Total & Permanent Disability (TPD) insurance – pays a lump sum benefit if you become completely and permanently disabled.

No worries?

When AXA asked people from 11 nations about their attitudes to life's risks, Australians were the least concerned about catastrophes such as serious car accidents, and grave illness.⁵ Has Australia's admirable laid-back attitude contributed to underinsurance and financial vulnerability?

How much could it cost?

Many people say that the cost of insurance is their main reason for dismissing it. However, consider not being able to pay your financial commitments to children's education, a home mortgage, retirement income, medical or legal expenses, or investment debt.

Protecting the wealth you have built (or plan to build) for your family may not be as expensive as you think. For example, someone might need 10 times their annual salary, so if they have a salary of \$50,000, their insurance cover would be approximately \$500,000. The premiums for this person could be as low as \$1.20 per day or \$8.40 per week.⁶

Getting the best deal

Many superannuation funds use their buying power to offer lower premiums for Life and Total or Permanent Disability (TPD) insurance. You should also be able to pay the premiums with your pre-tax income.

UPDATE: Recent changes have made income protection within superannuation potentially more attractive – the trustee can now claim the premiums as a tax deduction up to the age of 65.

Insurance to suit your needs

It is important to choose the right insurance strategy for your needs and goals. Chosen correctly, this strategy can protect from further financial hardship if the unexpected happens.

We never want to think about the worst happening to us, but putting an insurance strategy in place can offer some peace of mind. Speak to your Count adviser about your current cover and regularly review the right amount of insurance for you, especially in light of any changes in your life.

⁵ Investment and Financial Services Association (IFSA), TNS Consulting and Rice Warner Actuaries.

⁶ Assumptions: Premiums will be based on age, occupation, health, and lifestyle and will differ for each person. Ask your Count adviser about insurance appropriate to your personal needs.

An inspiring reminder

A family faces unimaginable news and asks that their experience motivate all Australians to review their insurance cover sooner rather than later. Count Wealth Accountants adviser, Shane Light explains here.



Troy (36) Slavica (35) and their three young children (12 year old daughter, 5 year old son, and a 14 month old toddler) near their home in Wollongong, NSW.

Just a short time ago, Troy, his wife Slavica, and their family were living a comfortable and enjoyable life. They had just purchased a home and Troy was working full time, providing for his family.

In 2002, Troy was diagnosed with a malignant brain tumour and he and his family were given the dreadful news that Troy had 6 months to live.

At the time, Troy was visiting Australia's leading Neurosurgeon, Dr Charles Teo. After completing several successful operations his condition improved, however it was still terminal.

In 2006, Troy visited our office looking to consolidate his superannuation funds (this is where we learnt of his medical history and from then, forged a strong relationship). From our initial interview we realised it was too late to help him increase his current level of insurance, as he was now un-insurable due to his terminal illness.

However (without his knowledge), Troy had held insurance through one of his superannuation funds which would lead to an unexpected insurance claim and successful payout.

In August 2007, Troy was diagnosed as being 'Totally Incapacitated'. "Troy has a very guarded prognosis and this tumour will eventually lead to his death," said Dr Charles Teo.

On receiving this news Troy contacted our office to help him with his claim. Whilst Troy's payout will help manage the family's debt, unfortunately it will not be sufficient to enable his family to live comfortably when he is gone.

Prior to his diagnosis Troy was a young fit individual, and Wealth Protection was not a thought that crossed his mind. Regrettably, since Troy didn't have a Wealth Protection Plan in place, his family will have to work very hard to make ends meet.

Troy wants his story to be a reminder to all Australians to review their current debt levels and ensure that they have the appropriate Wealth Protection insurance.

Shane Light is an Authorised Representative of Count Wealth Accountants, and an adviser at Dekkers Financial, Wollongong, NSW.

"We should all be concerned about the future – we have to spend the rest of our lives there".
– Charles F. Kettering, Engineer and Author



Shane Light presents Troy with his successful insurance payout

To every season: Big picture investing

We have been reminded recently that the share market is volatile, but sometimes this volatility can appear to produce market patterns. Here we look at how these trends can help you make more informed investment decisions.

Market 'seasons'

The Wall Street stock market crash of 1929 struck on *October 24*, and the share market crash of 1987 was *October 20*. The Asian financial crisis began in October 1997. Are these the results of seasonal trends?

Historical figures for October monthly returns for the Australian share market point to an average decrease of 1.47%. However the market historically rebounds with November and December producing positive returns. The question is, can we learn anything from these patterns?

Although seasonal trends don't provide perfect foresight, patterns remind us that ups and downs are inevitably part of an investment's lifespan. Just because a downturn follows an upturn, or vice versa, it might not be important to your underlying investment.

Reporting Season

When looking at different times of the year, share market patterns seem to arise. Traditionally, the October period is considered a volatile time of the year.

Why? One idea is that 'Reporting Season' – typically August, September and October when companies release their annual results – incites greater investor speculation and reaction leading to increased market volatility.



It is human nature to become nervous when faced with risk. From around August to October, whether companies announce profits or losses, some investors interpret the news, react, and try to realign their portfolios.

What should investors remember?

- β Market seasons will come and go. If you have set up a long-term investment, keep the perspective that you are investing for returns over time rather than trying to avoid short-term loss.
- β A time of volatility in the market doesn't have to be a bad time for successful investment strategies; a downturn may even present a time for new investment.
- β Fluctuations aren't necessarily a true reflection of a company's quality. Regularly discuss market news and any of your concerns with your Count adviser and assess whether your portfolio is still meeting your needs eg, the company's Earnings Per Share (EPS) and growth in dividends are still strong.

'Tis the season

If October has a reputation of being a damaging month to the market, then December/January is sometimes praised as the happy ending.

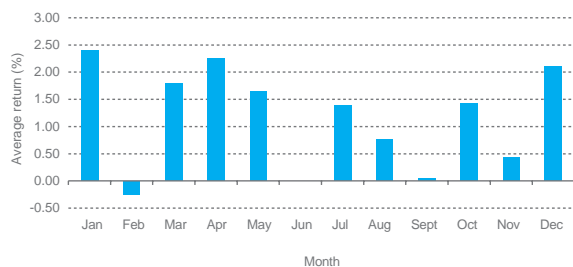
Why? Work bonuses and Christmas shopping mean that spending goes up. In turn, the Australian economy looks stronger sometimes resulting in a boost to the share market.

Also, positive returns around December/January are often attributed to new investment opportunities and renewed investor optimism in the New Year.

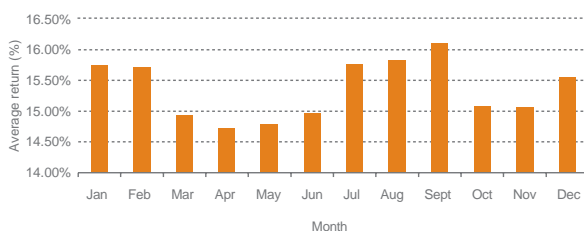
What should investors remember?

Volatility isn't restricted to market downturns but movement generally. Market trends may be aligned to certain times in the year; however, fluctuations tend to smooth out over the longer-term. For example, January appears to be a star performer based on its monthly average (see Graph 1) but hasn't provided the highest returns over time (see Graph 2).

Graph 1 – Average monthly returns between 1972-2007



Graph 2 - Average annual returns between 1972-2007



Is there a best time to invest?

Investment guess-work is risky, and if you are always waiting for the 'best' time, it's likely you will miss out.

Mark Twain once said: "October. This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February."

While you don't want to miss out altogether, every month of the year has the potential for the unexpected, so the best investments should be timeless and based on the ongoing quality of the company and your personal financial plan and goals.



Big picture investing

Always seek advice from a professional adviser before making a decision to change your investment plan.

Look at the big picture. *Acknowledge* that fluctuations will occur, but stay on track with your investment plan and review your portfolio regularly with your Count adviser to ensure that you are 'in the market' during times of growth.

Short-term volatility tends to smooth out over time to produce long-term returns. Base your decisions on longer-term performance and good financial advice.

If you've done your research, and know your long-term goals, then changing an investment plan because of market volatility may not be the best course of action. Ask your Count adviser about possible reasons for the downturn and whether the quality of the company or your goals have changed. Chances are your quality investments will ride out the storm, as well as the next, regardless of the market season.

The sub-prime crisis explained

They say a butterfly flapping its wings on Wall Street can cause a storm in Australia. However, here we look at some explanations for recent volatility in the US sub-prime market and the extent of any run-on 'butterfly effect' in Australia.

What is the 'sub-prime' market?

Recently in the United States, borrowers with a 'problem' credit history were nevertheless allowed to borrow money.

Loans given to this type of borrower are typically known as 'sub-prime.' These borrowers are not 'prime' candidates for loans. They generally carry more risk and are seen as more likely to 'default,' that is, not pay back the loan on time, or at all.

These applicants might have had one or more payment defaults in the past, a previous loan foreclosure, or a bankruptcy. Because of their higher risk of default, sub-prime borrowers are charged higher interest rates.

In the US in 2006, these 'sub-prime' loans accounted for around 20% of mortgages and an estimated 15% of all outstanding mortgages.

What went wrong with sub-prime loans?

- β 'Introductory' discount rates on loans expired, resulting in a sharp increase in the interest rates, leading to defaults among sub-prime loans. It has not been uncommon for the repayments of some sub-prime borrowers to rise by 50% or more following the expiration of the introductory interest rate period.
- β A slower growth in house prices and rising mortgage rates meant those with sub-prime loans found it more difficult to refinance or sell their home to release the loan burden they were experiencing.

How can loans issued to borrowers with poor credit history in the US trigger a reaction in Australia?

There are two main ways that Australia was affected by this crisis in the US. One was through the repackaging and leveraging of these sub-prime loans, which were on-sold to vehicles such as hedge funds, pension funds and individual consumers.

While sub-prime borrowers were defaulting on loans, and the probability of more defaults was increasing, tensions began to mount throughout the trail of interested groups. Inevitably, creditors began to recall their money, and this is where problems gained momentum.

Some companies in Australia had interests in these restructured products, so potentially any Australian investor could have been affected by the turn of events, and some were.

The other area that impacted Australia was through Australian home loan providers borrowing on the US capital markets to fund their business. They were forced to endure increased borrowing costs, causing them to struggle financially and search for new funding, again leading to higher rates being passed onto consumers in Australia in the form of mortgage rate increases.

For a company not prepared for these repayments, the consequences for their consumers and their business were devastating. For consumers and companies without a significant interest in these US capital markets, there may have been little or no concern.

Are there sub-prime loans in Australia?

The closest product in Australia is called a 'non-conforming' housing loan. Non-conforming loans are provided by a few specialist, non-deposit taking, lenders and account for only about 1% of all outstanding mortgages, well below the 15% sub-prime allocation in the US (based on Reserve Bank of Australia estimates).

What's the extent of the damage in Australia?

Investment diversification has buffered Australian investors to a certain extent, although some people have been more affected than others, such as those with interests in particular home loans and hedge funds.

While volatility is a guarantee when dealing with the share market, this type of market reaction emphasises the need for continuous review of all your financial situations, such as investments and levels of debt, including mortgage and any investment loans.

Never enter into an investment or loan if you are not comfortable, and always ask your Count adviser for more information when making a decision.



Chairman's Report: The problem of underinsurance

The Australian Securities and Investments Commission (ASIC) found that up to 81% of Australians are underinsured. What does it mean that we are 'underinsured'?

We've all heard of people insuring their car and their home but what many people fail to insure is *themselves*.

Few families can afford the risk of underinsurance for their income, life (to protect family left behind), or as a safety net if they have to stop working for an extended period of time. Illness or accident can happen to anyone at anytime. Page 2 of this Count Report discusses some of the different types of insurance everyone should consider.

Insurance is too expensive?

Not so. For the benefit and peace of mind that it provides, insurance is very affordable. Your individual premiums will depend on your own situation and occupation of course, but in reality, adequate cover might cost less than a cup of coffee per day.

Life insurance through your super fund

Obtaining life insurance through your super fund can also be a simple and cost-effective option. Super often gives access to group insurance rates, which in some cases can be cheaper than individual rates. Often you can gain tax savings by paying premiums through salary sacrificing (using pre-tax dollars) or by making a tax-deductible contribution into your super fund. Your Count adviser will be able to help you with your different options and to find the right solution for you.

Discuss the risk of underinsurance sooner rather than later

As you never know what is ahead in life, it is in your best interests to discuss your eligibility and options for insurance cover *sooner rather than later*. Generally, the earlier you start, the cheaper the premiums as you get older, while if you develop an illness later on without cover you may be unable to gain insurance at all.

Therefore, younger generations are in an ideal position to take out insurance even if it's not at the top of their minds at the moment.

If you already have insurance, it's a good idea to check the level of cover you have, especially if you haven't adjusted it for a number of years or if your family situation and lifestyle have changed. If you make a claim, the maximum an insurer will pay you is the amount of money, or 'sum insured', in your contract. That sum has to cover *everything*, so you need to review your insurance on a regular basis.

Your Count adviser can see your financial 'big picture'

Your Count adviser is in a unique position to make a recommendation on how much insurance you need. With your best interests in mind they will consider all your assets, debt, and ongoing living expenses before making a recommendation.

No amount of money can replace lost health or family, but with the right insurance cover, you can reduce the financial strain, and your financial goals and family's security can stay on track.

Health and happiness over the holiday season

With the Christmas /New Year holiday period approaching, on behalf of Count I wish you a Merry Christmas, a Happy New Year, and a safe holiday season.

**Barry Lambert,
Count Founder and Executive Chairman**

Manage your holiday spending

If you usually spend more than you intend to over the holiday period, then you probably end up feeling the financial pressure in the New Year. Consider the following to reduce overspending and keep your financial goals on track.

Goals help you to focus your efforts and will give you the incentive to manage your money.

Make saving your priority and work out what you can afford to save each month, and then automatically save this before paying other expenses.

Reduce 'bad' debt like the debt you hold on depreciating assets such as cars. Instead, use debt strategically to build your wealth.

Understand risk and invest in asset classes that suit your risk threshold.

Compounding is a powerful process of reinvesting your investment returns, the more you add, the greater the power of interest.

Invest in varied asset classes, or 'diversify' to reduce risk from market fluctuation.

Pay less tax through legal tax reducing strategies and you will accumulate wealth faster.

Maximise your investment returns over the long-term, and ride out short-term market fluctuations. See page 4 in this Count Report for more information about market volatility.

Seek professional advice – Your Count Adviser will devise an investment strategy tailored to your specific needs.

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Yes I'd like to arrange a **FREE** initial discussion regarding: (please tick)

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- Investment Reviews
- Superannuation
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- Home & Investment Loans*
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- Yes, please call me to arrange a convenient time

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