

# The impact of the financial crisis on Retirement Savings

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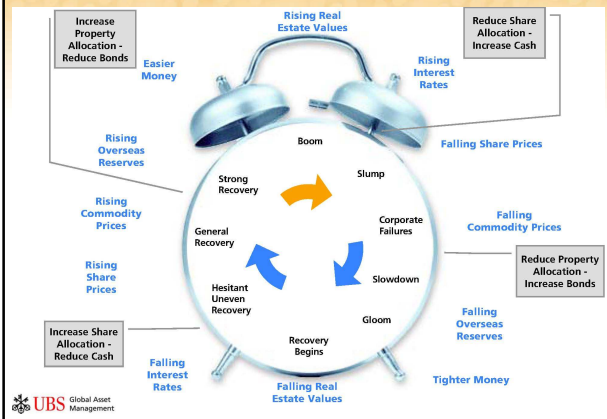


## Disclaimer

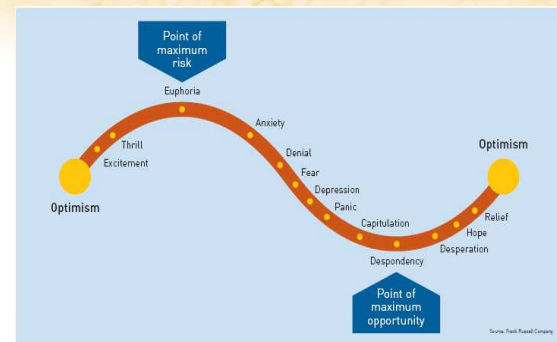
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## Investment Clock



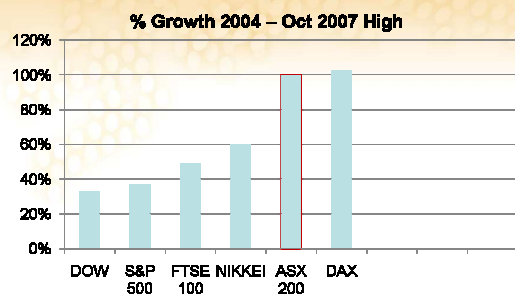
## Investor emotions



## Investor emotions - US

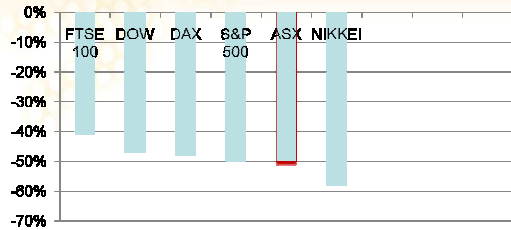


## How Have Indices Fared

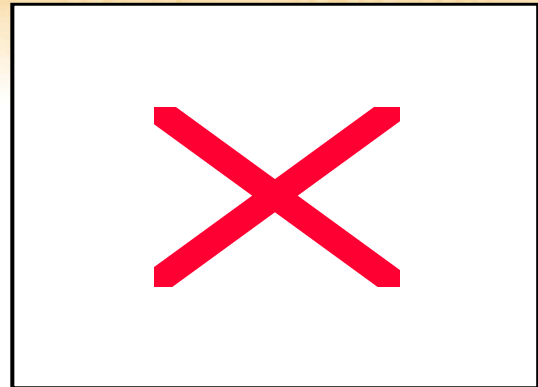


## How Have Indices Fared

% Decline off High



## How Have Indices Fared



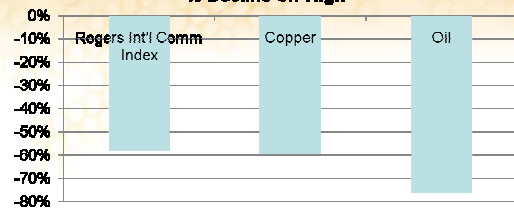
## Growth vs Decline

1. NIKKEI, DOW and S&P 500 now at levels last seen in 1997.
2. DAX, FTSE 100, ASX 200 now at levels last seen in 2002.



## How Have Commodities Fared

% Decline off High

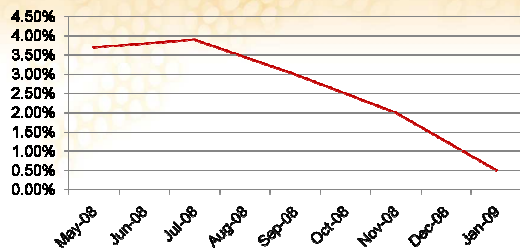


Note oil high was \$145 in July '08 – now \$35

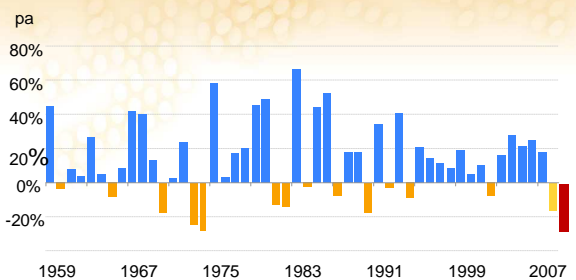


## Growth Forecasts – Downward Revisions

IMF World GDP Forecasts



## Australian equity market



Source: Bloomberg to end August 2008



## How did the situation arise?

1. Ever present human greed
2. Low inflation environment and low interest rates
3. Bad lending practices (primarily but not exclusive to the USA). LEVERAGE
4. Banks securitising loans to offset risk and increase growth
5. Increased global demand resulted in higher inflation
6. Interest rates increased and DELEVERAGE



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## How is Australia placed?

1. Unemployment was at 33 year lows – was 3.5% in '08 now 4.8% and rising to 7% (general consensus).
2. Banking system ranked second behind Canada by World Economic Forum
3. Trading partners contracting (Japan slump)
4. Weaker dollar helps exporters
5. Commodity based economy – China making acquisitions.
6. Stimulus package – will it help?



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## Consequences For Superannuation Members

1. \$1.1 trillion of Superannuation assets invested in financial markets (Oct 2008)
2. Impact felt by most Australians due to 16 years of Superannuation Guarantee contributions
3. Retirees impacted the most
4. Volatility will remain in short term
5. Expect Legislation changes (min draw down, deeming rates, contribution tax?)



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## Nearing Retirement

1. Will have less time to fully recover from recent losses.
2. Most people spend more than 15 years in retirement
3. Average life expectancy
  - 80 for males
  - 85 for females
4. Over time retirees should see superannuation increasing in value



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## Options Nearing Retirement

1. Delay retirement or revert to part time
2. Budget now to increase benefits later
3. Transition to Retirement Strategy
4. Seek professional help if you are not comfortable
5. Consider all options to optimize asset base and structure (super vs non-super)



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## Long term investment

1. Balanced funds are expected to produce negative returns every 5-6 years
2. Poor returns for 12 months, strong returns over 5 years
3. Time in the market not timing the market
  - 96% of gains occurred in 0.9% of trading days (1963 to 2004)



## What should I do as a result?

1. Strategic focus is necessary (long term)
2. Remember asset allocation
3. Ongoing individual risk assessment
4. Set realistic return objectives
5. Quantify the risk you are taking (expected yield vs risk free rate) – e.g property yield vs 10 yr Govt Bond.



## Changing strategies now?

1. Potential for further wealth destruction (if not invested during recovery)
2. Impossible to time the market
3. Crystallizing losses at lower prices
4. Buying back in higher
5. Will miss the first and most important bounce



## Investor Wisdom

1. Avoid Self-destructive Investment behavior
2. Understand crises are inevitable
3. Don't attempt to time the market
4. Be patient
5. Don't let emotions guide your investment decisions
6. Recognize that short term underperformance is inevitable
7. Disregard short term forecasts and predictions



## Why Superannuation?

1. Superannuation is a tax structure.
2. Contributions and earnings taxed at 15%
3. Can be difficult to put money back into super
4. Tax free income when age 60.



Thank You  
Questions?

