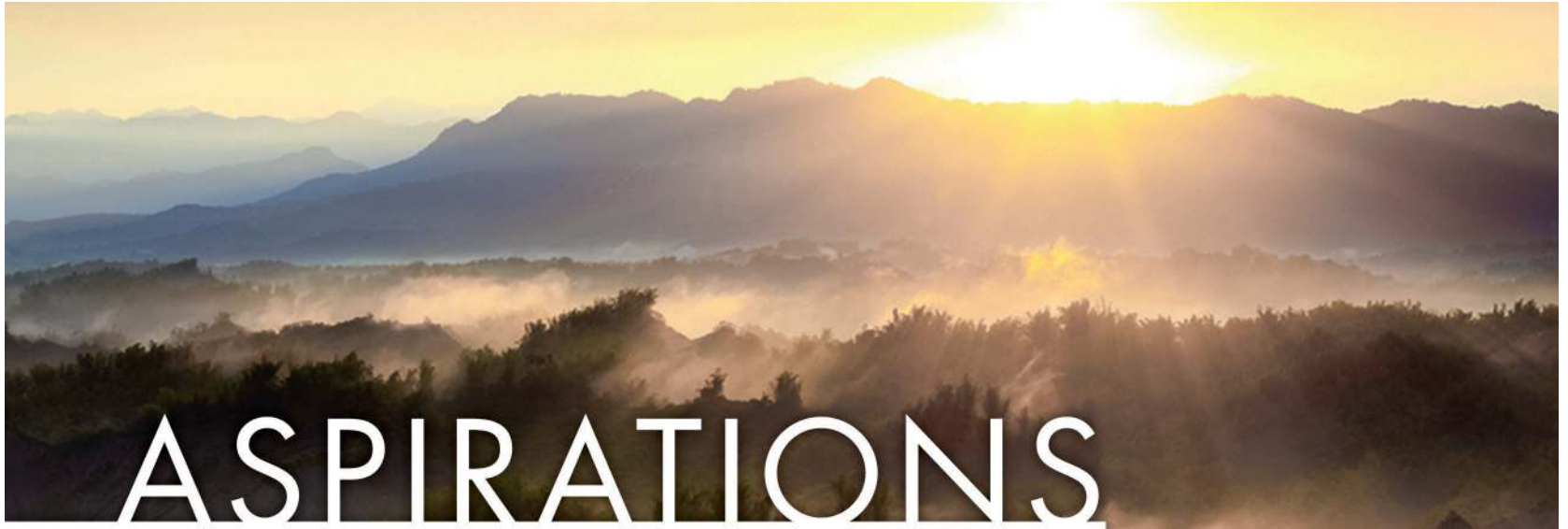




PLANET WEALTH

Accredited by | AMP Financial Planning | AMP 



## Newsletter - May 2020

Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss Diversification and provide you with information on How to Preserve retirement savings during COVID-19 and Gifting, financial generosity during Coronavirus.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime we hope you enjoy the read.

All the best,  
Planet Wealth



**Planet Wealth**

54/195 Wellington Road,  
Clayton VIC 3168

**P** 1300 004 254

**E** [info@planetwealth.com.au](mailto:info@planetwealth.com.au)

**W** [www.planetwealth.com.au](http://www.planetwealth.com.au)

**Facebook** Planet.Insurance.Australia

**Twitter** alisplanet

Planet Wealth Pty Ltd (ACN 137 467 362) as Trustee of the Planet Insurance and Financial Planning Unit Trust ABN 15 757 194 605 is an Authorised Representative and Credit Representative of AMP Financial Planning Pty Limited ABN 89 051 208 327 Australian Financial Services Licence 232706 and Australian Credit Licence 232706. Any advice contained in this document is of a general nature only and does not take into account the objectives, financial situation or needs of any particular person. Before making any decision, you should consider the appropriateness of the advice with regard to those matters. If you decide to purchase or vary a financial product, your advisers, our practice, AMP Financial Planning, its associates and other companies within the AMP Group may receive fees and other benefits, which will be a dollar amount and/or a percentage of either the premium you pay or the value of your investments. Ask us for more details. If you no longer wish to receive direct marketing from us please call us on the number in this document and if you prefer not to receive services information from AMP, you may opt out by contacting AMP on 1300 157 173. To view our privacy policy visit [www.amp.com.au](http://www.amp.com.au)



# Diversification – why it matters now more than ever

If you're an investor (or considering becoming one), some essentials are important to know, and of these, few are more important than diversification. Diversification is a way of spreading the risk associated with investments, or more simply, not putting all your eggs into one basket.

And while diversification is an investment fundamental, it's when markets become stressed, such as during the current COVID-19 pandemic, where understanding it, becomes valuable.

## Why diversification is important

Diversification is important because not all investment types provide the same investment returns at the same time. For example, one type of investment might be producing strong returns while another is performing poorly. Having a diversified investment portfolio can help to smooth out these peaks and troughs, with the aim to hopefully generate more consistent investment returns.

Even during a time of major economic upheaval, when the returns produced by

all investment types are affected, having a diversified investment portfolio could help to limit your losses as not all investments will experience the same falls.

## Types of investments

Aside from shares and property, other potential types of investments include cash (in the form of term deposits) and fixed interest (bonds issued by governments or companies). They all carry different levels of risk and offer differing levels of investment returns, with generally, higher risk investments offering higher returns compared to lower risk investments.

## How to diversify your investments

It's important to remember there are risks attached to investing as returns aren't guaranteed. You could make money, break even, or even lose money should your investment decrease in value. When doing your research keep in mind past performance is not a reliable indicator of future performance.

One of the simplest ways of diversifying your investments is by investing in several different asset classes rather than just one, if you're financially able to do so. For example, buying shares, an investment property and investing some money into a term deposit.

You could diversify your share portfolio by buying shares in different companies that operate in different sectors and locations. Or invest in exchange-traded funds (ETFs), which are a mixed group of shares that make up an index, such as the ASX200.

## Investing in a downturn

If you're thinking about taking advantage of the current market downturn to start or expand your investment portfolio, remember that while lower asset prices do create opportunities for increased returns, the economic uncertainty also means that prices could fall further. Before taking any action there are several things you should consider, including:

- how much you can afford to invest
- your risk appetite
- your investment timeframe
- how you'll diversify your investments.

One option is to enter the investment markets gradually, for example by investing a certain amount each week, fortnight or month to help diversify against the risk that assets prices fall further.

Contact us if you would like to review your investment portfolio or if you are thinking of investing at this time and we can help you to maintain the appropriate level of diversification.

© AMP Life Limited. First published May 2020



# Gifts and financial generosity during coronavirus

## Are you thinking of giving or lending money to adult children (or other family members) who are in financial hardship?

Parents are often called on to help during times of crisis. Now, with a growing number of people experiencing financial hardship as a result of the coronavirus pandemic (COVID-19), there's an increased chance that parental assistance might extend to financial support.

Money can be a very emotional thing, particularly when you get family involved. The reality is, we all want to help our kids and our first instinct is to provide assistance if they're in need. We just need to do so prudently.

If you're considering giving or lending money during the COVID-19 crisis, here are some things to think about.

### Exceeding gift limits to children may affect your Age Pension

The current Age Pension rules allow you to gift up to \$10,000 per financial year, to a total of \$30,000 over a rolling five-year period<sup>i</sup>. For instance, you may choose to take a lump sum from your retirement savings to do this.

If you give away amounts above these limits, the excess will still be counted as an asset of yours, and subject to deeming under the income test for 5 years, so you may not receive the increase in Age Pension that you might otherwise expect.

This means you can't give away \$100,000 and then suddenly go on the full Age Pension. The limits allow people to be generous, but at the same time not artificially qualify for a higher Age Pension as a result of giving all their money away.

### Explore financial hardship assistance before giving

COVID-19 hasn't altered any of the current rules regarding giving, but it has opened up more options for people in financial hardship, which may prevent the need for assistance in the first place.

Your children [now] have access to a lot of avenues for financial assistance before they need to draw upon the bank of Mum and Dad. Have they applied for the JobSeeker payment?

Your children may also be able to access money from their superannuation<sup>ii</sup>. They need to do this with care, but it's another avenue that your children may have available.

There's also more affordable access to education<sup>iii</sup> for upskilling and additional measures for rental relief. It might be worthwhile exploring these options if your children are experiencing financial difficulties before you turn to giving.

### Setting boundaries if you do help out

If you're thinking about giving money you should be prepared to communicate clearly. You want to make sure that everyone is really, really clear: the money that I'm providing to you, is it a loan or is it a gift? Communication and clarity are absolutely vital. If it's a loan, set clear expectations about how and when it will be paid back.

If you don't have a formal legal contract, it's important to retain emails or text messages that state your intentions, including the payment arrangement.

It's also important to note, if it's a loan, Centrelink will treat it differently to a gift. While the gifting limits discussed above will not apply, the outstanding balance of a loan will be counted as an asset.

Further, the outstanding balance will be treated as a financial investment and subject to the Centrelink deeming under the income test until it is repaid.

### Keeping things fair

If you have more than one child and you're only providing financial assistance to one of them, you may want to give some thought to how you're going to respond to another child saying, 'You helped Jenny, can you help me?'

It's important to think about whether each of your children needs help. Or if you could prepare an explanation as to why you're only extending financial generosity to one family member.

### Additional considerations

When making a decision about gifting or loaning money, it is important to bear in mind:

- That you'll be foregoing the opportunity to earn any income or potential growth from the amounts you'll loan or give away
- That there may be implications to your estate planning to consider
- Any potential tax implications or costs you may incur if you need to sell assets to raise the gift or loan amount.

### We can help

Before making any decisions, it may help to speak to us – we're here to help you manage the effects of COVID-19 on your financial situation.

<sup>i</sup> Services Australia, How much can you gift

<sup>ii</sup> Australian Taxation Office, COVID-19 early release of super

<sup>iii</sup> Department of Education, Skills and Employment, Higher Education Relief Package



# Preserving retirement savings during COVID-19

Investment markets globally are experiencing significant volatility as economies around the world try to navigate the uncharted waters of the COVID-19. If you're approaching retirement this volatility can be a source of anxiety, and it can be difficult to understand what a person can do to protect their nest egg.

We spoke to John Dani, private client adviser at AMP Advice, who offered five tips for pre-retirees to consider that may help preserve retirement savings during COVID-19.

## 1. Resist the urge to switch your super to cash

If you're looking at your super balance and seeing it fall in value, it's human nature to want to protect what you have. But Mr Dani says it's important consider riding out the storm, to allow for the opportunity to give your super a chance to rebound.

He says by switching to cash, you may be selling assets for less than they bought them, which may lock in your losses and compromise the ability of your super to recover when the market improves.

"From Black Monday in 1987 and the Recession in 1990, to the Global Financial Crisis in 2007, what history shows us is that investment markets do recover," he adds. "While it is a very, very difficult time and people are naturally fearful, they need to find some courage and keep calm when it comes to their super."

## 2. Think carefully before accessing your super early

As part of its economic response to COVID-19, the Federal Government is allowing eligible Australians early access to up to

\$20,000 of their super. But Mr Dani says that pre-retirees should think very carefully before taking up this offer.

"Not only would you be giving up the gains from a future market recovery, but you may be also giving up the compounding return on the withdrawal between now and when you eventually retire".

"For some people, though, the early access may be an important option; if they've lost their job or their business has suffered, they need to keep a roof over their heads and pay for other necessities."

## 3. Take advantage of other government assistance & other relief

In the event that you've lost your job, had your hours cut, or your business is suffering, Mr Dani says you shouldn't hesitate to take advantage of the regular JobKeeper or JobSeeker payments the government has made available.

"Many people in this age group may have never accessed government benefits, but you need to put aside your pride. You don't need to queue up at the 'dole' office, it's all done online and taking advantage of the government's measures will help in these extraordinary times we are faced with."

People should also consider what other measures are available to help supplement and ease any financial hardship or strain they may be experiencing. As mentioned above, the government has introduced some thoughtful options for people who have lost their jobs; many banks are providing hardship measures for those who have mortgages; and the residential and commercial tenants may also have some measures introduced.

These are all options people should be exploring and considering as well to help ease any hardship they may be experiencing.

## 4. Consider your situation before helping others financially

Some pre-retirees may be faced with pressure to help out grown-up children – or other family members – financially if they're struggling due to the economic impacts of COVID-19, but Mr Dani says any requests for help should be carefully considered.

"We all love our kids and we all want to help them and ensure they aren't going to be impacted by financial stress, but remember that they are also probably able to access government assistance during this time."

Mr Dani says that if you do decide to help your family financially, you need to be really clear whether the money is a gift or a loan, and if it's a loan it's a good idea to put this, and any terms attached, in writing to avoid any miscommunication or conflict and ensure all expectations and boundaries have been established up front.

## 5. Use caution if you decide to invest when the market is down

"If you have the courage and the risk appetite, and are in a financial position to do so, the market downturn may represent an opportunity to contribute some money into your super so you could benefit more when the markets recover," Mr Dani says.

However, he urges anyone considering investing at this time, either in their super or in other financial products such as shares, to do so cautiously, invest within their means and not to borrow to invest.

"The big hint here for anyone wanting to invest is to do so gradually. Don't try to pick the bottom of the market but adopt a strategy such as investing a set amount each week or fortnight to spread the risk of your entry into the market," he says.

*If you're unsure, get in touch so that we can assist you to make decisions appropriate to your circumstances.*

© AMP Life Limited. First published 16 April 2020