FIDUCIAN FOCUS

EDITION 1, 2023

Family trusts explained

A family trust is an excellent way to protect generational wealth, assets, and the financial future of your descendants.

A family trust is a discretionary arrangement in which a trustee is the holder of certain assets and the distributor of the income generated by those assets for the benefit of beneficiaries, and can be a very valuable tool in estate planning matters. When establishing a family trust, trustees are appointed who control the trust assets. In most cases trustees are parents, and the beneficiaries may be, for example, themselves, their children and grandchildren. Registered charities may also be beneficiaries.

The three main advantages for establishing a family trust are to protect assets, to protect vulnerable members of the family and for tax purposes.

Beneficiaries named in the Trust Deed are not the asset owners. The trustee is the legal owner of trust assets and operates the trust according to the Trust Deed. Therefore, given the beneficiaries do not own the assets (unless they are also the trustee), they are unable to liquidate them, which protects the assets in the event of a business failure, bankruptcy, litigation or divorce. Trusts can also be valuable with estate planning by providing ongoing financial support to beneficiaries, and ensuring asset arrangements can stay in place for the benefit of those beneficiaries, or lineal descendants, without having to change ownership details.

Trusts can provide flexibility in managing an investment or real estate portfolio. For example, if the trustee of a trust owns a rental property, the rental arrangement can continue after the death of a beneficiary. Rent can be distributed to the existing beneficiaries and there is no need to change the ownership of the house and incur those associated costs, such as Stamp Duty.

You may also wish to purchase a home for your child to live in but with the ownership of that property falling under the assets of the trust.

Similarly, dividends paid by a company to a trust due to a share portfolio would continue to receive dividends after the death of one of the trustees, as other trustees can continue to pay those dividends as distributions to the remaining beneficiaries.

This flexibility is an advantage when planning both your retirement and your legacy, and trust structures offer opportunities to supplement your other superannuation arrangements.

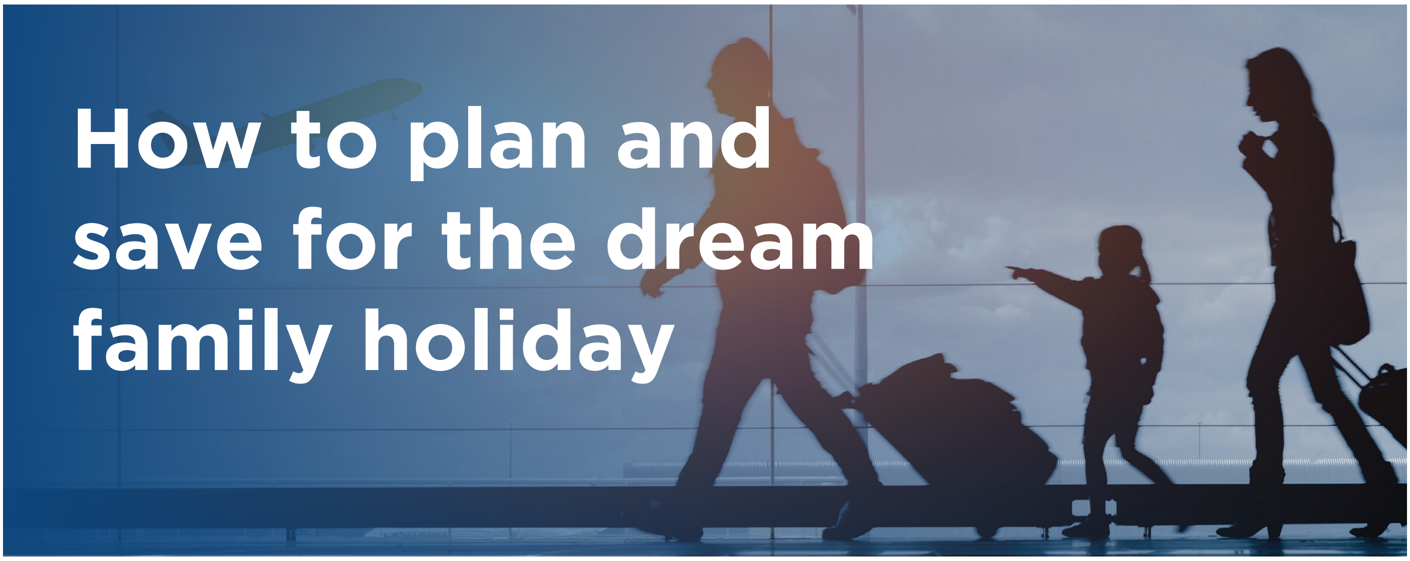
Trust net income is usually distributed annually to beneficiaries who then add that specific amount to their income and pay tax accordingly. Trust income may be distributed across multiple beneficiaries who then each pay tax at their personal tax rate. Distributions can be made in any proportion as determined by the trustee. Any undistributed income earned by the trust is taxed at the top marginal rate, currently 47%, and distributions exceeding $4161 to minor children are taxed at a higher rate*. Capital gains tax is also reduced by 50% on the sale of profitable assets.

The ATO made changes to the way family trust income can be distributed in early 2022 and may make further changes. Further, there may be capital gains tax payable if trust assets are sold. A financial adviser can look at your personal situation and help determine if a family trust is appropriate for you and can also provide ongoing advice on compliance matters and effective tax strategies.

Please seek professional advice regarding the tax implications of a family trust.

There are costs in establishing a family trust and ongoing expenses, such as the preparation of the Trust Deed, which outlines qualifying beneficiaries, and annual financial reports and trust tax returns. In the right circumstances these costs are offset by the tax savings and by the peace of mind it can provide in terms of securing those assets.

For more information on estate planning, book a consultation with Fiducian Financial Services.



How to plan and save for the dream family holiday

As Benjamin Franklin famously stated, “By failing to prepare, you are preparing to fail”, and this statement is never more valid than when your sights are set on a family holiday.

After years of travel restrictions, the thought of taking off to an exotic location is more than appealing – it feels like something we need to do to reconnect with one another and with the world. You have seen enough of the walls that isolated you and your family, you used COVID-19 lockdowns as an opportunity to explore every bush walk, beach or park near your home, and now you want a change of scenery.

To ensure that your family holiday is seamless, there are some essential steps to consider – the first being to choose your destination and your ideal time away, as this will give you an idea of budget. A family holiday to a Club Med will be less expensive than Los Angeles with tours of Universal and Disneyland. Once you know the sort of holiday to plan, then draw up a budget.

A budget should include expenses such as pre-flight vaccinations, flights or other fares, visas, accommodation, car hire, public transport costs, insurance, food, entertainment and incidentals. Check online for package deals as considerable savings may be available to you if you book and pay in advance.

Assuming you are planning your family holiday two years from now, and that it will include four airfares at $2,500 each plus a daily budget per person of $200, you will need to save $204 per week. After 18 months, you will have saved close to $16,000 which can be accessed to pay for any pre-paid elements or discount options.

Saving, no matter the amount, is all about discipline but there are tips and tools to make it easier:

- Open a dedicated holiday savings account which you will not access for other spending. There are a range of account options which pay higher interest but limit withdrawals
- Cut your costs
- Increase your savings.

Ways to cut your costs

- Refinance your mortgage - you may not look at your home loan very often, but you may be able to secure a better rate
- Evaluate subscriptions - your children won't mind getting rid of Foxtel if you still have Disney+, especially if they know the real Disneyland is the pay-off
- Entertain at home instead of meeting friends at a restaurant - an average 2-course meal for two adults, 2 children, plus a cocktail and a bottle of wine can easily come in at $185 – that's more than the cost of an entry pass to Universal Studios in Los Angeles
- Sell unwanted items on eBay, Facebook Marketplace, or Gumtree. Items that sell well include clothes and toys for children, vintage and retro furniture and designer labels, but it's often surprising that your clutter (or a-bit-too-tight-now dress) may be exactly what somebody else needs
- Be energy-wise and turn off appliances at the point when not in use and have shorter showers - by halving shower times from twelve minutes to 6 minutes, a family of four could save over $1,000 per annum in water and heating costs. For more information, visit this website
- Pay credit cards off each month in full – interest rates on cards average at 19.94%.

Investing to increase your savings

Your two-year investment horizon may preclude you from some long-term savings options; however, there are several low-risk opportunities to increase your savings in the lead-up to your holiday. These include:

- Direct deposit from your salary account/s to your dedicated holiday account
- Term deposits – rates vary widely so do your research to secure the best rate for you
- Exchange Traded Funds (ETFs) – these are somewhat like a managed fund but are listed on the stock exchange and are generally more tax efficient than a managed fund or a Listed Investment Company (LIC). You purchase units through your financial adviser or broker

- Bonds – with a smaller initial buy-in, you might consider Australian Government Bonds (AGBs) traded via the ASX in the form of CDIs. Interest can be fixed, floating (for example, cash rate +1.5%), or indexed against the consumer price index (CPI)
- Managed Funds – some have a small initial minimum investment and distributions could be paid into your holiday savings account. If you already hold shares or units in a managed fund, you could consider directing dividend or distribution payments to your holiday savings account.All investments carry tax liabilities so speak to your adviser about the best way to structure your finances to limit those liabilities. That way, you can take the family on holiday without wondering what hidden costs await you down the track.

For more information and tips on financial planning, book a free consultation with Fiducian Financial Services.

Secure your future with a financial plan

There is no doubt the cost of living has increased to a point whereby most of us need to be aware of our finances.

Simply logging on to your banking app and knowing the approximate value of any investments has never been sufficient, but especially not in our current economic climate.

Every person, or family, needs a financial plan, one which has been comprehensively assembled, analysed and includes actionable steps to reach your specific goals. It should also include an investment plan and an estate plan.

A financial plan is an in-depth overview of your financial situation, your financial goals and the steps to take to achieve them. It is a relatively fluid plan, as there will be changes you need to make along the way when unexpected costs occur, when your circumstances change, or when you revisit your goals.

The first step in creating a financial plan: budgeting

The first thing to do when creating a financial plan is to prepare a detailed monthly budget. This will be a line list that includes:

- Income details – includes salaries, wages, benefits, side-hustles, investment income
- Debts – this may include what you owe on your mortgage, car, credit card or any other debts you owe
- Expenses – includes rent, mortgage payments, food, utilities, school fees, insurances, vet bills, subscriptions, gift purchases, credit card payments, take-away coffee allowance.

At this point you should be able to clearly see how your expenses track to your income. You are aiming for more income than expenses on an annual basis, as this then allows you to move onto the next steps of the financial plan.

The second step in creating a financial plan: goal setting

Each of us has financial goals, whether it be purchasing a new car, saving for a home, renovating a home, purchasing an investment property, planning a holiday, supporting our children as they move away from home, retirement or a myriad of other goals.

By documenting your goals and including them in your financial plan, you will know how to achieve them. Remember to account for inflation. Once goals have been articulated, you can then start on the planning phase of the financial plan.

Step three in creating a financial plan: investments

It is unlikely you will reach any substantial goals without investing your money in something other than your regular savings account. It may be shares, an index fund, a term deposit, an investment property or a combination of some of those that will advance your financial position, so do your research regarding returns and tax liabilities which may apply to those investments and consult a financial adviser.

Step four in creating a financial plan: safeguarding

Using knowledge about your tax liabilities, you want to ensure aspects such as capital gains tax, income tax and superannuation are properly accounted for.

You may also wish to protect the beneficiaries of your estate by utilising certain structures which may be advantageous to them.

Step five in creating a financial plan: maintenance

Maintenance is periodically checking in on your numbers and adjusting them as required. This will keep you on-track to reach those goals you have set.

This process may seem daunting, and if you feel it is too large a task for you to complete, then consider a financial adviser. A good financial adviser will be able to set you on the right path and, with their knowledge and experience, will likely be able to save you, or your estate, a considerable amount of money by structuring your finances appropriately.

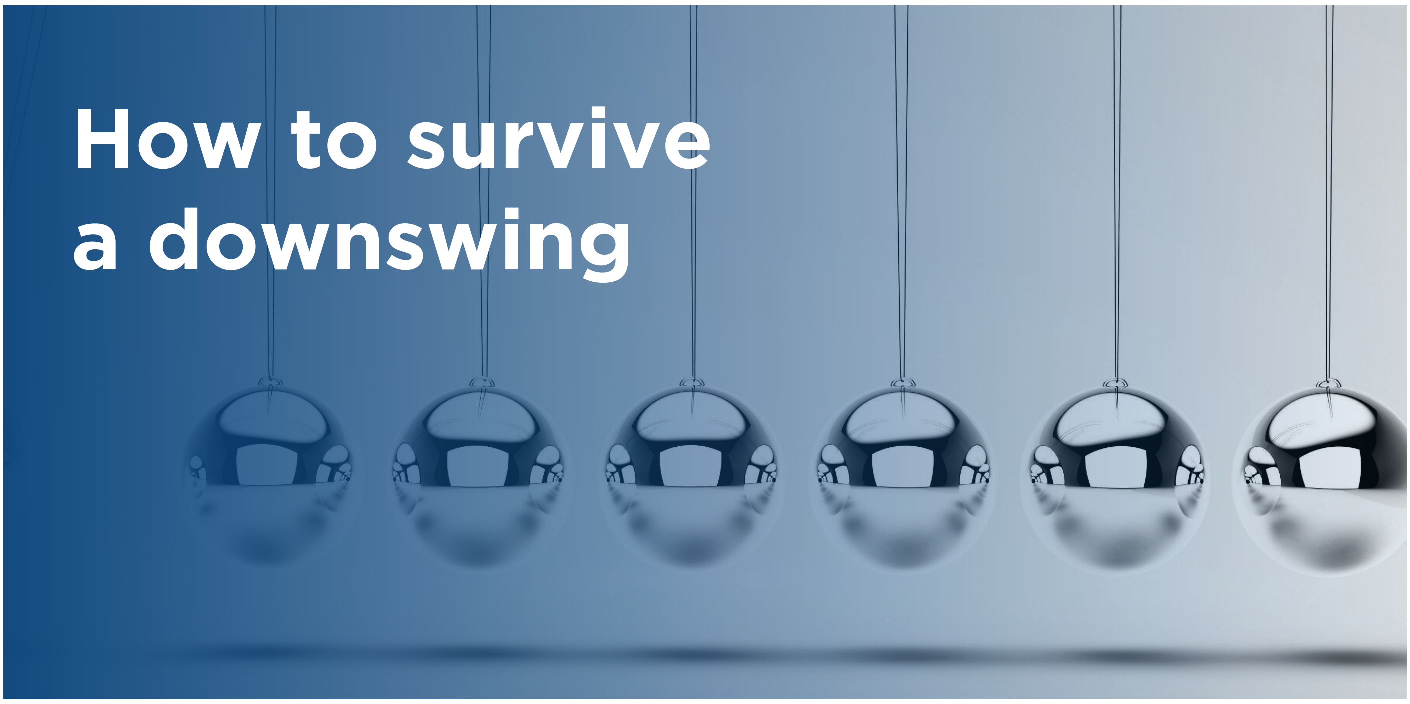
For all new Fiducian clients we offer a free 60-minute financial health check*

A financial health check can help you determine how well your finances are doing or what you need to work on to reach your financial goals. By creating good money habits, having a solid financial plan, and regularly performing a financial health check-up can help you reach your money goals.

For more information and tips on creating a financial plan, book a free consultation with Fiducian Financial Services.

*Available at participating offices.

How to survive a downswing



It would not be unreasonable to assume we are about to face a challenging year or two in the market.

There is some talk of a recession, particularly in the U.S., and every time you watch the news there are stories about increases to the cash rate (which were not supposed to happen until 2024), increases to mortgage payments, fuel and food, and volatility in commodity prices. Frankly, the news is depressing but we must all remember to keep it in perspective.

Inflation is increasing across most economies, supply chains have been disrupted by COVID-19 and are yet to recover, Russia's war on Ukraine is having significant effects on the global oil trade. Australia has had floods which have impacted property prices and grocery prices.

These geopolitical and macro trends have seen the value of investments drop during the fourth quarter of 2022 but as at the time of writing, all losses on the S&P/ASX 200 and the S&P/ASX All Ordinaries Accumulation Index had been regained. This is the cycle of investments. Since the time of Tiberius, there have been crises and recoveries, as can be seen in the graph below which plots major movements since 1920.

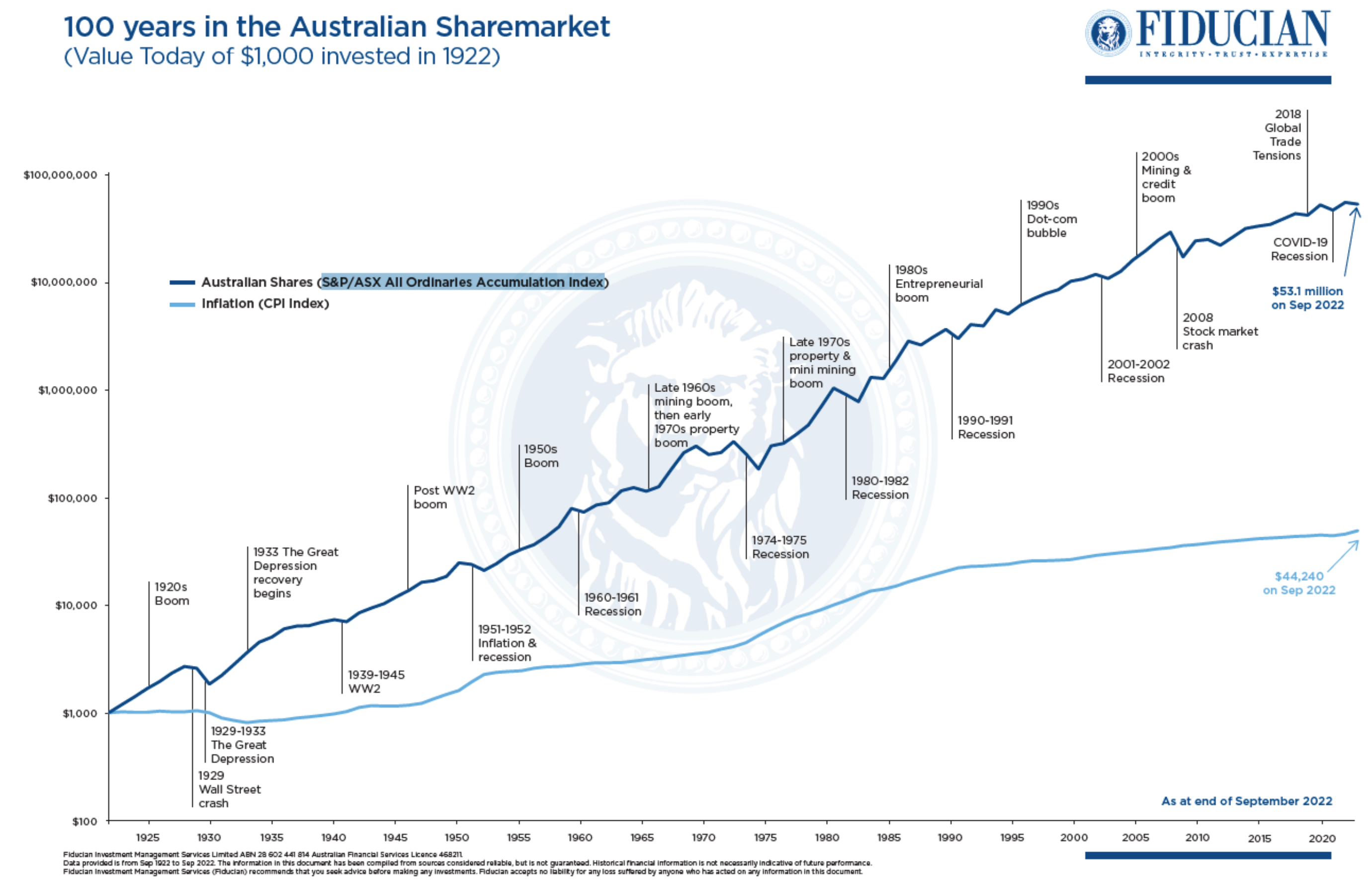


Chart 1 - Source: Fiducian, ASX, marketIndex.com.au. RBA

Disclaimer: Past performance is not a reliable indicator of future performance and investment returns are not guaranteed.

Aside from constantly reminding yourself that this too shall pass (and it will), there are some other considerations to take into account so that you can survive a downswing.

When evaluating your investments, you have three choices:

- leave them untouched
- add to them (buy when you find something that is good value)
- sell (liquidating).

Analyse your investments and decide what is right for you; a strategy that gives you some peace of mind and considers potential consequences, such as tax.

Time in the market

Leaving investments untouched can be a wise choice if you have a diversified investment portfolio and have the time to wait out movements. It takes a steady hand not to panic or worry, but you only lose on an investment when you sell it. Don't try to time the market, people very rarely get it right.

Straw hats in winter

Quality investments will rebound so you may wish to consider buying when prices are low and benefitting from that investment over the long term. Another option is dollar-cost averaging, whereby you continue to buy shares during the entirety of a market cycle so that over the long term, your cost will average out. Always look for good value opportunities and, in the share market, factor in their historical dividend payments, cash flow and balance sheet.

Sell and rebalance

Consider your overall portfolio of investments and ascertain their long-term potential. It may be time to sell an underperforming asset and redirect those funds into something else.

Eliminate debt

As much as possible, try to pay down debts such as credit cards or other high interest loans.

Build up your emergency fund

By having a few months of costs saved, or assets that can be easily liquidated, you will have some peace of mind if rates continue to increase, or if your promised wage rise does not come to fruition. Your key mantra during a downswing is don't panic and don't make decisions based on fears which could ultimately be detrimental to your overall position. Make sure you have a diversified investment portfolio and see an adviser if you need some reassurance you are following the right path.

For more information and tips on surviving a downswing, book a free consultation with Fiducian Financial Services.

Navigating uncertain times in financial markets

2022 proved to be a volatile year for financial markets. The Russian invasion of Ukraine was accompanied by higher inflation, central banks tightening monetary policy, and a slowing of economic growth around the world. Against this backdrop, most financial markets finished the year lower.

As we head into 2023, there are some emerging signs that efforts to contain inflation have been starting to take hold, albeit at the cost of lower economic growth and possible recessions in some countries. In this economic environment, how can we best cope with investing in shares and other financial assets?

Volatility reduces with time*

Reviewing the historical performance of investment markets can provide some comfort that over the long run, investing in shares is typically a winning bet.

From 1900 to 2022, the broad Australian share market index (most recently the All Ordinaries Index) had 99 years with positive returns, and 24 years with negative returns. The average annual return over this period was over 11% per annum, far exceeding the returns from holding either cash or bonds.

Individual years exhibited widely varying returns, but as shown in the chart 1, the range of average annual returns over longer periods was much narrower. Using this All Ordinaries data set, it can be seen that over a single year, 90% of returns fell into the range of -14% to +44%. Over 3-year periods, this came down to a range of annualised returns of 0% to +24%.

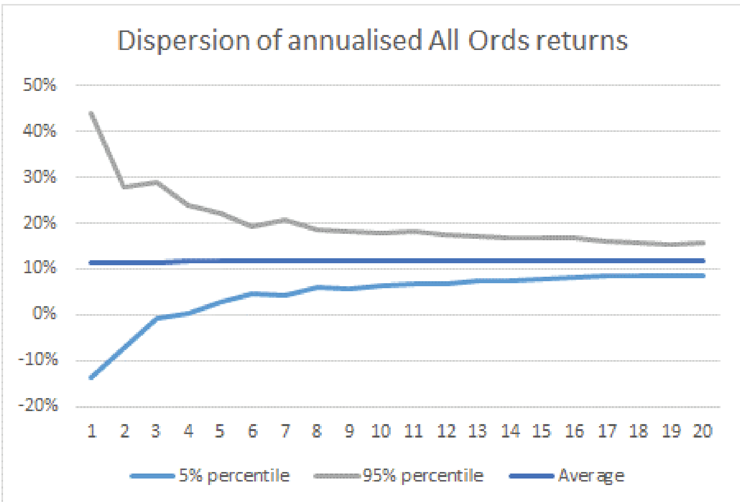


Chart 1 - Source: Fiducian, ASX, marketIndex.com.au
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Further to this, the longer that you hold shares, the higher the probability that you will generate a positive return (chart 2). Over the last 123 years, 80% of calendar years had a positive return, and 75% had a return greater than 5%. Over 4 year periods, annualised returns were positive 95% of the time, and after 6 years, returns were positive across the entire sample period. After 5 years, annualised returns were greater than 5% per annum about 90% of the time.

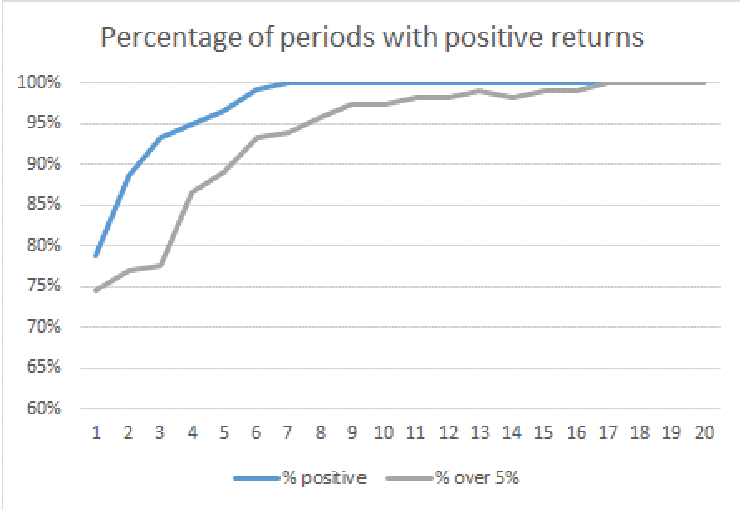

Chart 2 - Source: Fiducian, ASX, marketIndex.com.au
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The risks of trying to time the market

One rule of markets is that they are generally forward-looking. Share prices (or prices for bonds or property) typically react well in advance if there is the expectation of tough times (or good times) ahead. The weak performance of markets in 2022 was due in part to expectations of a softening economic outlook for 2023, with the International Monetary Fund steadily lowering its growth forecasts over the past year.

History has shown that markets do not tend to wait until growth resumes a positive path before moving higher. Out of 13 recessions recorded in the USA over the last 100 years, on only two occasions did the markets hit their lows after the recession was over. In all other cases, markets began to rise before the end of the recession.

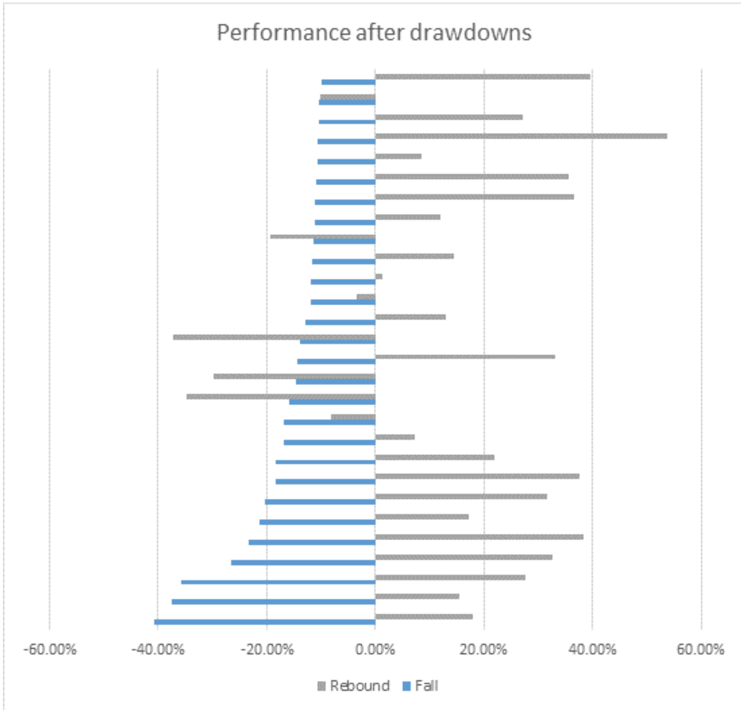

Chart 3 - Source: Fiducian, ASX, marketIndex.com.au
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Further to this, retreating from markets after prices have already fallen can often result in missing a strong rebound in performance. Chart 3 looks at instances over the last 40 years where the Australian share market has fallen by more than 10% in a single year. When this has occurred, the subsequent average return for the following 12 months has been +16%, with positive overall returns in 72% of cases.

Fiducian working hard behind the scenes for you and producing results that speak for themselves

The Fiducian 'Manage the Manager' process involves the careful selection of underlying managers for each sector, so that for the diversified funds, including the Fiducian Balanced Fund, there are over 25 carefully selected individual investment teams actively managing your investments and responding to changes in the investment and economic outlook. This is in addition to asset allocation decisions made by the Fiducian Investment team that can alter the weighting given to different asset sectors and managers within these sectors according to the expected economic outlook at any given time.

Short-term volatility is not unusual in investment markets. But a longer-term perspective, accompanied by the investment oversight provided by the Fiducian investment team remains a strategy that should continue to generate positive risk adjusted returns over time.*

The benefits of this approach are clearly evident in the performance of the Fiducian Diversified Funds over time.* For the period ending 31 January 2023, the Fiducian Growth Fund was ranked 7th out of 168 funds over 5 years, and 2nd out of 151 funds over 10 years according to the Morningstar survey of multisector growth funds. Recent performance of the Diversified Funds has also been highly ranked, with the Fiducian Growth Fund ranked 6th out of 170 Funds for the 7 months of the current financial year up to 31 January 2023, the Fiducian Balanced Fund ranked 24th and the Fiducian Capital Stable Fund ranked 12th in its category.^

Welcome to our new Financial Planners

Asel Bolotbek	Fiducian Financial Services Doncaster
Di Chalk	Fiducian Financial Services Illawarra
Richard Pritchard	Fiducian Financial Services Sutherland