PERSONAL INVESTMENT PLANNING WORKBOOK

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Name		***Date***	

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INTRODUCTION

An investment plan defines a strategy and methodology to manage your wealth and fund your various expenditures. In early years your primary concern will be with building wealth, while later your focus will be on balancing income and expenditure, and maintaining financial security.

The steps set out in this Workbook will help you think about the ingredients of a personal investment plan. With additional knowledge and experience, you should be able to revise and improve your Plan over time.

A WEALTH STOCKTAKE

First let's take stock of your current investments, excluding your home and other lifestyle assets.

Table 1. INVESTMENT WORTH
The total of all investments (excluding the home and lifestyle personal possessions), less total debt and other liabilities. Include all assets owned directly by you and your spouse, and indirectly via superannuation or trusts.

INVESTMENT ASSETS		
Individual shares (equities)	$	%
Equity funds, ETFs and LICs	$	%
Investment property (directly owned or funds)	$	%
Fixed income (bonds, funds, hybrids, annuities)	$	%
Cash (at-call and term deposits)	$	%
Other (investments, inheritances, etc)	$	%
Total Assets	$	100%
LIABILITIES		
Home mortgage	$	%
Investment loans	$	%
Other loans	$	%
Other debt, tax, planned gifts or liabilities	$	%
Total Liabilities	$	100%
INVESTMENT WORTH (Assets – Liabilities)	$	

CASH FLOW

In this section you calculate your annual cash flow, which is the difference between income and expenses and work out here if you are a net saver or spender.

The first table is your current cash flow, the second is an estimate of what you might expect in retirement.

Data on your current expenses can be gathered from your credit card and bank statements.

Think about how your income and expenses may change in retirement. Retirement typically has three phases of expenditure – an early period with higher expenditure on travel and lifestyle, a middle period of lower activity and cost, and late stage that may involve high medical and care costs. You may wish to fill in a series of cash flow estimates for different scenarios.

An understanding of how your expenses may change in retirement will be compared to your Investment Worth to make a basic statement of the adequacy of retirement funding, the potential for surplus spending or capital gaps to fill

Table 2. ANNUAL CASH FLOW – CURRENT AND IN RETIREMENT

	Current $	***In Retirement $***
INCOME		
Salary, wages and consulting		
Past employer pension		
Government pension		
Net rental income		
Dividends and trust distributions		
Interest		
Other		
Total Income (after tax)		
EXPENSES		
BASIC LIVING EXPENSES		
Home mortgage or rent		
Utilities and council rates or strata fees		
Home repairs, maintenance, and insurance		
Food		
Clothing		
Computer, internet and phone		
Medical (including medical insurance less rebates)		
Transport and car costs		
Services such as home care, gardening		
Insurance (home, life and disability)		
Other debt repayments		
Other		
Total basic living expenses (1)		
LIFESTYLE OR DISCRETIONARY EXPENSES		
Holidays and travel		
Entertainment and restaurants		
Family assistance (eg school fees)		
Other		
Total Discretionary expenses (2)		
LARGE ONE-OFF EXPENSES. Estimate annual average for lumpy expenses such as new car, helping children with housing, kitchen appliances etc. (3)		
Total expenses (1) + (2) + (3) = (4) Note: Current expenses should equal the sum of your annual credit card bill, EFT payments plus cash withdrawals for purchases. If not, go back and adjust the table entries. In retirement, expenses will vary at different stages depending on hobbies, activities and health		
NET CASH FLOW or annual savings (Income – Expenses). Shortfall (if negative)		
REQUIRED INVESTMENT INCOME = Total Expenses (4) - Non-investment income (5)		
For how many years will this income be required?		years

INVESTMENT INCOME

Income from an investment portfolio comes from two main sources - cash generated from dividends, trust distributions, interest payments and rent from investment property, or by drawing on capital by selling shares or other investments.

Funds must be withdrawn from an investment portfolio to obtain income. The more that is withdrawn each year, the greater the chance of depleting the portfolio during one's lifetime. Growth assets, needed to counter inflation risk, exhibit volatility in capital value over various time frames and the investor needs to be comfortable with this volatility. This volatility results in 'sequencing risk', the impact of timing of contributions and withdrawals through bull and bear markets.

Studies of average annual returns from growth-oriented investment portfolios show that an annual withdrawal of 4% of the initial capital value of the portfolio, increased each year by CPI, has a 95% probability of providing a sustainable withdrawal over a 30-year time period. A lower withdrawal rate provides a higher safety margin and is appropriate for a longer time period, whereas a higher withdrawal rate can be used for a shorter time period, or if the investor is prepared to take a higher level of risk of depleting savings (see references).

Fill in Table 3 to estimate the annual income derived from a growth-oriented investment portfolio at various drawdown percentages. The amount withdrawn is increased each year by the inflation rate (CPI).

Table 3. POTENTIAL INCOME GENERATION FROM INVESTMENTS

(An annual drawdown of a fixed percentage of investment assets at retirement, indexed to inflation each year)

Potential annual income from investments (over 30 years) (Multiply Investment Worth on page 3 by percentage on right)	***3% pa drawdown***	***4% pa drawdown***	***5% pa drawdown***

→ *Does this projected income match your "required investment income" on page 5?*

____

→ *How much do they differ, and what can be changed?*

____

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WEALTH AND INVESTMENT STRUCTURE INDICATORS

The following indicators give an idea of some aspects of the structure and balance of your investments.

Table 4 - CURRENT PORTFOLIO ASSET ALLOCATION
(Transfer data from Table 1. Do not include your home or lifestyle personal possessions)

Item	***Percentage***
Equities (direct shares, ETFs, LICs, managed funds)	%
Property (direct or A-REITs)	%
Debt investments (fixed income products, bonds, hybrids)	%
Cash holdings (at-call cash and term deposits)	%
Alternatives (hedge funds, derivatives, commodities …)	%
TOTAL	**100%**

→ *What percentage of your portfolio is growth assets that offer inflation protection?*

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Table 5 - INVESTMENT STRUCTURE INDICATORS

Item	***Percentage***
Superannuation focus: The % of all your investments "sheltered" in super	%
Australian bias: The % of your investments in Australian investment including shares, bonds and deposits as a fraction of your total investments	%
Australian equity-style investment mix. Of your total equity investment, what % is in - Directly-owned listed companies - Actively managed funds and LICs - Passive index funds and index ETFs	 % % %
Portfolio turnover: $ value of shares bought or sold each year / total holdings	%

→ *Do you think any of these should be adjusted?*

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Table 6 - EQUITY VOLATILITY TOLERANCE

Individuals have varying comfort levels with changes in the value of their investments over short and medium time frames, also known as 'investment volatility'. The following four questions[1] can be used as an estimate your equity volatility tolerance. Add the points for each of the four questions. Your score can be interpreted as the maximum percentage of equities to match your comfort level. Many other factors, however, dictate the right mix for you, such as life stage, other income sources and investment types.

Item	***Points***
1. Amount of fall in your retirement saving balance that would cause great concern and prompt serious consideration of selling out of the share market: • Less than 5% (0 pts) • About 10% (5 pts) • About 20% (10 pts) • About 30% (15 pts) • About 40% (20 pts) • About 50% (25 pts)	
2. Your experience investing in shares in the past has been … • None (5 pts) • A little (10 pts) • I am a medium-term (5-10 years) investor in shares as part of a diversified portfolio (15 pts) • I am a long-term (15-30 years) investor in shares as part of a diversified portfolio (25 pts)	
3. You find shares: • Unreliable and are fearful of them (5 pts) • You are willing to invest in them modestly and hesitantly (10 pts) • Feel they make up an important part of the portfolio (15 pts) • Believe strongly in them as the primary part of my portfolio (20 pts) • Believe in investing solely in them and consider price drops solely as buying opportunities (25 pts)	
4. The following labels might best describe you: • Very Defensive investor (5 pts) • Conservative investor (10 pts) • Moderate risk taking investor (15 pts) • Growth investor (20 pts) • Aggressive investor (25 pts)	
Total points (out of 100)	

[1] *Source: Professional Wealth© for educational purposes only. Not to be relied upon as the sole guideline to your portfolio equity mix.*

LIFE GOALS AND INVESTMENT PLAN

This section contains a number of questions that will help you think about how to tailor your investment plan to your unique needs and circumstances.

Life Goals and Aspirations

1. What are your lifestyle goals?
2. How long do you need your money to last? Consider median and high-end estimates (calculate life expectancy at www.mylongevity.com.au, but remember you could well outlive this age.)
3. Do you want to leave a legacy in terms of intergenerational wealth transfer to your heirs or a charitable cause? Or will they get what's "left over"?
4. Do you intend to rely partly on a Centrelink pension or home equity withdrawal as a safety net? Describe how this will work.

Investment Knowledge

1. Would you class yourself as an experienced investor? What is your skill set?
2. What are your investment objectives? Are they realistic (refer Table 3)?

3. How hands-on do you want to be in investing? Should you DIY or outsource to a fund manager or adviser?
If you are hands-on investor, do you believe you can consistently outperform the share-market index or professional fund managers? How do you know? Over what time period?
4. How relevant are the key risks to you? - Sequencing risk (the timing of investment returns, contributions and withdrawals) - Longevity risk (outliving your investments) - Inflation risk (value of assets reduced by inflation) - Regulatory risk (super rules, aged pension, taxation, family home) - Country-specific risk
5. Does your current asset allocation match your needs? - Liquidity - Growth - Regular income - Volatility
6. To better meet your goals, how should you change your asset allocation?
7. What strategies do you use to meet short and long-term goals?

ASSET ALLOCATION – INVESTMENT TYPES

Growth assets (capital value expected to increase over time)

- What percentage of growth assets do you currently hold?
- Should this allocation be changed? Why? What options might suit you?
- Do you know the pros and cons of ETFs, LICs, managed funds and direct equity investment? What best suits your needs?
- Should you employ leverage (eg borrow to invest)?
- Are some of your investment assets in a tax-sheltered environment (eg superannuation or family trust)? Is the balance right?

Debt and defensive assets (predominantly income, with little expected capital growth)

- What percentage of fixed-income and other defensive assets do you currently hold?
- Should this be changed? Why? What options might suit you?
- Should you consider derivatives to generate income or reduce market risk?
- What insurance do you have in place? Is this appropriate?

Income streams (annuities and pensions)

- Do you have any lifetime income streams, such as an employer pension?
- Are they inflation-linked?
- Have you calculated the conditions under which you will qualify for a Centrelink pension?
- Have you considered purchasing a lifetime or deferred annuity?
- Would you ever consider the use of equity-release loans or a reverse mortgage on your home? When and why?

MANAGING YOUR PORTFOLIO

1. Investment plan.
Do you have a comprehensive written investment plan? How often do you update it?

2. Record keeping.
Do you keep up-to-date records of your investment transactions?

3. Benchmarking.
Do you compare your investment performance against one or more benchmarks? How does this change your strategy?

4. Cash flow.
Does your investment mix generate a suitable income stream?

5. Core and satellite.
Do you use the concept of “buckets” or “core and satellite” portfolios to reduce uncertainty and balance cash flow with long-term growth?

6. Rebalancing.
How often do you change your asset allocation? Under what conditions would you rebalance?

7. Market timing.
Do you try and time the market or do you prefer buy-and-hold. What are your reasons?

8. Risk management.
What processes are in place to manage risk?

REVISING AND IMPROVING YOUR PLAN

1. How thorough is your investment plan? What additional information is needed?
2. How fixed are your rules on investing? When do you change them? Why?
3. Do you test your underlying assumptions to see whether they are still current?
4. How often do you assess whether your plan is meeting its objectives? How often do you revise it?
5. Do you review the costs and suitability of the legal/tax structure in which you hold your investments?
6. What do you do for ongoing education and learning?
7. Do you share your plan with family members or trusted advisers?
8. Changes as you get older – who will take over when you are not able to manage your investments?

SUCCESSION PLANNING

1. Do you have an up-to-date Wealth and Investment Succession Plan that deals with all the ways/entities you use to hold your wealth? (eg, a Will for non-trust assets, and appropriate death or succession planning nominations for superannuation and family trusts).

2. Do you have in place a document for your spouse and heirs that lists where all important investment information is kept? How often do you review and update this document? Do they know where to locate it?

3. Do you and your spouse have in place an enduring power of attorney that can be activated in the event that you can no longer manage your affairs?

4. Do you have in place an investment plan for your spouse in the event that you predecease them? This may be different to the way you have managed your investments because your spouse has different skills and experience.

MY INVESTMENT PLAN

At my/our stage of life my objective for investments is to

____

(eg, grow for retirement, use to supplement other significant income, primarily fund living expenses, pass on to my beneficiaries,…)

Excluding lifestyle assets and other income I have $ _____________ in investments (net of debts)

My expenses to fund are: $ _______________ /month or /yr

From other sources I receive and earn: ____________________________ (nil? or $/month or /yr)

At retirement, my investments will thus need to fill a gap of: _________ (nil? or $/month or /yr)

Given a ____ % maximum prudent drawdown (example 4-6% annual spending of investment balance) my investments might fund a maximum: ___________ $/yr or $/month expenditure

If this is more than my funding gap, I can draw or spend less of forced drawings. If not, I realise I need to find other income (or support) and know I risk outliving my investments unless I reduce expenses now or later.

I/we could be classified a: _________________ investor especially with respect to our comfort with share volatility
[Defensive, Conservative, Balanced, Moderate, Growth, Aggressive]

This means I/we will aim to have roughly ________ % in shares (excluding direct property)

We chose this because we don't want to see the value of our portfolio in 1-year fall by: ______%

We wish to target having ________ % in Australian shares versus those overseas

We will invest in those through: ____
[direct, index/ETFs, LICs, managed funds]

We will achieve our offshore equity exposure through: ________________________________

We [love] [like] [avoid] owning property directly and it forms approx. ______ % of the portfolio

Our allocation to [unlisted], [listed] property trusts should be approx. ______ % of the portfolio

My allocation to debt securities (cash deposits, bonds, other) will be ______ % of the portfolio

______ [All], [Most], [Some], [None?] will be highly defensive in style

We will invest roughly in a mix (total 100%): ____ deposits, ____ bonds, ____income securities, _____ other …

Other assets that will make up my portfolio total: _______ % and include:

____

We/I will review our portfolio as regularly as: [monthly, quarterly, semi-annually, annually]

We/I will compare the performance of our portfolio to: ___________________________ [benchmark for one/all assets]

When the share market falls we will: [do nothing], [sell a little], [sell a lot], [buy a little], [buy more]

I [will] [will not] engage the services of an independent, knowledgeable, licensed financial advisor to assist in developing, reviewing and revising my investment plan.

RESOURCES AND READING

A wide variety of educational material is available on the AIA web site www.investors.asn.au/education/. Other useful resources are listed below.

Budgeting

Online budget planner. *Australian Securities and Investments Commission, ASIC*
www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/budget-planner
Budgeting for a successful retirement: Robin Bowerman,
www.vanguardinvestments.com.au/retail/ret/articles/insights/smart-investing/Budgeting-for-a-successful-retirement.jsp?utm_source=SmartInvesting&utm_medium=email&utm_campaign=February2015#

5 things every retirement portfolio should have: Rob Isbitts, www.marketwatch.com/story/5-things-every-retirement-portfolio-should-have-2014-03-21

Retirement planning

Estimate for living expenses in retirement. *Association of Superannuation Funds of Australia, ASFA* www.superannuation.asn.au/resources/retirement-standard

Retirement planning: Focus first on covering fixed expenses, Michael Falk, *AAII Journal,* www.aaii.com/journal/article/retirement-planning-focus-first-on-covering-fixed-expenses

Managing cash flow in retirement, Harold Evensky and Deena Katz, *AAII Journal,* www.aaii.com/journal/article/managing-cash-flow-in-retirement

Life cycle investing: AIA 2013 Sydney seminar:www.investors.asn.au/resources/papers-presented/seminars/investing-for-life/

4 myths about retirement planning: Morningstar, www.morningstar.com.au/smsf/article/retirement-planning/7068?q=printme

Investing for retirement: 6 things to consider: Jeff Rogers, www.ampcapital.com.au/site-assets/articles/market-watch/2015/april/investing-for-retirement-6-things-to-consider

The bucket approach to retirement allocation: Morningstar, www.morningstar.com.au/smsf/article/bucket-allocation/6993?q=printme

Retirement adequacy

Retirement myths: Retirement myths doing more harm than good, Peter Vann and Chris Condon http://cuffelinks.com.au/five-retirement-myths-harm-good/

SMSF retirement insights. Accurium, https://www.accurium.com.au/Media/Default/tech-hub/SMSF%20Retirement%20Insights%20(digital).pdf

Approaches to generating retirement income. The Yin and Yang of retirement income philosophies: Wade Pfau and Jeremy Cooper, Challenger, www.challenger.com.au/funds/TechnicalUpdates/The_Yin_and_Yang.pdf

How much is enough? Doug Turek
www.professionalwealth.com.au/admin/file/content3/c2/ER%20Turek%20How%20much%20is%20enough%20_191108.pdf

Asset allocation

The critical role of asset allocation in investment returns: Shane Oliver, AMP Capital www.ampcapital.com.au/article-detail?alias=/olivers-insights/march-2014/the-critical-role-of-asset-allocation-for-investor

Why we can't resist tactical asset allocation, Chris Cuffe http://cuffelinks.com.au/cant-resist-tactical-asset-allocation/

Choosing the right portfolio allocation approach for you: Charles Rotblut, *AAII journal* www.aaii.com/journal/article/choosing-the-right-portfolio-allocation-approach-for-you

Investment returns: Vanguard investments https://tool.vanguardinvestments.com.au/indexchart/ui/app.html

Dealing with investor uncertainty: Vanguard investments www.vanguardinvestments.com.au/retail/ret/articles/insights/smart-investing/Dealing-with-investor-uncertainty.jsp?utm_source=SmartInvesting&utm_medium=email&utm_campaign=May2015

Where are we in the investment cycle? Shane Oliver, www.ampcapital.com.au/article-detail?alias=/olivers-insights/april-2015/where-are-we-in-the-investment-cycle

5 tips about asset allocation, Morningstar www.morningstar.com.au/funds/article/tips-asset-allocation/7033

Rebalance, and realign your portfolio: Doug Turek www.professionalwealth.com.au/admin/file/content3/c2/ER%20rebalance%200608.pdf

Bonds figure in rebalanced portfolios: Doug Turek www.professionalwealth.com.au/admin/file/content3/c2/ER%20Turek%20bonds%20equities%20postcrash%200509.pdf

Behavioural finance

Driving emotions from your investment process: A 12-Step Program: *AAII Journal.* www.aaii.com/journal/article/driving-emotions-from-your-investment-process-a-12-step-program

Investor behaviour - good and bad: Robin Bowerman, www.vanguardinvestments.com.au/retail/ret/articles/insights/smart-investing/Investor-behaviour-good-and-bad.jsp?utm_source=SmartInvesting&utm_medium=email&utm_campaign=February2015#

Risk

Risk in general and how to handle it today: Howard Marks, Oaktree Capital Management http://cuffelinks.com.au/cuffelinks-howard-marks-risk/

How safe are safe withdrawal rates in retirement? An Australian perspective: Drew and Walk, Finsia, www.finsia.com/docs/default-source/Retirement-Risk-Zone/how-safe-are-safe-withdrawal-rates-in-retirement-an-australian-perspective.pdf?sfvrsn=2

Finding the right withdrawal rate: One key to portfolio sustainability, Maria Crawford Scott, *AAII Journal*, www.aaii.com/journal/article/finding-the-right-withdrawal-rate-one-key-toportfolio-sustainability

The sequence in which returns occur affects your wealth, Charles Rotblut, *AAII Journal,* www.aaii.com/journal/article/the-sequence-in-which-returns-occur-affects-your-wealth

Retirement income: What's wrong with the 4% rule, Robert Powell, www.marketwatch.com/story/retirement-income-whats-wrong-with-the-4-rule-2012-11-08

What is risk in investing? Shane Oliver, www.ampcapital.com.au/article-detail?alias=/olivers-insights/april-2015/what-is-risk-in-investing

Equities

Various educational articles and books, Colin Nicholson www.bwts.com.au/
The role of equities in retirement: Robin Christie, www.finsia.com/news/news-article/2015/05/08/the-role-of-equities-in-retirement

The case for equities in retirement, Mark Nathan http://cuffelinks.com.au/case-equities-retirement/

Building more relevant Australian share portfolios, Jeff Rogers http://cuffelinks.com.au/building-relevant-australian-share-portfolios/

International investing- 2014 Sydney AIA seminar: www.investors.asn.au/resources/papers-presented/seminars/think-global-how-to-invest-overseas/

Managed Funds

2014 Best managed funds report; AIA, www.investors.asn.au/resources/member-reports/managed-investments-reports/2014-aia-best-performed-managed-investment-products-report/

ETFs www.asx.com.au/products/etf-and-other-etp.htm

LICs www.asx.com.au/products/managed-funds/lics-index.htm

Hybrids www.asx.com.au/products/hybrid-securities.htm

Bonds

Understanding bonds: ASX, www.asx.com.au/documents/products/Understanding_Bonds-_AGB_web_version.pdf

Corporate bonds made simple: FIIG securities, www.fiig.com.au/sem/bonds-made-simple-download