

SPRING 2019

INSIDE THIS ISSUE

01

Opinion

JOHN FAIRLIE, CHAIR, GDA Group

02

Spring Humour
Failed Predictions

03

Money Matters
Rentvesting
Is Money the Key to Happiness?

04

Economic News
Australia and Global Update

OPINION

Over the past month we have had cause to split our time between Hobart, Adelaide, Melbourne and rural Victoria and you have to say that Springtime, with the advent of longer days and the blossoms coming out, it is a real delight right around the country. The interstate travel has to a large degree centred around acquiring property for the GDA Diversified Property Trust and a lesser extent facilitating a second shoulder reconstruction for me.

It is also interesting, when speaking to Australians in various locations and occupations and to hear their views on the world and their own area. In many cases the conversations in Adelaide often are very similar to those you might have in Hobart. The pace of those conversations is also similar, whereas in Melbourne and Sydney the pace of conversations tends to quicken, which is the direct opposite to the way the traffic flows.

Thinking of traffic holdups in Melbourne, leads me to the recent rolling road closures in Melbourne CBD which occurred as a result of the Extinction Rebellion protests. For those of you who are not aware, The Extinction Rebellion was established in the United Kingdom in May 2018 by Roger Hallam and Gail Bradbrook. The Extinction Rebellion has moved climate change up the political and media agenda through a campaign of mass civil disobedience.

In April 2019, they blocked streets and bridges in London, demanding the UK government adopt a more ambitious target for reaching net zero carbon emissions. Bradbrook, a former biophysicist, said it was not Extinction Rebellion's policy to promote the use of drugs, but they had played a role in her personal journey towards founding the movement. "The causes of the crisis are political, economic, legal and cultural systemic issues but underneath that are issues of human trauma, powerlessness, scarcity and separation. The system resides within us and the psychedelic medicines are opportunities to help us shift our consciousness," she told the conference (REF). If you do some background on the founders and have a look at their demands, one of which is the creation of a "peoples assembly" to oversee the changes that they seek, you will see they have a political agenda which is of a socialist nature. Having had the dubious pleasure of seeing some of these protestors first hand, many dressed up in what could be best described as Halloween costumes or in one instance a 186 centimetre male galivanting around in a red G-string in the centre of the CBD, and the general attitude of some of these protestors, it doesn't give you much confidence in what a "peoples assembly" might deliver.

On a different note, the impact of job losses, which are occurring worldwide and the breakdown in authority is noticeable in many different ways. With regard to job losses, the numbers are significant. HSBC recently announced 15,000 jobs to go; Telstra announced another 8,000; the Australian banks are continuing to downsize both with staff and branch numbers and there are many others. Quite frankly this is the tip of the iceberg. While there is a time lag between people losing jobs and the flow on effect to families, the flow on effect on the economy will occur as night follows day.

One of the flow on effects is crime. Despite the Victorian minister recently announcing there had been a decrease, when the real numbers came to light a couple of days later it showed 279 car jackings in Victoria in the past twelve months, something that not long ago would have been almost unheard of.

When we are looking to acquire property for the GDA Diversified Property Trust the due diligence process encompasses not only the actual property but also involves discussions with managers and or staff of businesses operating within those properties and or adjoining properties. One of the properties currently under consideration for acquisition is a property with Woolworths as the tenant. For those of you that may not be aware the typical shrinkage (theft/loss) is around 2% of turnover in these types of stores. In this particular instance, it equates to around \$800,000 per year or over \$15,000 per week.

One of the staff member told us that she had quite literally been physically pushed back against a wall and told to stay there while two people walked their shopping trolley full of groceries through without paying. The same people did this on two consecutive days. The situation around Australia has got to the point where some of Australia's biggest companies have given instructions to staff that they should simply stand aside and not put themselves at risk.

On a more humorous note, but in reality no less serious, a number of supermarket managers indicated that on any given day they sell hundreds of kilograms more of brown onions than they ever actually order for the supermarket. How does that happen? Very simply, when people are paying for their goods, via the self service checkouts, the cheapest fruit and vegetable item they can scan is brown onions, which is what they select because it is a lot cheaper than avocados, grapes, peaches etc...

Australians have the ability to make change occur and they did that in the last election, whether they will again is another matter.

John Fairlie, Chairman

SPRING HUMOUR

TIMELINE OF FAILED PREDICTIONS

By Richard Watson (What's Next)

What I especially love about bad predictions and prophets of doom is that they both highlight the danger of extrapolating from a single trend or from seeing the world with a single lens. In other words, they use critically false assumptions. They assume that things will always go on as they are or fail to foresee the impact of new events or innovations. There is also the problem of groupthink. As the writer JG Ballard once said: "If enough people predict something, it won't happen."

There are obviously countless lists of failed predictions and especially regrettable quotations but most are just a jumble. A few people have grouped predictions by industry, which is quite interesting, but I've had a better idea.

1400s

"So many centuries after the Creation, it is unlikely that anyone could find hitherto unknown lands of any value." – Committee advising King Ferdinand and Queen Isabella of Spain regarding a proposal by a certain Christopher Columbus, 1486.

1500s

The end of the world etc. – Nostradamus, 1555. But lets face it, if you create 6,338 vague and usually undated prophecies you'll eventually get something or other right. It's like predicting that someone will die without telling them when. At least the Mayans gave us a date for the end of the world- 2012.

1600s

"The view that the sun stands motionless at the centre of the universe is foolish, philosophically false, utterly heretical ... the view that the earth is not the centre of the universe and even has a daily rotation is philosophically false, and at least an erroneous belief." – Roman Catholic Church, 1616.

1700s

"Assuming then my postulate as granted, I say, that the power of population is indefinitely greater than the power in the earth to produce subsistence for man. Population, when unchecked, increases in a geometrical ratio." – Thomas Malthus, who, in 1798, argued that population growth would outpace agricultural production.

1800s

"Rail travel at high speed is not possible because passengers, unable to breathe, would die of asphyxia." – Dr. Dionysys Larder, 1793-1859.

"Drill for oil? You mean drill into the ground to try and find oil? You're crazy." – Associates of Edwin L. Drake on his suggestion to drill for oil in 1859.

"Louis Pasteur's theory of germs is ridiculous fiction." – Pierre Pachet, British surgeon and Professor of Physiology, 1872.

"... good enough for our transatlantic friends ... but unworthy of the attention of practical or scientific men." – British Parliamentary Committee, referring to Edison's light bulb, 1878.

"The more important fundamental laws and facts of physical science have all been discovered, and these are now so firmly established that the possibility of their ever being supplanted in consequence of new discoveries is exceedingly remote." – Albert A. Michelson, physicist, 1894.

1900s

"The invention of aircraft will make war impossible in the future." – George Gissing, 1903.

"Sensible and responsible women do not want to vote." – Grover Cleveland, U.S. President, 1905.

"There is no likelihood man can ever tap the power of the atom." – Robert Millikan, Nobel Prize in Physics, 1923.

"Stocks have reached what looks like a permanently high plateau." – Irving Fisher, Professor of Economics, Yale University, 1929.

"TV will never be a serious competitor for radio because people must sit and keep their eyes glued on a screen; the average American family hasn't time for it." – unknown, from The New York Times, 1939.

"Atomic energy might be as good as our present-day explosives, but it is unlikely to produce anything very much more dangerous." Winston Churchill, 1939.

"If excessive smoking actually plays a role in the production of lung cancer, it seems to be a minor one." – W.C. Heuper, National Cancer Institute, 1954.

"In all likelihood world inflation is over." – International Monetary Fund CEO, 1959.

"But what...is it good for?" – Engineer at the Advanced Computing Systems Division of IBM, 1968 (commenting on the microchip).

"By 1985, air pollution will have reduced the amount of sunlight reaching earth by one half ... " – Life magazine, 1970.

" ... civilization will end within 15 or 30 years unless immediate action is taken against problems facing mankind," George Wald, Harvard University, 1970

"(The world will be) 11 degrees colder in the year 2000." – Kenneth Watt, 1970.

"People won't want to play these electronic games for more than a week, not once we start selling pinball machines for the home," – Gus Bally, Arcade Inc., 1979.

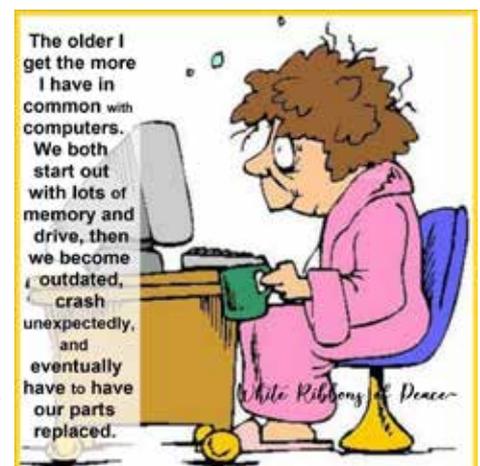
"For the most part, the portable computer is a dream machine for the few ... On the whole, people don't want to lug a computer with them to the beach or on a train to while away hours they would rather spend reading the sports or business section of the newspaper." – Erik Sandberg-Diment, The New York Times, 1985.

"Left-handed incumbents have never been re-elected...so look for a one-term Clinton Presidency." – TIME, 1992.

"The truth is no online database will replace your daily newspaper, no CD-ROM can take the place of a competent teacher and no computer network will change the way government works" – Clifford Stoll, 1995.

"You'll never make any money out of children's books" – Advice to JK Rowling from Barry Cunningham, editor at Bloomsbury Books, 1996.

"Next Christmas the iPod will be dead, finished, gone, kaput." – Sir Alan Sugar, 2005.



MONEY MATTERS

RENTVESTING

Rentvesting – renting a property to live in while owning one or more investment properties – is becoming an increasingly popular way for Australians to get a foot on the property ladder.

According to Property Investment Professionals of Australia (PIPA)¹, 36% of first homebuyers opted to invest in property and continue to rent instead of buying a home to live in in 2018.

But while the prospect of buying where you can afford and renting where you want to live sounds enticing, there are a few things to consider before embarking on a rentvesting strategy. Here we outline our top five.

Getting a loan is harder than it was

While the tougher restrictions APRA placed on interest-only loans have recently been lifted, many lenders have upped interest rates on interest-only loans and borrowers also need to meet more stringent income and expenditure tests. You will have the best chance of qualifying for a loan if you have a sufficient deposit and evidence of genuine savings to show you can manage your finances. Borrowing less than 80% of the property's value also helps to avoid Lenders Mortgage Insurance (LMI), which can add to the cost of your purchase. Lenders will also check your credit history and require you to show that you have a strong income and stable employment before approving a loan.

You won't qualify for government assistance

If you are a first homebuyer, you may qualify for a stamp duty exemption or grant if you buy a first home to live in. The First Home Owner Grant varies by state. In both New South Wales and Victoria, for example, first homebuyers are entitled to \$10,000 when purchasing a new home under \$750,000. First homebuyers can also access a full or partial reduction in transfer duty (formerly known as stamp duty) in some states. If you are considering "rentvesting" as a strategy, it is important to note that you will not qualify for any of these free kicks, which could help with the costs of your purchase.

It's best viewed as a long-term strategy

Many "rentvestors" consider the strategy a stepping stone to realising other plans, such as buying a family home to live in. Yet while data² shows there are signs that Australia's property market is now nearing a bottom, with auction clearance rates improving, there is little evidence that property markets will return to boom times any time soon, so don't bank on fast capital growth. Investing in property is best viewed as a long-term investment strategy of seven to 10 years. So, when searching for your perfect "rentvestment", ensure you are taking a long view, and factor in any future plans such as having children or living on one income when deciding on what you can afford.

Purchasing costs can stack up

Buying property comes with a range of costs including transfer duty, legal fees, building and pest inspections, which all add to your total bill. Investment properties can also bring additional costs such as the need for an accountant to help maximise tax benefits, landlord's insurance to protect your asset and a professional property manager to keep things running smoothly. It's therefore important to do the maths to be absolutely sure you can take on the responsibilities.

Being a landlord and a tenant can be a hassle

Long-term renting can bring many benefits, such as the freedom to live where you like and move when you choose. There are, however, high costs – an average of \$530 per week in Sydney, \$465 in Canberra and \$410 in Melbourne for an apartment³ and renters can be obliged to move with little warning. Being a landlord also comes with its own set of issues – you may get a difficult tenant, for example, or need to spend more time than you'd like managing the property. So, while "rentvesting" can be a great way to get a foot on the property ladder, consider all factors before making the leap.

1. Property Investment Professionals of Australia (PIPA)'s 2018 Investor Sentiment Survey.

2. CoreLogic Housing Market Update, June 2019

3. Domain rental report, March 2019

IS MONEY THE KEY TO HAPPINESS?

Some say money can't buy love or happiness. But by spending it on certain things, perhaps you can bring more joy into your life and relationships.

If you're looking for ways to replace retail therapy with other types of spending to boost your happiness levels, here are four ways to spend money and add to your quality of life for longer.

Spend on experiences

According to a Harvard University psychology professor, switching spending goals from material possessions to experiences is one way to get more happiness from your dollars. In his book *Stumbling on Happiness*, Professor Dan Gilbert reports that 57% of people surveyed felt greater happiness from buying an experience. His view is also backed up by a research study led by Dr Thomas Gilovich, psychology professor at Cornell University. Having investigated the relationship between money and happiness for two decades, Dr Gilovich concludes that spending on experiences makes you happier because they have greater potential to define who you are and connect you with the people who matter to you most.

Spend on your relationship

When it comes to maintaining a strong connection with your spouse or partner, how you spend money can definitely make a difference. For a start, it's important to be honest about your money history so you can trust one another and plan for a financial future based on shared goals. But there may also be smaller and short-term ways for money to ease tensions between you. If you find yourself in conflict over whose turn it is to clean the bathroom or grab groceries on the way home from work, maybe it's worth putting some of your joint budget towards a solution. Footing the bill for a cleaner or having the weekly shop home-delivered could be just what you need to bring a little extra harmony to your life as a couple.

Spend on others

Academic research has also found that spending money on other people – known as 'prosocial' spending – is also a path to greater happiness. According to a 2014 research study led by Elizabeth Dunn, professor of psychology at University of British Columbia, "people who spend money on others report more happiness... and the warm glow of giving can be detected even in toddlers."

In our recent report, the Financial Planning Association surveyed 1,000 Australians to learn about their gift-giving habits, thoughts and feelings. Our findings back up the research of Professor Dunn in revealing the happiness the majority of us experience from being generous. 85% of respondents find more joy giving gifts to others than in receiving gifts.

Spend on peace of mind

One of the most important ways you can spend money and feel happier is by having a plan for financial security. The latest UBank "Know your numbers" index reported that more than half of Australians feel stressed and overwhelmed about their financial situation. One important way to get greater peace of mind about your money situation is to seek professional advice from a CERTIFIED FINANCIAL PLANNER® professional at GDA who is qualified to help you make the best decisions, for your current spending and future financial wellbeing.

Source: FPA



ECONOMIC NEWS

AUSTRALIA

The Australian economy has not suffered a recession (defined as two consecutive quarters of negative economic growth) for almost 28 years, yet for many, conditions will appear stagnant. Australia's per capita GDP growth rate for the year to June was -0.2% following the slightly negative result in the previous quarter and is the worst outcome since the financial crisis. At its October meeting the RBA voted to lower the cash rate to a new record low of 0.75%, citing the risks to international trade posed by the US-China trade dispute, as well as uncertainty around consumer spending, which has seen only modest increases.

The unemployment rate rose slightly from 5.2% to 5.3% in August, as increased demand for labour is met with more supply, thanks to a rising population and workforce participation rate.

With 'full employment' thought to be closer to 4.5%, it is difficult to see wages growth picking up much from current levels, particularly if the cyclical weakness in employment, as suggested by job ads data and business surveys, comes like to fruition. From a monetary policy perspective, the likelihood of a 0.50% official cash rate by early 2020 is quite high. The June quarter data shows that core inflation is running at 1.4% and the RBA does not see it reaching 2.0% until 2021.

Jobs data showed seasonally adjusted employment growth of 34,700, which included a fall in full-time jobs of 15,500 offset by a rise in part-time jobs of 50,200. The participation rate rose 0.1 points to push to a new high

of 66.2% while monthly hours worked increased by 3.9 million. The unemployment rate rose by less than 0.1 points to 5.3%. Growth in labour supply still seems to be outpacing demand as population growth and a rising participation rate need to be soaked up by the market.

The AIG Manufacturing Index improved 1.6 points to 54.7, indicating a faster rate of growth across the sector. New Orders (+3.8 points to 57.1) and Employment (+6.2 points to 57.6) while Production (-3.4 points to 49.8), Exports (-6.1 points to 49.6) and Sales (-4.8 points to 49.5) dropped into contraction. Some respondents noted that the downturn in residential construction is affecting the building materials sector, and others noted higher input prices for oil and Nickel due to supply disruptions.

The Westpac Melbourne Institute Index of Consumer Sentiment fell 5.5% in October from 98.2 to 92.8 points. Even with the RBA lowering rates by a further 25 basis points, consumers were still on edge, possibly viewing the cut as a sign that not all is well with the economy. Global events have certainly not helped, with a smorgasbord of risks dominating the headlines over the past month. The 'economy, next 5 years' sub-index plunged 9.1% while 'finances v a year ago' dropped 6.0%.

Australia's balance on goods and services fell in seasonally adjusted terms from \$7.25 billion to \$5.93 billion. Exports of metal ores and minerals fell \$1,217 million or 10.2% as the iron ore price weakened. The consensus had been for the trade balance to contract to a surplus of around \$6 billion. Add to weaker commodity prices a fall in the Australian dollar, which made imports more expensive, along with softness in the domestic economy, and a pullback in the external sector was to be expected.

GLOBAL

With central banks divided on monetary policy, markets expect rates to continue to move down as global risks intensify. The US and China will re-enter trade negotiations in October, but relations between the two countries have hardly improved since talks broke down in September. Markets are not holding out hope that all issues will be resolved in one round.

The Fed followed through with the largely anticipated easing on 18 September, cutting the Fed funds rate to 1.75–2.00%, the second move in this cycle. According to the so-called 'dot-plot', the funds rate is expected to remain at current levels until the end of 2020 before rising to 2.1% in 2021 and 2.4% in the long term. Of note was the divergence of views among members, with two voting for no move, and one, St Louis Fed President James Bullard, voting for a more significant 50 basis point cut.

The August CPI data again came in above expectations. The core CPI rose 0.3%, as it has for the past three months, taking the annual rate to 2.4%, the highest reading since early 2008. However, with the uncertainty surrounding trade, indicators of investment spending continue to tread water while business confidence has fallen for the past six quarters.

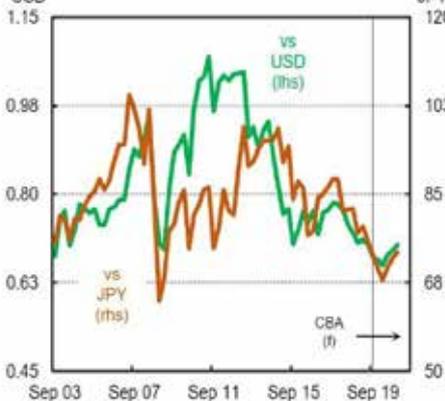
The manufacturing sector is bearing the brunt of the downturn in global trade and confidence. The ISM manufacturing index for September saw its worst reading in a decade, while the ISM services index saw its worst reading since the start of the Trump presidency. Non-farm payrolls were promising, adding 136,000 and including upward revisions to the previous two months, but not quite the blockbuster result markets were hoping for.

SOURCE: LONSEC

AUSTRALIAN INTEREST RATES



THE AUD



China official manufacturing PMI



General Advice Warning: This advice may not be suitable for you because it contains general advice that has not been tailored to your personal circumstances.

Please seek personal financial advice prior to acting on this information. Investment Performance: Past performance is not a reliable guide to future returns as future returns may differ from and be more or less volatile than past returns.

Disclosure: GDA Financial Services Pty Ltd, Australian Financial Services Licence 225931, ABN 67 059 355 252. Registered office: Level 2, 94 Liverpool Street, Hobart TAS 7000.