Forman Financial Services

Additional General Information Regarding- Investments

This document provides additional information on
Investment Risk, Crisis versus Correction, Advantages of Using Managed Funds and Taxation

Information regarding Investment Risk

The following table summarises some of the risks that can affect investors.

The information does not deal with other kinds of unexpected events such as serious illness, death or loss of employment, all of which can have a major impact on a person's financial situation.

The golden rule is: The higher the expected returns, the higher the risk that needs to be taken.

The following is a summary of the different risk aspects:

Types of risks	What it means
Mismatch risk	The investment you choose may not be suitable for your needs and circumstances.
Inflation risk	The real purchasing power of your money may not keep pace with inflation
Interest rate risk	For investors relying on fixed rate investments, you may have to reinvest maturing money at a significantly lower rate.
Market risk	Movements in the market mean the value of your investment can go down as well as up - and sometimes suddenly.
Market time risk	Anticipating market rises and falls can be extremely difficult because no two economic cycles are the same.
Liquidity risk	You may not be able to access your money quickly or without cost when you need to.
Credit risk	Applies to debt-type investments such as term deposits and debentures. The institution you have invested with may not be able to make the required interest payments or repay your funds.
Legislative risk	Your investment strategies could be affected by changes in the current laws and regulations.
Risk of not diversifying	All of your capital will be affected if your single investment does badly.

Crisis versus Correction

The distinction between corrections and crises is important from an investment policy standpoint. For our purposes, a correction is defined as a stock market fall of –10% or more, whereas a crisis is a deeper, prolonged decline that is accompanied by economic stagnation. By these definitions, we have experienced 20 corrections since 1926 in the US equity market (or about 2-3 per decade) and only five crises: 1929-32**,** 1937-38, 1974-1975, 1987 and 2001-2002. While the average decline from the peak of the corrections was –20%, stock markets lost an average of –60% during the crisis periods. The most important distinction between a correction and a crisis from an investment policy perspective is the longer-term implication of the event. Investors buying at the peak before a correction enjoyed a peak position in just 1.5 years on average following a correction. Crises, on the other hand, have a longer-term impact on the value of your portfolio. Those who invested at the peak experienced an annualized loss of –9% over the subsequent five years and the market did not recover its prior for over 8.5 years. Thus, the tenet is long-term investment policy decision-making, staying the course and diversification, worked in the years following corrections; however, in crises, the declines were so severe that these principles failed to protect investors and only a major change in policy would have preserved asset values. From this perspective, the potential for financial crisis is perhaps the single most important policy question.

Fortunately, crises are rare events that stem from a breakdown in what we will call the self-correcting bull market cycle. Before exploring the cause of the breakdown, we examine the bull market cycle, the sources of the rise in equities and the resulting corrections. The cycle begins with an improvement in the investment outlook. This new faith in the future allows investors to reduce their risk expectations for equity investments while increasing their positions in risky assets. Eventually, these lower risk expectations lead to speculative imbalances that then are corrected when the investment outlook sours in the face of tighter monetary policy. Subsequently, expansionary policies typically revive the cycle by one again improving the investment outlook.

Advantages of Managed Funds

There will always be a place for direct investments (for those with the ambition to self -manage), however Managed Funds make sense for the majority of investors. In particular, Managed Funds are useful for those many investors who are unable to access the necessary research information, or do not have the skills to analyse that information, or simply do not want to invest their time in these activities.

Cost-efficient, professionally Managed Funds have many advantages over direct investments and these include:

- Diversification - Even $100,000 can't be spread that far when buying shares direct, and it is even more difficult to also get some property and international exposure. By using Managed Funds, $100,000 can be cost-efficiently spread amongst and within investment sectors. This is very important when saving from a low base

- Professional management - Investors in Managed Funds have professionals working on their behalf. The investor does not need to worry about difficult tenants, renegotiating rents, altering leases, taking up rights issues and so on.

- Liquidity - Investors in most unit trusts can access their funds quickly. The normal notice period is 10 days, although some funds may require 28 days notice. Investors can access a part of these funds or the whole amount without a penalty. Further, direct investors in property cannot access a part of their invested capital. If they need funds urgently, they must borrow further funds against the property, or sell urgently, potentially at a loss. Investors in Managed Funds can redeem part or all of their property investments at any time without penalty.

INCOME AND TAXATION Investment Non-Super

The following information is only relevant to Australian residents for taxation purposes. If you are not falling under this category, we recommend you speak to your tax adviser regarding your specific circumstances.

Income Tax

The fund will have two types of income:

1. Dividend from the funds investment.
2. The sale of the assets within the funds before a 12 month period, for example, the fund traded shares.

Both incomes (the investor unit entitlement) will be added to the investor income tax.
You should note that this will also be the case if you reinvest the income.

Income tax may also be an issue if you redeem any units prior to a 12 month term.

Dividend Imputation

Under the dividend imputation system, no tax is payable on dividends received by the investor to the extent that the company has already paid tax on the original profits. The system works as follows:

- A company makes a profit of $100. It pays tax of $30, leaving $70 to distribute.
- A shareholder receives a dividend of $70, with a franking credit.
- The shareholder must include the both the $70 and the $30 in his or her assessable income and pay tax on the full $100. However, a tax credit of $30 applies.
- The effect of the credit is that no tax will be paid on the dividend if the shareholder’s tax rate is less than 30%. If the individual rate is above 30%, tax will be payable but only at a rate equal to the shareholder’s rate less 30%.

If for example your marginal tax rate is 45%, this means that any fully franked dividend income will attract a tax liability of only 15%, excluding Medicare levy.

Capital Gains Tax

When you will redeem any units after 12 months period you may have capital gains tax liability.

The Capital Gains Tax liabilities can be a complex matter and we recommend that you consult your tax adviser regarding these tax matters before proceeding with the investments and before you redeem any investment.

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