December 2014

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.

If you have any questions or enquiries about any of the articles in our newsletter, or any other financial planning topic, don't hesitate to contact us on 08 8339 7973

We hope you enjoy reading this edition.

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Are we becoming a cashless society?

Australians are edging towards a cashless future, as consumers use debit cards or other electronic payment methods in preference to cash at the checkout and online. But whether we will entirely shun notes and coins in the future is not certain.

For one thing, cash has its benefits. It's easier for small transactions such as buying a coffee or tipping a waiter. However, the rise of contactless, credit and debit cards is outstripping ATM withdrawals, suggesting that cash is on its way out. And when we do get money, it is often debited straight into our accounts.

According to research by the Australian Centre for Financial Studies, the combined value of debit card purchases (including cash-outs) was $16 billion in June 2013, overshadowing the value of ATM withdrawals at $11.4 billion.[i]

Need for cash declining

A surge in contactless cards and EFTPOS terminals that accept tap-and-go payments is reducing the need for cash even further. As retailers shift to contactless payments, EFTPOS terminal numbers have soared – up by 15,000 in the year to June 2013 alone to 780,000.[ii]

If there was any doubt that the cashless future is already upon us, figures from Reserve Bank of Australia provide solid evidence. Cash withdrawals slipped from a total of 64.4 million in January 2012 down to 61.6 million in January 2014.[iii]

There is no doubt that the convenience of flashing your plastic has fuelled a reluctance to carry cash around, promoting contactless payments that make transactions all too easy. But there is a downside.

While cashless transactions provide security from theft, they increase the potential for credit card fraud which is on the rise.

Fraud an issue

According to the Australian Payments Clearing Association, the rate of fraud on Australian-issued payment cards reached 48.7c in every $1,000 transacted last year. As Australians take to online shopping, so-called 'card-not-present' fraud increased from $183 million to $220 million.[iv]

Credit card providers are working to reduce fraud by replacing signatures on chip credit cards with more secure PINS. From August 2014, signatures will no longer be accepted.

But just as one opening for fraudsters is closed down, another is opening. Mobile phones are being used increasingly for online shopping and financial transactions and this has provided an opportunity for fraudsters.

To avoid this trap, check the security of a website while paying online. It is also important to examine monthly bank statements for small and suspicious deductions and refrain from sending credit card information via email.

Using a second, low-risk payment card for online shopping may also help minimise the fallout from fraud. For example, a reloadable prepaid card provides the benefits of a credit card with less risk.[v]

Budgeting crucial

The shift to a virtual wallet is moving so quickly, many parents worry that their children have little understanding of where money comes from or how to manage it.

Certainly budgeting can be challenging without physical money in your wallet or paper receipts to keep track of spending.

One way to counter this is to check your balance regularly online or on your mobile phone. It is also a good idea to set aside time each month to go through your bank statements to understand where money is going and make necessary adjustments.

By treading cautiously and diligently tracking spending, you can enjoy the benefits and convenience of a cashless society without busting the budget or opening your wallet to fraud.

i. Australia Centre for Financial Studies, Monash University, Worthington S., Regulatory Interventions and their consequences

ii. The Conversation, **Are we moving towards a cashless society – or simply less cash?** Visited July 4 <http://theconversation.com/are-we-moving-towards-a-cashless-society-or-simply-less-cash-20493>

iii. Reserve Bank of Australia. Payments data. Visited July 4. <http://www.rba.gov.au/payments-system/resources/statistics/>

iv. Australian Payments Clearing Association media release. June 2014. Visited July 10 <http://apca.com.au/docs/2014-media-releases/new-payments-fraud-report.pdf>

v. Creditcards.com Australia, **Paying with plastic: managing your invisible money** Visited July 11<http://australia.creditcards.com/credit-card-news/managing-invisible-money-622.php>

Venus and mars – do men and women handle their finances differently?

Do men and women differ when it comes to managing their finances? Ignoring the temptation to slide into stereotypes, I (as a man) asked my wife (as a woman) for her thoughts.

"OK, how many women have presided over the collapse of banks, investment firms or multi-national corporations worth billions of dollars?" she says.

One could argue that not too many women are, or have been, in positions of power to create such turmoil, but the wife makes a good point – a dose of oestrogen may have helped turn the Global Financial Crisis into the Global Financial Speedbump.

The danger with any discussion on the behaviour of males and females is that stereotypes can be wrong. For instance, Uri Gneezy (a behavioural economist at the Rady School of Management at U.C. San Diego) recently conducted a study into the differences male and female competitiveness.[1]

Using a fairly basic financial incentive, he found that Khasi females in north-east India (one of the few matrilineal societies on the planet) were every bit as competitive as the Masai males who grew up in the patriarchal culture of their tribes in Tanzania. Culture rather than gender is the game-changer in this example.

Gender wars

Studies closer to home confirm the widely held view that when it comes to money and investment decisions, gender plays a larger role than many people realise. Indeed, three central factors emerge:

- A 2010 Boston Consulting Group[2] study found that women tend to focus more on longer-term, non-monetary goals and generally associate money with security, independence and the quality of their and their families' lives. Women tend to focus on longer-terms plans, like a house deposit. Men tend to be more competitive and thrill seeking by nature, which translates to a short-term focus in terms of savings and investments.
- A national survey conducted by LPL Financial, the USA's largest organisation of independent financial advisors, found that women tend to be thorough and take more time to make decisions than men. Women tend to research investments in depth before making portfolio decisions, and the process, as a result, tends to take more time. Women also tend to be more patient as investors and consult their advisors before adjusting their portfolio positioning, whereas men are more prone to making impulse decisions based on the state of the economy or market.
- To gather information, women often prefer group discussions to men's more independent learning approach. In a 2012-13 study by Prudential[3], it was also found that women are more likely to seek help and are more receptive to financial research and advice than men. They often require more of an advisor's time and resources, but once trust is established they are also more loyal clients with their focus on lasting relationships.

The female approach also has a proven track record. An oft-quoted study by finance professors Brad Barber and Terrance Odean found that while men trade 45 per cent more than women this activity reduced their net returns by 2.65 percentage points each year. By contrast, trading reduced women's net returns by 1.72 percentage points.[3]

Financial housekeeping

While Australian women may not have as much in their savings accounts as men as a percentage of their regular income, according to a 2013 Mortgage Choice survey [4], they keep better track of how that money is spent.

The survey suggested that almost 60 per cent of women track their spending on a daily basis, while the figure was closer to 50 per cent for men. And almost 85 per cent of women could quote their exact amount of debt – a full five percentage points higher than the men surveyed.

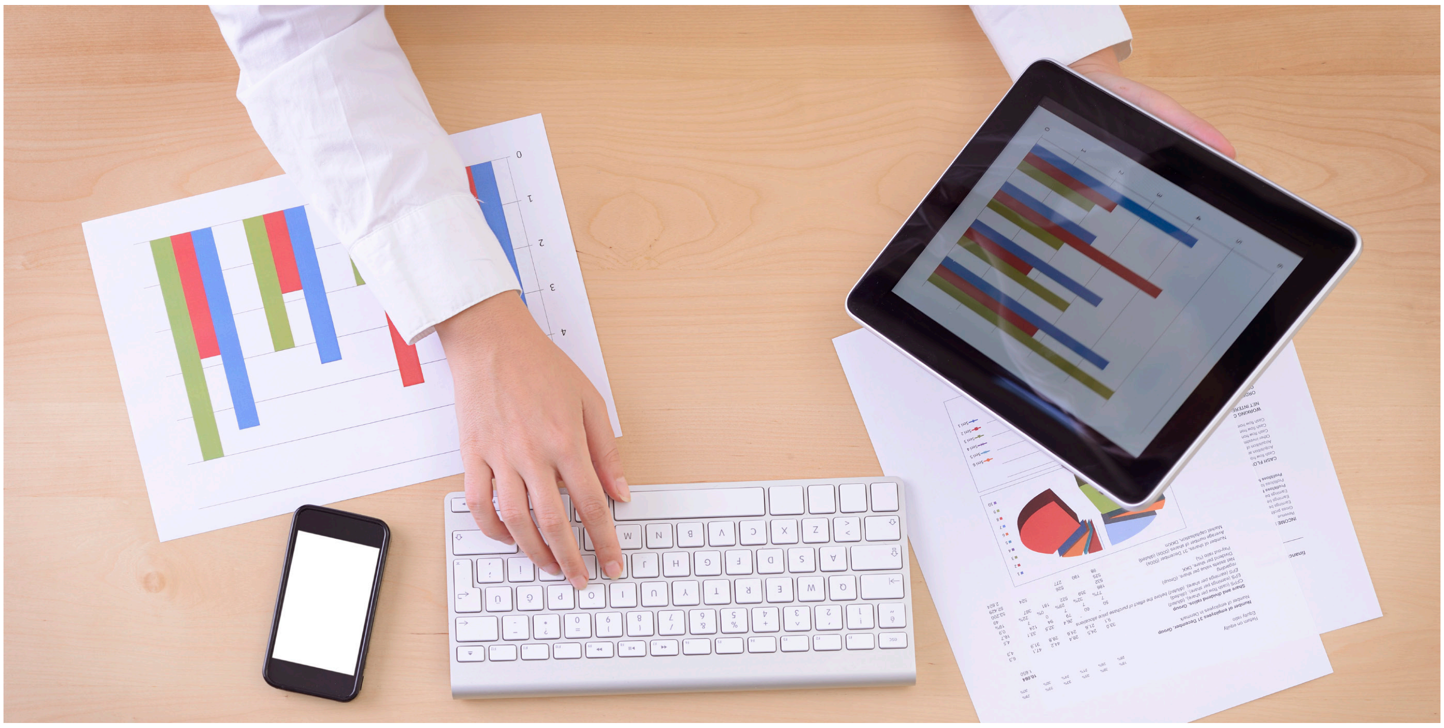
Dare we say, it sounds like one gender likes to keep the nest in order while the other is out hunting?

1 http://freakonomics.com/2014/03/20/women-are-not-men-full-transcript-2/

2 http://www.bcg.com/documents/file56704.pdf

3 http://theweek.com/article/index/257894/why-women-make-better-investors

4 http://www.mortgagechoice.com.au/news/media-releases/men-vs-women-who-wears-the-financial-pants.aspx



Technology no match for people power

It is 25 years since a young British scientist called Tim Berners-Lee invented the World Wide Web and famously gave it to the world for free. From the time it docked, the Web has unlocked infinite stores of information and delivered it to cyber explorers with the tap of a fingertip.[i]

But while the door to collective knowledge is now open for anyone to walk through, the internet's ability to expose has also pulled the blinds up on people's privacy.

Into the cloud

Nowhere has this intrusion been more entertainingly scripted than in the soon-to-be released Hollywood movie Sex Tape. In it, actor Cameron Diaz's horror is perfectly captured at the moment she discovers that the recording of a bedroom romp with her husband has inadvertently escaped into "the cloud" and thereby acquired an audience.[ii]

"The cloud" is that destination-less ether where digital information is cost-effectively stored by computer networks.

On the upside, the easy sharing, retrieval and packaging of this information has led to a civilisation-changing advance for humans.

Web-based solutions now touch almost every area of our existence, mostly improving the quality of life for people all over the world.

Wi-fi wonders

Whether it's to enable a faraway surgeon to perform delicate operations using virtual technology [iii] or to instantly locate and buy rare paraphernalia,[iv] the internet has rapidly brought what were once science-fiction concepts within reach of everyday society.

The digital age can make us all "experts" on everything. It is easy to watch online tutorials to learn new skills or acquire knowledge efficiently without having to spend time or money on traditional education, thanks to sites such as Wikipedia.

Thrifty users chase ways of saving money through shortcuts promoted by electronic traders. Unfortunately, this can expose customers to cyber-fraud and theft or, in a worst-case scenario, tragic consequences.

Such was the fate of a Korean student found murdered in Brisbane last year, shortly after leaving to meet a currency trader. Police were told the student had arranged to swap $15,000 in cash for the Korean currency, using the cut-price services of a dubious dealer he found online.[v]

Beware of scammers

Thankfully, the more common predicament facing investors who heed unscrupulous online advice is not fatal, but costly nonetheless.

The Australian Securities and Investments Commission (ASIC) receives far too many calls each year from people who have been unwittingly fleeced by get-rich-quick-schemes and investment scams.

A 2006 study by Carnegie Mellon University on how internet fraudsters build underground economies estimated that globally, potential losses from credit card fraud and financial account theft totalled $93 million. The Pittsburgh-based researchers said this constituted a $427.50 hit for every credit card ever issued.

A list of unlicensed finance companies and schemes, fake regulators and exchanges can be found on ASIC's website. [vi]

The personal touch

While there are reliable information tools on the net comparing financial products from reputable organisations, and others that educate investors about managing their money with lists of useful tips, they don't replace a tailored financial plan.

A properly constructed financial plan is a living, breathing document. It must be adaptable to changes in your circumstances, and at its core identify your personal financial needs providing you with a roadmap to achieve your short, medium and long term goals. Reaching all of your goals require an ongoing partnership between adviser and client.

In an age where the mere click of a button will secure a loan or an insurance policy, establish a bank account or allow the sell-off of a portfolio of assets, it is worth remembering that cyber transactions lack the experience that human intervention can deliver.

i http://home.web.cern.ch/topics/birth-web
ii http://www.huffingtonpost.com/2014/04/01/sex-tape-red-band-trailer_n_5068511.html
iii http://www.v3.co.uk/v3-uk/news/1968529/doctors-perform-surgery-web
iv http://www.engadget.com/2014/01/26/nintendo-world-championships-gold-cartridge-ebay/
v http://www.theguardian.com/world/2013/dec/20/man-accused-murdering-south-korean-student- jail
vi https://www.moneysmart.gov.au/scams/companies-you-should-not-deal-with/fake-regulators-and-exchanges