GDA

Your Private Wealth Specialists

SUMMER 2017-2018

INSIDE THIS ISSUE

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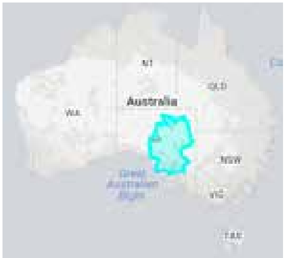
OPINION

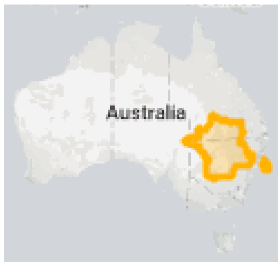
The Taste of Tasmania has once again come and gone and we are progressing into 2018. The summer weather at the time of writing has been delightful, something that may come as a shock to the majority of mainlanders who frequently seem to have the view that Tasmania is cold and wet. I think that quite a few of us are happy to let them continue to labor under that misapprehension, in a way it reminds me of the Cascade Draught Great Wall advert where they were building a wall across the top of Tasmania to keep them out, Donald Trump anybody!

As happens over the Christmas period with some socialising, regular subjects come up - religion, climate change and the state of the earth. For the sake of sanity and to avoid offending anyone we will ignore all three and consider a few things that may surprise some people. This all started when I asked a number of people what the circumference of the Earth was and, by the way, I had approached twenty people before I came across somebody who knew the answer. If you don't know the answer and are curious perhaps you might google it. We could tell you but that would be too easy. The questions then came up about the relative size of various countries and those questions generally had a similkar lack of answers. If you look at an Atlas or perhaps a globe of the earth the size of countries gets distorted as you get further away from the equator. So, we thought it might be interesting to provide some true size comparisons and include the populations.

Country	Population (2017)	Area sq kms	Area sq miles
Australia	24,450,561	7,692,024	2,969,907
United Kingdom	66,181,585	242,495	93,628
France	64,979,548	640,679	247,368
Germany	82,114,224	357,114	137,882
India	1,339,180,127	3,166,414	1,222,559
China	1,409,517,397	9,572,900	3,696,100

As illustrated below the United Kingdom (pop. 66,181,585) fits comfortably into the Northern Territory (pop. 246,100 people), Germany (pop. 82,114,224) fits in South Australia (pop. 1,723,500) and France (pop. 64,979,548) is approximately the size of NSW (pop. 7,861,100).





United Kingdom Germany France

Australia (pop. 24,450,561) superimposed covers the majority of Europe (pop. 742,396,200), India (pop. 1,339,180,127) is less than half the size of Australia and China (pop. 1,409,517,397) is only approximately 24% larger.

Australia sitting over Europe

India Over Australia

China over Australia

It is of interest to note that China, United States of America (pop. 324,459,463) and Australia all have a similar land mass, the clear difference is the population number and density. If you are looking at where the world power may lie in the future the numbers over the long term do not favour the United States unless it works very closely with allies around the world, something that it has not been particularly good at in recent years.

When you consider the impact of size and population densities we are fortunate to live in Australia and absolutely blessed to live in Tasmania. Here is to 2018 being a great year for all.

John Fairlie, Chair, GDA Group

SMART TIPS

OVERCAPITALISING: WHAT IT IS AND HOW TO AVOID IT

As a home owner or property investor, you may have heard the term 'overcapitalising'. But what exactly is it and why is it considered bad?

While adding a new deck or kitchen can increase the value and enjoyment of your property, overcapitalising can end up costing you more than you planned. Here's a closer look at what overcapitalisation is, why it's bad, and how you can avoid it and still increase the value of your property.

What is overcapitalising?

Simply put, overcapitalisation is when the cost of a home improvement is more than the value it adds to your property.

For example, if you buy a property for $500,000 and spend $100,000 on a new outdoor kitchen area with timber decking and fancy landscaping, it doesn't automatically increase the property's value to $600,000. If similar properties in your neighbourhood are selling for a maximum of $525,000, your eye-popping improvements are unlikely to increase the selling price beyond this – meaning you have overcapitalised.

Why should overcapitalisation be avoided?

Aussies love investing in their homes. However, while certain renovations can increase the value of your home, there is an upper limit on what properties are worth at any given time. If you find yourself in a situation where you have to sell an overcapitalised property on short notice, you could find yourself losing out on your investment.

Increase the value of your property without overcapitalising

While overcapitalising is never a good idea, there's no question that the right renovations can add significant value. Some home improvements that can make a big difference include:

- new curtains or blinds
- a fresh coat of paint inside and out
- updating light fittings with modern fixtures
- renovating an old kitchen or bathroom
- refinishing floors and replacing carpets
- adding a carport or garage.

When it comes to renovations, the key is to increase the kerb appeal without exceeding your budget. Consider your neighbourhood, the types of features buyers or renters are likely to be looking for, and be willing to set your personal preferences aside. While you may enjoy having a beautifully landscaped yard or pool, the next person living in the house may not. In other words, it pays to be practical.

A good rule of thumb

In general terms, you'll probably avoid overcapitalising if you keep the cost of your renovations to less than 10% of the value of your home. The less you need to invest in your home to give it that wow factor, the more you can expect to get back when it's time to sell. And always keep a close eye on the sale price of similar properties in your area.

With many people continuing to depend on property investments to meet their financial goals, it's important to make sure you have the right information and tools on your side.

Source: http://yourloanhub.com.au/

MONEY MATTERS

WHEN IS THE RIGHT TIME TO DOWNSIZE?

Downsizing from a larger family home to somewhere smaller can be an obvious choice when retirement is on the cards. For others it's a necessity and something they do reluctantly. So when it comes to timing your decision, what's the right approach to getting the best outcome for you and your finances?

What are some of the triggers for people to think about downsizing?

There are basically four life events that can act as a catalyst for downsizing. When you get ready to retire, you're looking at your finances and lifestyle, including your home and where you want to be living. If your partner were to die, you'd also be likely to consider whether the home you're in is right for you. Also, if you start to have health or mobility issues later on, selling and moving into a retirement village or aged care is often the next step and, as we see from time to time, downsizing to force adult offspring to move on with their life.

Are there any advantages to downsizing sooner?

From a practical perspective, it can be better to wait until after you retire to take on the task of selling your home and finding a new one. You'll have more time and energy to look around and make a really considered decision about where you want to move to and what kind of home you'll need. On the other hand, you might be better off tackling the process of selling up and moving when you're younger, more resilient and can make the change because you want to, rather than having it forced upon you. Being excited and positive about moving and making a new start can make it a lot easier to take on tasks like sorting through possessions and packing boxes.

How can your financial position influence when you should downsize?

It depends on a number of things but two of the most important factors are whether you own your home outright and how much you already have in your superannuation fund. If you're expecting to boost this amount from the sale of your home, it's worth planning ahead for this. Under current legislation, you can continue to contribute to your superannuation fund until you're 75, but after age 65 you'll need to satisfy a work test to show you're in gainful employment for 40+ hours in 30 days to continue with your contributions. So it's generally much more tax effective to sell before you reach this age and make lump sum payments into your superannuation over time, because there are annual caps on how much you contribute each year too. If you're in a couple and one of you is younger, then you'll have a larger window of opportunity to pay proceeds of sale into your superannuation accumulation fund.

Owing money on your property after you retire isn't ideal and having that ongoing financial burden can put you in a vulnerable position. With lower interest rates it's not so urgent, but you're facing a big risk if you hang onto your home loan and rates start to rise or the market changes. You might anticipate selling for a certain amount and then not get the price you want which will affect the capital and income you can expect to draw on in retirement. If interest rates go up you'll have higher mortgage repayments and that can limit your cash flow.

If you're looking at ways to finance aged care, is selling your home the best option?

If you're single and moving into an aged care facility, you're going to need funds for your lump sum RAD (Refundable Accommodation Bond) or the equivalent periodic DAP (Daily Accommodation Payment.) For many, selling their home can be the only way to finance these payments. Your home is included in your assets test and can affect government contributions towards your aged care costs. You might consider renting the home out to pay for aged care, particularly if you want to keep it as part of your estate for family to inherit. In a lot of cases, it's family members who take responsibility for managing and maintaining the property and this can put unwanted pressure on their time when they're busy with work and family life.

With couples where one needs aged care and the other doesn't, their home is exempt from the asset test if the spouse continues to live there. Even with this exemption it is a good idea to think through all the options. When one of my clients was making arrangements for her husband to move into an aged care facility, she decided to downsize to save her from having the burden of the house to look after. And although the proceeds from the sale will affect her pension entitlement and aged care subsidy under the assets test, the money she and her husband have left over will act as a savings buffer, giving them peace of mind and a sense of security.

How can we help you make the right decision about when to sell?

Some years ago, one of our clients who was in the process of downsizing for retirement came in for assistance. They had a specific property in mind, the purchase of which would have resulted in them moving from a home with an outlook and space between them and their neighbours to a property with no views, a high-density environment and a reduction in privacy. We advised against the purchase and suggested they consider a few more options. They did and a while later called to say they had a property they loved and asked would we come and have a look at it. They had two concerns, could they afford to buy it and given it was two stories would it be suitable as they aged.

We inspected the property, it turned out to be a quality property with magnificent views over Hobart. We pointed out a location where a lift could be placed in the future and that it was financially appropriate. Our clients proceeded with the acquisition and a few years after we arranged the installation of the lift. The clients live there happily to this day. Perhaps as well as anything this explains the difference that GDA can make, acting in our client's best interests and really knowing your client is a lot more than just numbers. *Source: FPA Money and Life*

MARKET REVIEW

2017 in Review

- Australia's economy ended 2017 with reasonably good growth and jobs outcomes, but moderate retail and inflation trends.
- Here is our review of the major economic indicators plus some forecasts for the year ahead.

GDP: 26th year of uninterrupted economic expansion.

In 2017 the Australian economy posted a world record 26 years for a nation's continuous uninterrupted economic growth. It was also the year policymakers, markets, business, and a majority of commentators concluded that the economy had avoided a recession after the sharp unwinding of the largest mining investment boom in Australia's history.

The latest national accounts data (i.e. for Q3 2017) revealed that real GDP rose by 2.8%, and nominal GDP by 5.9%, over the year to Q3 2017. It is broadly in line with our estimate of potential real GDP growth of 2¾%. So the economy was travelling relatively well in an overall activity sense as 2017 was drawing to a close. But it was patchy across the economy, with certain areas posting very lacklustre outcomes.

One key area of sluggishness over 2017 was consumer spending (equates to 60% of spending in the economy). This lacklustre performance was mainly due to very weak household disposable income growth, courtesy of record low wages growth. Indeed, household spending rose by a weak 0.1% in Q3, at a feeble annual pace of 2.2%.

The household savings ratio of 3.2% in Q3 was well down from the 4.9%, posted the previous year. It underlines the fact that what spending households undertook in 2017 was done by dipping into savings in this era of historically weak wages and income growth which is not sustainable over the medium term. Besides modest consumption spending growth, other key growth drivers over 2017 included the much awaited and long overdue pickup in private sector non-mining investment, and robust government consumption and investment spending.

Over 2018, we expect annual real GDP growth to be near 3%pa, with positive contributions from public and non-mining investment (buildings and engineering), household spending and net exports. Generally, over the next few years, we expect stronger non-residential and infrastructure construction to offfset weaker new residential activity. Recent building approvals data is showing remarkable resilience indicating a prolonged residential construction peak and a rising level of non-residential investment. The public sector will also continue to boost growth over the next few years. Large scale Government infrastructure plans, mainly transport-related, are expected to build towards a peak in 2019.

Demonstrating the improving activity levels, CBA Services Purchasing Managers Index (PMI) stepped up from 54.0 in November to 55.1 in December. The slowing trend evident through Q3 was reversed in Q4. The combination of strong and rising services activity at the end of 2017 indicates that the Australian economy will enter 2018 with a respectable momentum behind it. The high levels indicated in the New Business Index and the Business Expectations Index support this view.

Retail/Consumer spending is growing modestly.

There have been some headwinds to more robust retail outcome over 2017. Weak household disposable income growth, thanks to low wages growth and sharp rises in utility bills have been major constraints. Real household spending rose by a weak 0.1% in Q3, at a very modest annual pace of 2.2%. With the household savings ratio of falling to 3.2% in Q3, well down from last year's 4.9%, consumers are heroically trying to keep up their spending in the absence of real wage rises by reducing their saving rates.

In the retail spending space, the latest retail trade numbers (i.e. for November 2017) showed annual growth rate jumping to 2.9%- slightly below the 4% long term annual average growth rate. While the November figure was boosted by some one-offs there is some scope to be more optimistic on retail activity over 2018.

Looking ahead to 2018, wages growth and consumer spending is likely to helped by a tightening jobs market which should produce a gradual lift in wages growth. Households may receive a confidence lift if the Federal Government's improving Budget position allows some room for income tax cuts to be delivered later this year or early next year as part of the Federal election process. So we believe consumer spending should gradually improve over 2018.

Source: Extract from CBA Global Markets Research: Economics: Update, 11 January 2018.

For a copy of the complete article please contact our office.

Table 1: Australia: CBA Key Forecasts

	2016 (a)	2017 (e)	2018 (f)
Real GDP (%ch)	2.5	2.3	2.9
Unemp rate (%)	5.7	5.6	5.3
U'lying CPI (%ch)	1.5	1.9	2.1
Wage Indx (%ch)	2.0	2.0	2.4
Nom GDP (%ch)	3.8	5.7	3.3
Current Act deficit $bn (%GDP)	48 (2.8)	33 (1.8)	39 (2.0)