



As part of our continuing investor education series, and considering current volatility in investment markets, we invited Outlook Financial Solutions (AvSuper's professional financial planning partner) to comment on some of the actions AvSuper members might take. In this special feature\*, Outlook outlines how taking the right steps now can put you in the best position to ride out the economic storm. If you would like to know more and are looking for commission free financial advice specific to your needs, contact us for a referral to Outlook Financial Solutions.



## Have you got an action plan for a market crunch?

So now we know. We may be facing a longer period before the market starts to recover than economists had initially forecast. But that's certainly no excuse to do nothing but gnash our teeth or wring our hands. Here are a number of positive actions you can take to help batten down the financial hatches and set yourself up for the recovery when it eventually comes.

### 1. Start with a financial stocktake

Right now might be a very good time to take a long hard look at your personal economic climate. Jot down all the aspects of your financial life – income, outgoings, investments, cash reserves, personal risk protection, other insurance requirements, contingency plans. Work through them one by one to see if each factor makes sense or whether there's room for some fine-tuning or even remedial activity. Conferring with a professional financial adviser on these issues will certainly help put things into perspective.

### 2. Focus on controlling your costs

Focus on the areas that are costing you the most and providing the least value. For instance, if you have multiple super accounts, it may be worth considering consolidating them to reduce the administration fees you are paying.

Or do you have credit or store cards on which you're paying top dollar in interest? It may be worth considering offers from other providers, which invite you to move your business to them on the promise of a lower interest rate on the balance you transfer across.

**But here's the real tip.** Let's say you're currently making a minimum repayment of \$150 a month to your existing credit card. You transfer the balance to a lower interest card provider, which results in the minimum repayment becoming \$120 a month. Try very hard to continue the \$150 a month repayments, so you actually get to make a dent in the total amount owing on the card. This will save you a significant amount of interest over the long term, which makes a lot of sense.

### 3. Optimise cash flow

It may well be worth thinking outside the square when it comes to optimising your cash flow. For example, if you're an employee, talk to your adviser about whether a salary sacrifice strategy or a novated car lease arrangement may help make your pay packet stretch further.

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## 4. Review your investment objectives

Have your objectives changed since you set up your investments? For example, are you now focused on the short term, rather than taking a long term view? Have your personal circumstances changed to such an extent that your previous money plans no longer make sense? Has your appetite for risk changed significantly?

If you fit into any of these categories it's time to talk to your adviser. He or she will help you work through the uncertainty and sort out the best way to reflect the changes with a minimum of fuss and cost.

If your financial objectives haven't changed significantly, the strategy is 'steady as she goes'. Just as most people don't have their home valued every day, resist the temptation to monitor your long term investments too frequently. For example, if you're 15 years away from retirement, there's plenty of time for your AvSuper account to return to the long term positive trend. So rather than worry about a negative super return over a relatively short period, talk to your adviser about your current asset allocation (otherwise known as member investment choice) to make sure it continues to match your time horizon and risk tolerance.

## 5. Control the knee jerk

When markets drop, the natural tendency for some people is to cut their losses and sell off their investments quick smart. In most cases this is the worst action they could take. Not only may that crystallise a capital gain and give rise to an additional tax liability, but also they'll miss out on the upside when the markets eventually recover.

In fact, depending on your personal financial position, your time horizon and level of comfort with volatility, you may even find that there are some good buying opportunities in the market. That could mean this is a good time to get in touch with your adviser and talk it over.

## 6. Use money management principles to your advantage

**Diversification.** Diversifying your money across a range of asset classes certainly helps smooth the volatility of market ups and downs. Different asset classes tend to move in different cycles - so while one asset class is down, others may be up and if you're invested in both, the gain on one serves to offset the loss on the other.

**Compounding.** Even small amounts invested in your AvSuper account now can actually build your nest egg more effectively than waiting until a lump sum is available to invest, because while your money is invested, investment returns are earned on investment returns. On the other side of the coin, chipping away at non-tax deductible debt, such as credit card or mortgage debts, even small additional repayments can combat the impact of compounding and reduce the amount of interest you'll pay over the life of the debt.

**Most importantly - get good advice. There's no substitute for having the right information. Talk to an Outlook adviser about the best ways for you to put yourself in the best position to ride out the economic storm.**

\* The information provided in this feature has been kindly provided by Outlook Financial Solutions Pty Ltd. (AFSL 240959, ABN 40 083 233 925) for AvSuper members.

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