GDA

Your Private Wealth Specialists

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INSIDE THIS ISSUE

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OPINION

Democracy at work – beliefs and the convenience thereof

Independent Senator Tim Storer who had been in Parliament for approximately two and a half weeks effectively stopped the 35.6 billion dollar enterprise tax plan. What is interesting is this so called Independent has twice been a member of the Labor party and stood for the latest election as a member of the Nick Xenophen Team, where he received exactly 189 votes. This disproportionate power to votes has become a more frequent situation with some of the other "independent" Senators we have had in recent years.

Strongly held beliefs

Kim Beazley has been appointed as Governor of Western Australia effective 1 May 2018. The position is often referred to as the "Queen's man". Prior to taking up the position he was on the Board of the Australian Republican movement, a position he has now resigned from.

Of course the entitlement to a $450,000 base salary, free accommodation, various other allowances and the ability to continue to receive approximately 50% of his government pension would not have had anything to do with his decision to change "sides". Once again the politics of "money" would seem to overcome personal beliefs. I would point out that I have always liked Kim Beazley.

Accountability - The cost of election untruths

Some of you may recall that Victoria's Premier Daniel Andrews went to an election promising to cancel Melbourne's East West Link road and specifically stating that he could cancel the contract at no cost to the Government. It is of interest to note that Victoria's Auditor General, Dr Peter Frost, criticised both sides of politics for wasting public money and criticised the state's public servants for failing to provide frank and fearless advice. The Auditor General found that shortfalls in cancelling the contract to build Melbourne's East West Link road has topped 1.1 billion dollars with little tangible benefit for tax payers. A lot of people do not have any concept of what that amount represents, here are a few examples:

- If you assume an average salary of $75,000 then $1.1 billion represents 14,667 nurses, teachers, police persons in a year or perhaps more appropriately 1,467 additional nurses, teachers, police persons every year for ten years.
- If you were looking to provide low cost public housing and assume an average cost of $250,000 per dwelling, you could build 4,400 dwellings.

There appears to be little or no accountability. I have not seen any indication that any person other than the tax payer has been held accountable when misleading statements are made in the run up to elections. I have little doubt that we will see many misleading statements in the run up to the next federal election.

China the brave new world and what is coming

According to Chinese media reports, police in China have used facial recognition to pick out one man in a crowd of 60,000 people attending a concert by Hong Kong pop star Jacky Cheung, in the city of Nanchang. The man had travelled 100 kms and was apparently shocked that police were able to catch him so quickly from such a large crowd. China has a huge surveliance network of over 176 million CCTV cameras to track the movement of its 1.4 billion citizens.

According to the country's National Development and Reform Commission China, by 2020, is looking to quadruple the number of cameras and build an over arching surveillance network that is omnipresent, completely connected, always on and fully controllable.

At the present time nine million people have been banned from buying plane tickets and another 3 million from buying business-class train tickets, under a pervasive social scoring system being built by the Chinese government.

The type of bad behaviour that can lead to being blacklisted from travel ranges from a shopkeeper in Qingdao who left four electric bikes parked on a footpath obstructing pedestrians, to illegal home renovations by a property owner who refused to pull down his new sun room.

Many people have been blocked from using planes and trains for unpaid fines, with more than 815,000 court debtors placed on the blacklist.

This does not include adverse comments against the government.

You could write a book on this and what's coming in the "brave new world". Often as not now when you go through passport control in many countries they are not only photographing you, but also finger printing and iris scanning you. If you think Australia and the West in general will not go down the same path you might want to reconsider. In my experience politicians like control, some more than others, and I suspect that surveillance will be sold to the general public as a method of reducing crime. It may well be beneficial in that area. The real concern will be the temptation to use it to control, instead of protect, people.

John Fairlie, Chair, GDA Group

SMART TIPS

REFINANCING COULD SAVE YOU THOUSANDS – AND GIVE YOU GREATER FLEXIBILITY

It's often said that Australians are more likely to divorce their spouse than switch banks. However, with plenty of competition in the home loan sector, refinancing can be a good move.

There are a number of reasons why you might want to refinance: you can consolidate debt from high-interest credit cards and personal loans into a home loan with a lower rate of interest; you can release cash from your home loan equity for other major purchases; or you might want to simply save on your repayments by moving to a loan with a lower interest rate.

What's my rate?

If you aren't 100% sure exactly how much you're paying, how can you find a better deal?

Luckily, finding out your interest rate can be as simple as logging on to your bank's online banking portal and checking the account information for your home loan.

What do I need?

Make a shopping list of the features you want in a new loan. These might include:

- Variable rate or fixed rate: a fixed rate gives you more certainty over the longer term; a variable rate can save you money when the market is down, but it fluctuates with the market and in the past has been as high as 18%.
- Offset account: cash in hand can be offset against your loan balance until you need to spend it, potentially saving interest.
- Line of credit: if you have a lot of equity in your house, a lender might be prepared to offer you a useful (and cheap) line of credit secured against the property.
- Repayment flexibility: repaying a loan fortnightly rather than monthly can save thousands. There are 26 fortnights in a year, but only 12 (not 13) calendar months, so you pay the principal off quicker (and therefore pay less interest) when you make fortnightly repayments.
- Ability to pay the loan out early with minimal penalty.

What's on offer?

A good broker will be able to help you choose the type of loan you want, how much you want to borrow and what extra features you need, then compare loans from many different lenders, with information on interest rates, fees and charges. This can help you weigh up the costs and benefits of each loan.

Check out the costs of getting out and getting in

If you took out your loan before 30 June 2011, the lender might be able to charge you an exit fee for terminating early. Also, if you're on a fixed rate mortgage, you might have to pay a break fee.

There may also be establishment fees for the new mortgages you're considering, and you may find yourself paying higher ongoing fees, sometimes called administration fees. Some lenders also charge a fee each time you redraw on your loan.

The best thing to do is speak with your broker, as they'll be able to advise you of any and all fees that are involved.

Do the maths

Use an online mortgage calculator to work out what the repayments will be for different loan amounts at different interest rates.

Compare the fees and charges too – these can add up and may offset any interest rate savings over the life of the loan.

The Australian Security and Investment Commission's MoneySmart website has a useful mortgage switching calculator that can help you assess the cost of switching your mortgage.

You can also ask lenders for key facts sheets, which explain the total amount to be paid back over the lifetime of a loan, repayment amounts and fees and charges.

Speaking to GDA provides a clear advantage

At the end of the day, a good broker is able to guide you through the entire refinancing process, from start to finish. They have in-depth knowledge and understanding of mortgages, and will help you get the best possible outcome.

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

BITCOIN AND OTHER CRYPTOCURRENCIES


CC0

A lot of cryptocurrencies, such as Bitcoin, Ethereum, Litecoin and Ripple, have emerged over the last 10 years and have become popular investments, but how safe are they?

What are cryptocurrencies?

Cryptocurrencies, also known as virtual currencies or digital currencies, are a form of electronic money. They do not physically exist as coins or notes. A cryptocurrency unit, such as a bitcoin or ether, is a digital token created from code using an encrypted string of data blocks, known as a blockchain. There are usually only a fixed number of digital currency tokens available.

Cryptocurrencies are not only used as payment systems but can also be used to execute contracts and run programs. Anyone can create a digital currency, so at any given time there can be hundreds, or even thousands, of cryptocurrencies in circulation.

Virtual currencies can be bought or sold on an exchange platform using conventional money. Some popular digital currencies, like Bitcoin can be bought or sold for cash through special ATMs.

How cryptocurrencies work

Digital currencies use blockchain technology. A blockchain is simply a decentralised database that all users share. There is no central server and nobody owns the data but everyone in the blockchain has access to all the data in the blockchain.

Users earn or create blocks (units) in a digital currency by solving complex cryptographic puzzles and verifying transactions, also known as mining. This is a difficult process that requires significant computing power. Blocks are then added to a blockchain where they can be used for electronic peer-to-peer payments. The blockchain tracks ownership of each currency unit and holds a history of every transaction ever made on the blockchain.

Digital wallets

Cryptocurrencies are kept in a digital wallet and can be used to pay for actual goods and services from any person willing to accept them as payment. However, they are not legal tender and may not be accepted in many places. Digital currency payments are made online, but some merchants can accept payments in store using mobile devices. Cryptocurrency networks generally have no or low transaction fees.

Popular with criminals

The relatively anonymous nature of digital currencies has made them very attractive to criminals, who may use them for money laundering and other illegal activities. Digital currencies are a popular choice of payment for transactions conducted on the dark web.

The risks of investing in cryptocurrencies

Fewer safeguards

The exchange platforms on which you buy and sell digital currencies are not regulated, so if the platform fails or is hacked, you will not be protected and will have no legal recourse. Cryptocurrency failures in the past have lost investors significant amounts of real money. In most countries cryptocurrencies are not recognised as legal tender and are only regulated to the extent that they fit within existing laws, such as tax laws.

Values fluctuate

A cryptocurrency is not guaranteed by any bank or government. Its value is based on its popularity at a given time, which is influenced by factors such as the number of people using it, the ease with which it can be traded or used and the perceived value of the currency and its underlying blockchain technology. Investing in virtual currencies is considered highly speculative, as values can fluctuate significantly over short periods of time.

Your money could be stolen

Just as your real wallet can be stolen by a thief, the contents of your digital wallet can be stolen by a computer hacker.

Your digital wallet has a public key and a private key, like a password or a PIN. However, digital currency systems allow users to remain relatively anonymous and there is no central data bank. If hackers steal your digital currency you have little hope of getting it back.

You also have no protection against unauthorised or incorrect debits from your digital wallet.

How cryptocurrency is taxed in Australia

If the cost of your digital currency is less than $10,000 and you are only using it to pay for personal goods or services, it is not taxed. However, according to the Australian Taxation Office (ATO), if you are using virtual currencies, such as bitcoins, for other purposes, you will be taxed. Here is an outline of the ATO's proposed tax treatment of crypto-currencies:

- Investment- If you hold digital currencies as an investment you will pay capital gains tax on any profits when you sell them.
- Trading- If you trade virtual currencies for profit, the profits will form part of your assessable income.
- Carrying on a business- If you use cryptocurrencies to pay for (or accept them as payment for) goods or services, the transactions will be subject to goods and services tax (GST).
- Mining bitcoin- If you are mining bitcoins or other digital currencies, any profits you make will be included in your assessable income.
- Conducting an exchange- If you are buying and selling cryptocurrencies as an exchange service you will pay income tax on the profits and transactions will be subject to GST.

For more information see the ATO's webpage on the tax treatment of cryptocurrencies in Australia.

If you decide to trade or use virtual currencies you are taking on a lot of risk with no recourse if things go wrong.

Source: ASIC website

MARKET REVIEW

The widening disparity between the public and private sectors

- General government consumption growth has materially outpaced household consumption growth over the past three years.
- Public sector jobs growth has significantly outpaced private sector jobs growth over the past two years.
- Public sector wages have been growing at a faster pace than private sector wages for most of the past twenty years.
- The case to cut personal income tax rates is growing.

Overview

In this note we take a look at the most recent trends in employment, wages and consumption from a public/private sector perspective. The results indicate that the public sector has been putting on headcount at a much faster rate than the private sector. And wages growth of those workers in the public sector has been stronger than that of workers in the private sector. Growth in public sector employment boosts demand in the economy in the short run, but there is a financial cost that is born by taxpayers. That cost is amplified when growth in public sector salaries outstrips that of workers in the private sector.

Bracket creep means that workers are handing over an increasing proportion of their salaries each year to the Government (chart 1). This weighs on household consumption. The Q4 2017 national accounts, published last week, showed that household consumption growth has been materially less than the growth rate in generation government consumption. These trends are unsustainable in the long run. We explore the issues below:

Employment

One of the defining features of the Australian economy over 2017 was incredibly strong growth in jobs. But the growth rate in public sector employment was significantly stronger than the private sector. The ABS publishes quarterly data that splits employment by the public and private sectors. The most recent data is to November 2017. It indicates that total employment rose by 387k over the year comprising a lift in public sector jobs of 118k (30% of total jobs) and private sector jobs of 269k (70% of total jobs). From a growth rate perspective, public sector employment rose by a whopping 7.6%pa while private sector employment was up by 2.6% pa. Clearly, the headline employment growth figures have been flattered by growth in public sector jobs. In fact, public sector jobs growth has been very strong over the past two years (see chart 2, note that we have smoothed the data out on a 2qtr moving average basis).

From an industry perspective, the big lift in public sector employment over the past two years has been in health (+63k) – driven in part by the NDIS, education (+59k) and admin, safety and IT (+24k). While clearly essential, a lift in some frontline health services, like health care, does not deliver much of a productivity dividend (as measured by output per hour worked). As a result, it's probably not surprising to have seen productivity growth slow in Australia over the past year (chart 3) given public sector jobs, particularly in health, education and admin, accounted for almost a third of the lift in employment.

It's worth noting that public sector jobs only comprise government units and units controlled by government. The big lift in public investment over the past two years, which will help boost productivity in the long run, has largely been delivered by the private sector. As such, the reported lift in headcount in the public sector is understating the direct impact that government policy has had on labour hiring over the recent past.

Wages

One weakness in nominal wages growth over the past few years has been well documented. There are a few reasons for it, but the primary one is that there is plenty of spare capacity in the labour market which reduces the ability of employees to negotiate pay rises. The decline in wages growth has been broad- based across the private and public sectors, although the magnitude of the slowdown has differed.

The Wage Price Index (WPI)* was running at 2.1%pa at Q4 2017. But the composition showed that wages growth was 1.9%pa in the private sector and 2.4%pa in the public sector- a spread of 51bps in favour of the public sector. On the surface this spread doesn't look too big and doesn't imply a big disparity in relative wages growth. But what is striking is that the spread between public and private sector wages growth has been positive for most of the past 20 years (see chart 4). To be precise, the annual rate of change in the public sector WPI has been above that of the private sector for 56 of the past 78 quarters. Annual growth in private sector wages has only been above the public sector for 21 of the past 78 quarters. This is quite astonishing. A reasonable assumption would be to expect the spread between public and private sector wages growth to average zero over a 20 year period. But instead it has averaged +34bps. In other words, the annual rate of growth in public sector wages has been on average 34ppts higher than the private sector for the past 20 years. The results are no different when using the WPI that includes bonuses (chart 5). They suggest that the more unionised public sector workforce has more collective bargaining power than the much less unionised private sector. But it is very hard to make a justification for this disparity over such a long period of time. And the compounding impact is large.

**We use the WPI because it's a pure measure of wages inflation. That is, it measures changes in wages across a range of industries (just like the CPI picks up price changes for a basket of goods), and does not include compositional changes in the labour market.*

Consumption Growth

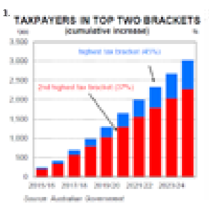
Household consumption growth has been modest and broadly stable over the past few years despite wages growth slowing. That is because the savings rate has come down. Real household consumption growth was running at 2.9%pa in Q4 2017 and has averaged close to that rate over the past three years. But general government consumption growth has been significantly higher than that over the same period. Over the past three years, real general government consumption growth has averaged a touch above 4%pa (chart 6). It was running at 4.9%pa at Q4 2017. In other words, recurrent spending by government has significantly outpaced that of households over the past three years. It has been driven by all three tiers of government, although spending growth at the national level has outpaced that of state and local government.

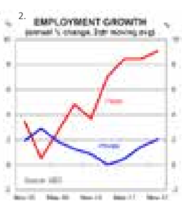
The data is essentially telling us that the household saving rate has been falling so that households can maintain a modest level of consumption in the face of declining income growth. But growth in general government consumption, which is taxpayer funded, has been strong. Total aggregate demand has therefore been propped up by the government sector, but it must be paid for.

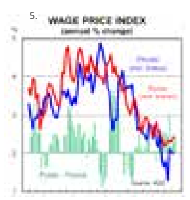
Bracket creep, where nominal wage inflation pushes people into higher tax brackets, has helped to fund a strong rate of growth in general government consumption. But it means that workers are handing over an increasing share of their income at a time when the savings rate is low, real wages growth is flat and household consumption growth is modest. It is no wonder that households are feeling the pinch.

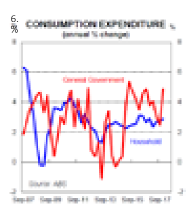
We are not in the business of pushing a policy agenda. But the trends in employment, wages and consumption from a public/private sector perspective point to the need for some of the disparity to be narrowed. Slowing the rate of growth in general government expenditure while providing income tax relief for households would seem a logical and equitable step in the right direction. In addition, tax reform to shift the tax mix more broadly should be considered.

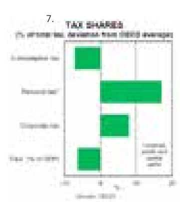
Relative to the OECD average, Australian tax collections are significantly "overweight" personal income tax and "underweight" consumption taxes (chart 7). This means that workers in Australia are shouldering a disproportionate tax burden relative to most other comparable nations. And that burden is being magnified each year through bracket creep.











Source: CBA Global Markets Research: Economics: Issues, 15 March 2018. Gareth Aird Senior Economist.

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