

# Launch of SFP mortgage broking service

The introduction of mortgage broking has been a welcome addition to the services SFP provide in the changing lending market. Due to the Royal Commission and shift in the Sydney property market, banks have continued to tighten lending which has made borrowing increasingly difficult and complex.

**To combat this, we now have the ability to compare over 40 lenders and 100's of loans so we can identify the right option for your individual needs.**

As SFP's dedicated mortgage broker, I'll support you from the initial advice meeting to application stage to settlement (and anything in between!). At review time, I'll be able to attend your meeting for a complete loan review and answer any questions you may have.

Our mortgage broking service allows us to assist you in the following areas:

- Guiding first home buyers buying their new home
- Pre-approvals for home and investment property purchase
- Refinancing for lower interest rates or continue an Interest Only loan
- Consolidation of debt to streamline repayments and free up cashflow

I look forward to meeting with you at review time and if you have any questions, please feel free to call or email me anytime on:

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In light of the recent RBA rates announcements, here are some quick facts to keep on hand;

- RBA official interest rate is 1.5%
- 1.5% has been in place for a record consecutive 29 times since August 2016
- 1960s was the last time interest rates were this low
- 1990 interest rates peaked at 17.50%
- Interest rates have steadily declined over the past 29 years

Although interest rates are at an all time low, borrowers are struggling to obtain finance due to increased lending restrictions brought on by several factors including tougher bank regulations and the fallout from the royal commission.

From a mortgage broking stand point, I'm seeing an increased number of clients servicing with non-branch banks and 2nd tier lenders over the big four due to the impact of tighter credit conditions.

In some instances, these clients have already been knocked back by their bank but with little understanding of alternative options available through other lenders, believe they're unable to obtain property finance.

## Sarah and James's Story

**Sarah and James, a young couple with a new born, have just been able to purchase their first home (2b unit) this month despite being originally knocked back by their Big 4 bank.**

The loan was originally declined due to servicing as Sarah is currently on maternity leave for the next 6 months. As the couple had dropped 40% of household income, the bank recommended they re-apply once Sarah returns to work.

Sarah and James came to me to see if any other options were available. After speaking with several lender Business Development Managers and reviewing policy guides, I was able to find a lender that would include Sarah's salary. The lender required a letter from Sarah's employer be obtained, stating that Sarah's role was on hold and she would be returning to work in 6 months' time. The loan product didn't require a credit score which meant the previous decline would not form part of the loan assessment.

Pre-approval was obtained after 8 business days, their offer was accepted, and the clients now have their first home!

**It's not all about rates, but here's some of our current lowest in each category:**

- Home - Basic variable P&I - 3.55%
- Home - Variable P&I (with offset) - 3.63%
- Investment - Variable P&I (with offset) - 3.63%
- Investment - Variable, Interest Only - 4.09%
- Home - Fixed 2 years P&I (with offset) - 3.69%
- Home - Fixed 3 years P&I (with offset) - 3.69%
- Investment - Fixed 2 years, Interest Only (with offset) - 3.99%
- Investment - Fixed 3 years, Interest Only (with offset) - 3.99%

**Leigh Morris**  
Mortgage Broker | Director



## 2019 Annual Newsletter

Welcome to our annual SFP newsletter. We have just celebrated 30 years in business, with a private birthday function for clients and friends of the business. A big thank you to everyone who made it on the night, it means a lot to us.

**It's been a year of an emotional roller coaster for us at SFP, on one hand we had to deal with watching the Royal Commission, which frankly was like watching a slow train wreck.**

Yet on the other hand we received a large number of phone calls from our clients, saying how happy they have been working with us, and how fortunate they are not having to deal with a big bank. It's not by accident that today, some months later, all the big banks are either out or getting out of the financial advice space in Australia.

It's now quite obvious to everyone that one can never have a personal and trusted relationship with an institution like a bank. After 30 years in financial planning, one thing we really understand and highly value, is the trust we have with our clients. We know it's the deep relationship and leadership clients want from us. Once again, I can boast, as we were awarded as Finalist for Financial Planning Practice of the year 2018. One more thank you to our hard-working team for the outstanding ongoing work.

The credit squeeze accompanied by uncertainty around some controversial new measures in capital gains tax and negative gearing will continue to slow down demand for property. Our research indicates that it may correct the prices as low as 25 % from top to bottom. This is, of course, not an issue for anyone with a healthy equity in their homes.

However, those who recently borrowed 100% (or more) of their property value, might find themselves in hot waters as they now owe more than they own. So, hang onto your hats; and if you have a mortgage pay down as much as you can, unless there's a good reason for it.

We've been in high demand to assist clients with their debt. So, I'm very happy to announce that one of our directors, Leigh Morris, has fully transitioned to a full-time debt specialist and mortgage broker. This change has proved very popular with clients as they are fed up with getting ripped off by the banks.

This also means that moving forward, every progress review meeting with our active clients will include a health check offer on their mortgage. If you're on a reactive service offer or you have an immediate need to review your mortgage, this is a formal invitation to have a conversation. Please don't hesitate to give us a call anytime.

**We strongly recommend you see your planner at least once a year and this is our annual offer to meet with your very own financial expert again.**

Warm regards,  
**Bill Bracey | Principal**



# Make the most of superannuation – tax deductible personal contributions

For many people, super remains a highly tax-effective structure to hold investments for the accumulation of retirement savings, as well as maintaining their risk/insurance protection. However, due to the current contribution caps and rules, this also means that planning ahead over the longer term is the most effective way to maximise the potential benefits of super. Particularly worth noting, are the recent changes which allow for the ability to claim tax deductions on personal super contributions.

The concessional contribution cap of \$25,000 applies to everyone, regardless of their age or superannuation balance. The 'less than 10 per cent employment income' rule no longer applies when looking to claim a tax deduction for personal superannuation contributions.

Broadly, anyone who is eligible to contribute to super can claim a tax deduction for their personal contribution (other conditions apply, talk to your adviser). Keep in mind the 9.5% SG contribution from your employer is counted in this amount.

## How this might benefit you in practice

Clients who already make salary sacrifice contributions may be asking, "what's the big fuss around personal tax-deductible contributions?" In the end it creates the same tax effective outcome whether you choose to do this regularly via employer salary sacrifice or "ad hoc" via personal lump sum contributions. While this is true, there can be some advantages for people in the following circumstances:

**Flexibility to calculate capacity and "top up" towards end of financial year:** It has been challenging for employees with "lumpy" incomes to salary sacrifice in the past – it's hard to determine how much your employer will contribute for the year (as it's hard to project the amount

of income for the year). The new super arrangements simplify this situation – you now have the flexibility to top-up concessional super contributions (up to the \$25,000 cap) towards the end of the financial year.

**Won't reduce your SGC:** The salary sacrifice contribution is classified as an employer contribution, and some employers simply include your salary sacrifice contributions to reduce or eliminate their SG obligation (proposed legislation is currently being drafted to eliminate this practice).

**Employer doesn't offer salary sacrifice:** Some employees are not offered salary sacrifice arrangements all together. You can now effectively "salary sacrifice" by making voluntary personal contributions and then claiming these personal super contributions as a tax deduction in your tax return.

**Easier to sacrifice bonuses:** The need for an agreement to be in place prior to earning your bonus can make it difficult to plan amounts to be sacrificed into super. Now make the contribution once the bonus amount is known.

**Save interest in the meantime:** Tax deductible contributions could also be combined with other strategies like keeping these "provisioned" contributions aside in your offset account

in the meantime, which can reduce the cost of your loan.

The 'paperwork' requirements to qualify for a deduction for a personal superannuation contribution have not changed. You must complete a valid Notice of Intention (NOI) to claim a tax deduction and lodge this with their super fund.

We encourage you not to leave things to the last minute. Super contributions are generally allocated and **count towards a client's contribution cap in the year in which they are received by the fund.** Clients need to allow several business days for contributions made by BPAY® or similar methods to reach the fund.

**Accrue any unused amounts from 2018/19:** Beginning in 2018-19, a person can start to **accrue unused amounts of concessional contributions cap and carry-forward these unused amounts.** Provided your total superannuation balance prior 30 June is under \$500,000, the first year a person can make additional concessional contributions from their accrued unused amounts is in the 2019-20 financial year. Discuss this with your planner at your next progress meeting.

**Gary Winwood-Smith**  
Senior Financial Planner | Director

# The wisdom of 'no change' recommendation in investing

In 2019, the Australian population tipped over 25 million. None of these lovely people have any chance of sustaining a successful investment strategy without the help of an empathetic and tough loving investment adviser. This may sound pessimistic but unfortunately, it's not an incorrect statement. It refers to our human behaviour when it comes to investing – the investor behaviour.

The investor behaviour needs to be managed via the disciplined but simple recommendation of 'no change' which most of our clients have experienced for years. It's simple but effective. It may sound repetitive and even boring, but without it we would all end up chasing the annual 'The top 5 stocks to invest in 2019' type of headlines (and end up broke).

The next thing that's important to acknowledge is the issue of behaviour is cognitive in nature and therefore can't be 'fixed' by investor education, as is so often suggested by media and Barefoot Investor type literature. We can't overcome human nature by learning, just as we can't change left-handed writing with psychotherapy.

There are four main reasons for our inability sustain a successful investment strategy on our own:

## Physiological reason

A fantastic piece of hardware in our brain (the right amygdala) used to help us process fear and anxiety when running away from a lion in the savannahs of Africa over 40,000 years ago. It instinctively guided us to stick together with our herd or to run away and save our skin but it's not doing us any favours now

when facing the fear of capital markets. Whether it's fear of loss when seeing our investments (temporarily) reducing in price or fear of missing out when seeing others making money (incorrectly branded as greed by media), the way we naturally respond to it contributes to our inability to deal with it the right way.

## Psychological reason

Human beings all suffer from what's called an asymmetric loss aversion, which simply means that losing money feels twice as bad as making money feels good. Together with the media fed thesis of 'This time it's different', it enables the investor's tortured psyche to escape not only from the pain of 'loss' but also from any obligation to continue investing rationally.

## Cultural reason

This refers to our inability to distinguish between currency (medium of exchange for products and services) and money (stockpile of purchasing power). It's culturally unavailable to our human mind that at just average inflation of 3% pa (the average rise in cost of living), what costs us \$1 today will cost us \$2.44 in 30 years' time. The erosion of purchasing power will devalue every dollar we own by almost 60%.



Photo by Tyler Milligan on Unsplash

## Perceptual reason

In relation to investments, when the price of an investment asset is rising, all the fundamentals tell us its value is reducing and the risk of investing in that asset is now higher, so we should be more cautious. Conversely, when the investment prices temporarily fall (typically because of some imaginative doom and gloom prognosis), economic fundamentals tell us that the value of investing in those assets increases, the risk is reducing, and we should increase our appetite to buy more. Tragically, human nature makes us do exactly the opposite. We step up our purchases when markets rise (pretty close to the top) and we sell what we own when markets fall (pretty close to the bottom) and we keep doing it until we go broke. Our perception stands in the way of making the rational investment decisions.

Your financial planner is here to stop human behaviour from essentially destroying your wealth by so often saying, don't make any changes or don't react. In its pure essence, it's the most important recommendation we make. Even if it means no change. It's about the ability to stay patient and disciplined when others lose faith in what they're doing. We call it the 'Zen of Investing' and it's the only way to enjoy the benefits of the compound interest we all strive for.

**Michal Bodi**  
Senior Financial Planner | Partner



## 6 critical behaviours to build wealth successfully... according to The Next Millionaire Next Door: Enduring Strategies for Building Wealth (S. Fallow 2018)



FRUGALITY



RESPONSIBILITY



FOCUS



CONFIDENCE



PLANNING (MONITORING)



SOCIAL INDIFFERENCE

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