Your Private Wealth Specialists

WINTER

2019

INSIDE THIS ISSUE

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OPINION

CHAIRMAN'S VIEW

Another Federal election has been conducted, one in which the poll forecasts were again out of touch with voting population. To me it was not a surprise, rather it was a result that I thought had a very good chance of occurring. When you consider the potential consequences of policies that impacted Queensland and certain segments of the population, in particular self-funded retirees, it was hardly a surprising result.

There was a view by one party that something in the order of one million people, a lot of whom were self-funded retirees including Trustees of over 600,000 Self-Managed Superannuation Funds, could not be organised as a voting block and essentially the adverse impact of policies targeting them could be ignored.

The work put in by Financial Planners and organisations providing support to self-funded retirees and to the Trustees of Self-Managed Superannuation Funds, ensured that these people were aware of the adverse impact of the policies and they voted accordingly.

The return of the Coalition Government following the 18 May Federal Election means that the uncertainty of Labor's proposed changes to negative gearing, franking credits and the capital gains tax has been removed. Whilst there is no policy change in and of itself, those potential policy reforms weighed on lending to investors in the year leading up to the election, particularly given polling and betting markets consistently pointed to a Labor win. As such, we can expect to see higher lending growth to investors than otherwise, given the election outcome.

In the past I have mentioned news articles and or headlines that put a particular spin on a subject. Here is another example. On the 8th July the Melbourne Age with a headline designed to show falling property prices:

"The Sydney and Melbourne suburbs where up to a third of homes are selling at a loss".

This was followed up in the first paragraph with comments on "falling prices .... wiping hundreds of millions of dollars from the market".

To its credit the article did highlight that owners of units were taking the most and largest losses. If you were to delve into this further, you may well find that a lot of the losses were incurred by people who had purchased "off the plan" and had simply paid too much in the first place. I have had cause to do research in this space and it is quite interesting to note that buying off the plan often leads to losses, or alternatively requiring many years for the market to match the off the plan price.

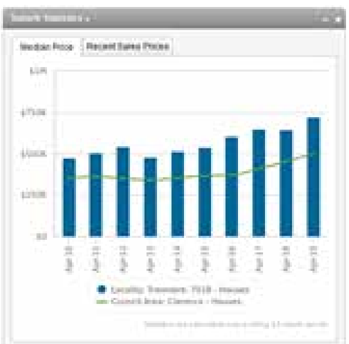
Toward the end of the article two lines highlighted a very different outcome, "CoreLogic analyst Cameron Kusher said total profits from re-sales at $14.3 billion were substantially larger than total losses at $487 million, there were signs of the overall slowdown in the market".

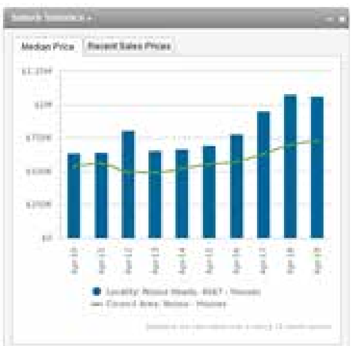
You could just as easily and perhaps more appropriately have had a headline

"Australians make $14.3 billion from resales of residential property".

Unfortunately, it is my experience than many people do not read the complete article and end up with an ill-conceived understanding of what actually occurred.

While looking at property, local markets can be interesting, here are three examples: Hobart, Tranmere and Noosa.





When you look at the charts you will notice that the while there have certainly been increases in value, there have also been periods of decline. Generally, over a long period of time values do increase, however there will be bumps along the way.

John Fairlie, Chairman

MOVING THROUGH DIFFERENT STAGES OF LIFE

One of the best parts of the job as a Financial Planner is seeing clients relaxed, happy and enjoying spending time doing the things they want to do. Any person who can honestly say they achieve these objectives is a very lucky person.

Many people aim to achieve this state in retirement, only to find the same worries they have lived with prior to retirement continue to impact them in retirement. These people often blame their work environment, or family issues for not achieving this level of happiness.

The truly successful people manage to achieve this intermittently throughout different stages of life.

There have been many studies looking for any links between wealth and happiness. The following is a summary of the findings of articles I have seen:

- A lack of financial security causing daily financial stress genuinely makes it difficult for any person to feel secure, pursue their interests and be genuinely happy.
- Once a person has sufficient ongoing income and cash reserves to reduce the daily stress of managing finances, the studies have found a marked increase in happiness.
- As the level of wealth continues to increase, and people can see a future where they have sufficient funds to be able to do more of the things they love, both now, and in the future. The level of financial stress reduces further, leading to greater happiness.
- The studies have found no link between further increases in financial wealth and personal happiness above a level where people feel genuinely able to do the things they want to do now and in the future.

I have seen the above summary reflected regularly over the last 30 years as an adviser dealing with people from many different backgrounds, interests, family structures and with varying levels of financial security. The following are some of my observations:

- The asset you have which has most impact on client's happiness is their working bank account. While the working bank account is generally considered to provide the lowest long-term return, it has the biggest impact on a person's stress levels.
  - When a client's working bank account balance is increasing, they feel less stressed and more confident about the future, leading to greater happiness.
  - When a client's working bank account balance is reducing the opposite applies.

One of my favourite sayings is that "Life is what happens while you are busy making other plans". The ability to cope financially with unforeseen events is a major component of financial security. This may take the form of:

- Secure sources of ongoing income.
- Ensuring some of your investments can be called upon at short notice if the need does arise.
- Often the most secure source of ongoing income comes from the liquid assets, so getting the balance right is an important investment consideration.

I have seen these two factors both contribute positively, or impact negatively, to people of all ages. Other factors that I have seen include the following:

Clear objectives

What is it that you are trying to achieve? As people we are all different and the things that will make us happy as individuals will be different for every person. If you can identify what makes you happy you will know where to direct more of your time, money and energy.

"If you don't know where you are going, any road will take you there".

Control your own destiny

Every person is an individual and we all have different backgrounds, external commitments, external influences, and levels of financial security that impact a person's ability to control their own destiny.

We all have a finite level of time, energy and financial resources and the more of these that get directed towards achieving your personal objectives, the more of these objectives you will get to enjoy.

Be aware of external influences that lead you away from achieving your desired personal objectives. While it can be difficult with family and friends, sometimes you need to create a barrier between yourself and those who do not share your objectives, values etc.

The only constant is change

Our individual circumstances are forever changing whether they be financial, health, family or other relationships. Knowing that you can cope with constant change and remain focused on your objectives is a critical area that leads to a reduction in stress and greater happiness. Being prepared to adjust your objectives as your circumstances change, is an important skill to have.

Time, Energy and Money

Time, energy and money are all equally as important in achieving a happy lifestyle. Unfortunately most people focus on building financial security throughout their working life, and only come to truly appreciate the importance of time and energy when their health starts to fade and they can no longer do the things they want to do.

By time we not only mean having the minutes and hours free to be able to do the things you want to do. We also mean having clear head space during these times to be able to really enjoy what you are doing. How often have you been playing golf, travelling or spending time with family / friends and your mind is racing around other things thereby preventing you from really enjoying what you are doing at the time.

By energy we mean health. Most things we do in life, both things we have to do, and things we want to do, are easier to do when you enjoy good health.

Most of the people I enjoy spending time with manage to get the balance between time, energy and money right at an earlier stage in life.

In Summary

While his article has been written with personal financial planning in mind, most of the details included are equally as relevant for business owners, employees or retirees alike. They simply reflect good business sense at any stage of your personal life.

Byron Arnold, Senior Financial Planner

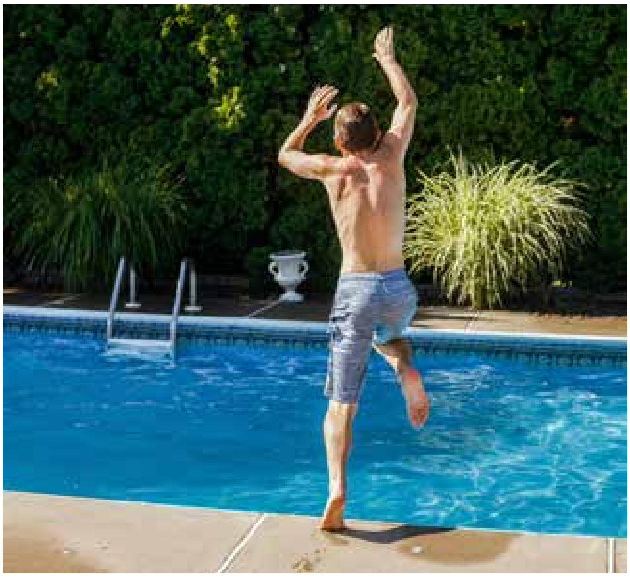


Photo by Jonathon Burton from Pexels

Photo by Emma Bauso from Pexels

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TAX FUNDED WEALTH

PREAMBLE

Income from investment assets and lifetime pensions are generally assessable for tax. Depending on the asset and pension source, rebates may be available to reduce the assessed tax. However, there are often strategies available that generate increased wealth.

Many Australian's retire prior to age 65 on assessable income provided by their personal savings and assets (bank deposits, property and shares) or lifetime pension from a former employer (Government or large organisation). Often they are satisfied with the income they receive, without realising further wealth may be generated by restructuring their assets and cash flow.

Cash flow optimisation

We regularly provide advice, which helps clients optimise their situation and generate additional wealth. This is achieved by structuring assets and cash flow to benefit from deductions and increased tax-advantaged income.

As an example, we recently advised a client aged 61 on restructuring their situation to increase cash flow and enhance their wealth. Following implementation of the advice, the client will now enjoy a personal tax saving of $8,625 pa and an increase in wealth of $4,375. A similar benefit will be received every year until age 65 providing a $17,500 tax funded benefit.

Strategy

To see whether you would benefit from a cash flow optimisation strategy, please contact your GDA Financial Planner. They have the capacity to understand your individual circumstances and determine whether a cash flow restructure is suitable and the level of benefit you would generate.

Warren Burt

PROTECT YOURSELF FROM SCAMS

"Nearly 90 per cent of scams involving the ATO are made by phone, with 13 per cent made by email and about 1 per cent using text messages". AFR, July 19, 2019

Be wary of unexpected telephone calls

Putting your name on the Do Not Call Register will remove your details from telemarketing phone lists, but, it won't stop scammers from phoning you as they do not follow the rules set by government.

If you receive a phone call out of the blue, be very wary of the caller. They may be impersonating a well-known company or request remote access to your computer to 'stop the scammer'. If this happens, **hang up immediately**.

How to avoid being scammed

Scammers know all kinds of tricks to convince you they are genuine and get you to hand over your money. Here are some of the ways to protect yourself from scams.

- Protect your personal information
- Use strong passwords
- Secure your computer and mobile device
- Think before you shop or send money online
- Question offers of easy money
- Hang up on suspicious or unsolicited phone calls

MARKET REVIEW

INVESTMENT OUTLOOK REPORT
JULY 2019

Overview

Market is taking risks in its stride

June was a strong month for markets with most asset classes generating positive absolute returns despite global economic data generally being flat to weak depending on the region. Domestically we saw a further rate cut of 25 basis points, bringing the official cash rate to a record low of 1.00%, a clear indication that the RBA is looking to support the Australian economy. In their statement the RBA Governor noted increased risks related to trade wars contributing to slower growth in Asia, subdued consumption growth impacted by low wage growth, and declining house prices and strong employment growth.

As noted in last month's commentary, the prospect of quantitative easing (QE) is entering the conversation in a similar fashion to what we have seen in Europe and the US, whereby the RBA would buy government and corporate bonds using cash on its balance sheet, effectively flooding the market with liquidity while keeping rates low. A key consideration as to whether the RBA goes down the path of QE will be whether banks pass on the rate cuts to borrowers. While lower rates will be welcomed by mortgagees, for retirees, generating an income in retirement has become increasingly challenging.

One of the potential side effects of the low rate environment is that retirees begin allocating to higher risk assets to generate yield and a real rate of return without fully understanding the additional risks they are taking on. We saw this behaviour in the years leading up to the financial crisis in 2008, with a range of products brought to market targeting retirees and promising high yields. The key is to understand what the risk are because as we know there are no free lunches.

We continue to believe that we will experience more frequent bouts of market volatility. In such an environment, we believe selective valuation opportunities will increasingly present themselves for the long-term investor. As we have seen in recent years, markets have been heavily influenced by central bank policy. What is also clear is that the sentiment relating to monetary policy can change quickly, as it did in the US where the prevailing narrative of rate hikes quickly shifted to one of rates on hold. In such an environment we believe portfolio diversification remains ever important.

Economic Analysis

The RBA cut the official cash rate for the second time in two months, taking it to 1.00%. The minutes from the July meeting noted: "Although there had been a modest pick-up in wages growth in the private sector, wages growth had remained low overall. In combination, these factors suggested that spare capacity was likely to remain in the labour market for some time."

In relation to the transmission mechanism for lower cash rates to support the economy, which is an area of contention for some observers, the minutes stated: "In the current environment, the main channels through which lower interest rates would support the economy were a lower value of the exchange rate than otherwise would be the case and lower required interest payments on borrowing, which would free up cash for other expenditure by households and businesses."

In June, internal modelling by the RBA indicated that the non-accelerating inflation rate of unemployment (NAIRU)—or full employment—was closer to 4.5% rather than the previously held assumption that it was around 5.0%. With the current unemployment rate moving up to 5.2%, job ads data suggesting a further deterioration, and inflation consistently undershooting the target, the scope for further rate cuts remains in place. In short, the Australian economy has spare capacity and there are structural as well as cyclical reasons behind the move to cut rates from 1.50% to 1.00% and possibly even lower.

Reflecting the greater spare capacity in the Australian labour market than previously assumed, the underemployment rate in May was 8.6%, barely below the level seen in 2014 when the unemployment rate was more than 1.0% higher at 6.5%. The participation rate is now at a record 66.0%, up from 64.5% in 2014.

Perhaps the RBA has been too focused on the employment growth data, which has surpassed expectations over recent years and is currently enjoying another lift to 2.9%. Meanwhile, GDP growth is just 1.8%, suggesting productivity growth is-1.0% p.a. Indeed, GDP per capita has been negative for the past three quarters, in what could be described as a GDP per capita recession.

Employment growth has been the strongest in the service sector where it is difficult to measure productivity and where wages growth is typically more modest and stable. Education and training jobs have expanded by 4.3% p.a. over the past three years (8.3% of total employment), public administration jobs have grown 3.0% (6.5% of workforce), healthcare and social assistance jobs have expanded 2.3% (13.0% of workforce), while the more cyclical sectors such as retail (10.1% of workforce) and manufacturing (7.0% of workforce) have registered employment growth of just 1.1% and 0.5% p.a. respectively over the past three years.

The NAB business survey for June showed that business conditions remain subdued, particularly in retail, with only the mining sector performing well, while business confidence declined. Perhaps of more interest was the large drop in consumer sentiment in July, even in the face of positive consumer news such as rate cuts, the move by APRA to cut the serviceability mortgage rate, the passing of the tax cuts through the parliament, strong gains in equity prices, and the first monthly rise in house prices for some time. The detail in the survey shows that expectations for family finances and for the economy have deteriorated further while unemployment expectations have also risen.

On the positive side, Australia's commodity prices remain firm and the mining sector is experiencing a 'mini-boom'. Iron ore moved to above US$120 per tonne, and with export volumes strong, China accounted for over 40% of Australia's exports of goods. The 2019-20 federal budget assumed a US$88 per tonne iron ore price, well below current prices with every US$10 above forecast adding around $4 billion to the budget surplus. Up until now the Australian dollar has largely ignored the lift in commodities, instead focusing on narrowing interest rate differentials. Importantly, the vastly improved fiscal position provides room for more stimulus if required.

SOURCE: NAB, WBC, HEURISTICS

SOURCE: Extract from Lonsec Investment Outlook Report July 2019

Index returns as at 30 June 2019

	3 Months (%)	6 Months (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)
AUSTRALIAN EQUITIES	8.05	19.84	11.42	12.82	8.88
GLOBAL EQUITIES	3.39	16.41	6.22	12.59	9.31
A–REITS	4.12	19.1	19.39	8.44	13.81
GLOBAL LISTED PROPERTY	-0.7	13.72	7.07	5.32	7.16
AUSTRALIAN FIXED INTEREST	3.05	6.59	9.57	4.23	5.06
GLOBAL FIXED INTEREST	2.68	5.55	7.23	3.14	4.85
CASH	0.45	0.97	1.97	1.86	2.08
AUD/USD	-1.07	-0.41	-5.2	-1.97	-5.74

June's business confidence figures gave investors a shock