PATRON *Financial Advice*

Money Matter$

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Why would Tiger Woods need a coach?

For financial success, doing-it-yourself is rarely better.

Have you ever heard of Tom Gullickson, Hank Hanley or Tracy Menzies? The chances are you haven't. But you probably *have* heard of tennis ace Pete Sampras, golf champion Tiger Woods, and Olympic swimmer Ian Thorpe. For your information, Tom Gullickson was Pete Sampras' coach, Hank Hanley is Tiger Woods' coach and Tracey Menzies was Ian Thorpe's coach.

An interesting piece of trivia? It's much more than that – in fact, it's a thought that could make you a wealthier person.

> Luck is what happens when preparation meets opportunity.
>
> *Darrell Royal, football coach*

We all know that most sports champions are born with a physical or mental advantage – be it attitude, body shape, hand-eye coordination, speed etc. But if it were just a case of winning the gene pool lottery, everyone resembling Ian Thorpe physically could swim like an Olympian.

Just ask yourself this: if Thorpe had a perfect body shape for swimming and trained so hard and consistently, why did he need a personal coach? If Woods has an innate skill for hitting golf balls with force and accuracy and spent a lifetime perfecting it, why does he need a personal coach? And if Sampras had the hand-eye coordination, strength and speed to take Wimbledon, why did he need a personal coach?

> Everyone wants to win, but not everyone is willing to prepare to win.
>
> *Bobby Knight, basketball coach*

The answer is that each coach did three things for their clients that they could not do for themselves, and that were absolutely vital to their success:

1. They helped the future champion define a goal

In this issue ...

- Why would Tiger Woods need a coach?
- Saving for your children's education
- Turn your savings into an investment

Saving for your children's education

Education is getting more expensive and entry to the best courses, more competitive. Some private schools are charging fees of up to $18,000 a year, excluding uniforms, excursions and after school activity expenses. Also, the cost of earning a degree, particularly in the popular disciplines like law, IT and medicine is also rising.

The rising cost of education means that you need to put a sound savings plan in place when your children are young, and stick to it. However, many parents are unsure how to start or what product or strategy to follow, particularly when there are tricky tax rules to be aware of.

For example, if you put the investments in your own name, any interest income is added to your taxable income and may reduce any Family Tax Benefits you receive. If you put the investments in your child's name, penalty tax-rates apply once they have unearned income over $1,334 a year.

So, what do you do to save for your children's education? Here are a number of options to consider.

Managed investments

Buying units in a managed investment gives individual investors the buying power to access markets not normally available to retail investors – like international equities, large-scale commercial property developments and global technology infrastructure. With as little as $1,500, you can gain exposure to a diversified range of assets (including shares, property, fixed interest and cash) managed by experts.

Mortgage offset account

If you have a mortgage, you can build up funds in a mortgage offset account. By reducing your interest costs, this strategy can return around 8% pa after tax. You can

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Why would Tiger Woods need a coach? (continued)

2. They helped draw up a step-by-step plan to reach the goal
3. They provided discipline, encouragement and support along the way.

They were able to do this because they understood all the ins and outs of that sport, and because they were impartial, so could always be objective and honest. (That's possibly why parents are often poor coaches on the tennis circuit, in little league athletics and in other sports).

The secret to winning is constant, consistent management.

Tom Landry, former coach, Dallas Cowboys

A personal coach who guides you towards financial success is called a financial adviser. A well informed professional who takes the trouble to understand your strengths and weaknesses as an individual, helps you decide on the achievable financial goals you really need and want, and then works out a practical program to help you achieve them.

Just by helping you to set financial goals, your financial adviser is giving you a more than 25 times better chance of achieving them. A famous study at Yale University asked graduates whether or not they had a financial goal. Only 3% had. Twenty years later they repeated the survey and the wealth of the 3% who had set financial goals exceeded the wealth of the other 97% combined.

The other important thing a financial adviser does is to stay with you through all the changes in your investment career. Your income changes, your needs change. Maybe even your goals change. And the program designed to help you achieve them has to be adjusted accordingly.

Does the coach pull all the strings? The answer is 'no'. Thorpe surprised the swimming world by firing his long time coach and appointing the relatively inexperienced Tracey Menzies, who took him forward to his gold medal performance at the 2004 Olympics.

No champion would simply slavishly follow their coach's advice. They would consider, question it and if it made sense they would follow it. When it comes to financial coaching you are in exactly the same position. You are not a puppet; you are a partner, and the senior partner at that.

If you are willing to sacrifice the little things in life and pay the price for the things that are worthwhile, it can be done.

Vince Lombardi, former coach, Green Bay Packers

This is why it is so incredibly important to choose an adviser whose views you respect and whose approach you basically agree with. At PATRON Financial Advice, we very much want to be that adviser and walk the walk with you. But you have to make your own mind up.

draw on the offset account when school fees are due.

Gearing into Australian shares

Personally borrowing to invest can be a tax effective strategy because you can claim deductions for the interest cost and use imputation credits to reduce the tax payable. When you cash the investment in to pay school fees only, 50% of the capital gains are taxable if the investment has been held for at least 12 months. However, borrowing to invest does involve some risks, which should be discussed with your financial planner.

Investment bonds

Another option is an 'investment bond'. These products sometimes have other names, but are essentially only tax-paid after 10-year life policies where you choose the investment strategy. If they are held for at least 10 years, the proceeds can be tax paid when cashed in. This means that you are not taxed on these proceeds because the life company has already paid tax. The life office pays tax at a flat rate of 30% though the actual rate of tax may be much lower because of the deductions and imputation credits that the fund can claim.

One useful feature is that the investor can make a contribution of up to 125% of the previous year's contribution and retain the tax-paid status after 10 years. Income is reinvested and not included in the investor's taxable income. If you cash them in before 10 years, there may be tax payable but you can use the proceeds for any purpose – not just for education expenses.

Contact your PATRON financial planner

No one solution suits everyone, so talk to your financial planner to see what options may best suit you and your circumstances.

> The rising cost of education means that you need to put a sound savings plan in place when your children are young, and stick to it.

Turning your savings into an investment

> Mastering the discipline of regular saving can be tough, but once you have come to grips with this habit, how can you make the most of what you've got?

Many people who manage to save regularly simply stash their money into a savings account, and while saving via your bank account may give you a return of a few percent per annum, you may be missing out on an opportunity to make your savings work harder for you.

Depending on your goals, investment time frames and the point you are at on your investment journey, you may be able to take advantage of a strategy which utilises your savings as investment capital towards a margin loan.

Borrowing to invest

Borrowing money to invest is called margin lending which is a popular wealth creation strategy. A margin

loan is a loan taken out to invest in a range of assets such as managed funds or shares. Investing a combination of savings and borrowed funds means that your initial investment is greater than if you had invested your savings alone, which increases potential returns.

How does margin lending work?

A margin loan is a line of credit that is used to borrow money for investment purposes. Margin lending allows you to buy a significant share or managed fund portfolio with as little as a 20 per cent deposit. This approach is also known as 'gearing'.

What are the key benefits?

Many investors would like to increase their exposure to the share market, but lack the funds to do so. For such investors, margin lending can create a great opportunity to increase your investment purchasing power and potential investment growth or income.

Another benefit of taking out a margin loan is that your debt is considered 'deductible'. This provides a variety of potential benefits, such as:

- when it is tax-return time you can claim your interest payments against your assessable income and if you earn less on the share investments than the interest payments you can claim the interest against other assessable income;
- you can prepay the interest up to 13 months ahead, prior to June 30, which helps your cash-flow planning and also allows you to claim the deduction a full year in advance; and
- you can defer any capital gains tax liability until the shares are sold.

Your financial planner will be able to highlight how these benefits may apply to your situation.

What are the risks?

Like all other investment strategies, there are some risks associated with a margin lending strategy. Specifically, while borrowing to invest can accelerate your investment returns, it also increases your exposure to investments which have the potential to decrease in value. If the value of the investment portfolio drops too close to the value of the loan, the lender may make a 'margin call'. This means you may have to: pay off some of the loan sooner than anticipated; buy more shares to increase the value of your portfolio; or sell some of the existing portfolio to raise money to lower the loan amount.

Who does margin lending suit?

Margin lending suits investors who:

- are looking for medium to long-term investment opportunities;
- have a relatively high, secure disposable income;
- are willing to bear greater investment risk for the chance of greater return;
- have adequate cash reserves or other security to meet potential margin calls;
- have some understanding of the stock market and its operations; and
- understand that gearing can multiply losses as well as gains.

Seek professional advice

Margin lending is a complex strategy, requiring careful consideration about your attitude to risk, your capacity to bear additional debt and your lifestyle and financial goals. As a margin lender is not allowed to provide tax management or investment advice, consulting a professional financial adviser is most often the best way to determine whether margin lending is the most effective wealth creation strategy for your personal situation. A PATRON financial adviser can also help you to understand the tax implications as well as the legal and financial ramifications of the arrangement, to ensure that the strategy and product are right for you.

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