GDA
Your Private Wealth Specialists

SUMMER
2019-2020

INSIDE THIS ISSUE

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OPINION

CHAIRMAN'S VIEW

Time goes all too quickly, summer is coming to a close, albeit a summer with bushfires, floods, snow in Tasmania, coronavirus and various political issues around the world. The one thing that you can be certain of is that many things will change, sometimes for the better, sometimes for the worse.

One of the better changes at GDA has been the addition of a new Senior Financial Planner, Malcolm Penglase, AFP®, BBus. Malcolm is a member of the Financial Planning Association of Australia. He believes that no matter how complex or simple your financial planning requirements, clear and concise advice can provide you with greater confidence setting and achieving your goals. With over 15 years providing personalised financial planning advice, Malcolm understands the importance of the ongoing relationship with a trusted adviser. With a broad financial planning background, Malcolm provides advice to people just starting their financial process, through to wealth accumulators and the fortunate few that have created their wealth. Malcolm specialises in pre and post retirement strategies.

The importance of income

Reading a recent article brings back memories of some very interesting personalities and sports people including Bob Hawke, John Cain, Kevin Sheedy and Yvonne Goolagong to name just a few. The cost of various items in 1984 on the other hand highlights one of the not so good changes and that is the constant increase in living costs and that the increases generally far exceed CPI rates. The increased figures in 2020 reflect the Reserve banks calculation of the CPI Increase from 1984 until 2019, which is an average rate of 3.3 percent.

CPI Increase - Reserve Bank	1984		2020	
Median House Price Melbourne	$	32,000	$	100,244
Loaf of Bread	$	0.24	$	0.75
Litre Milk	$	0.30	$	0.94
Litre Petrol	$	0.43	$	1.35

I would love to buy a home in Melbourne for the Median price of $100,244, in fact at the median CPI price you would likely go out and buy a few. The median price of a house in Melbourne for 2019 was $1,020,000**.** A loaf of bread might cost anywhere from $2.00 to over $5.00 depending on where you buy it. It illustrates there are many items that we use in our lives on a daily basis which have increased at far greater rates than CPI. The ongoing price rises means that year on year your costs are going to increase.

If your goal is to preserve capital, and in a lot of cases it will be, then maximising the income you receive from your investments can go a long way to assisting you achieve that goal.

Another change, not for the better, is the demise of Holden, though the blow might be softened if you are a Ford fan. I note that our Prime Minister is angry at Holden. I am of the view this is misplaced anger. It is also my view that while Holden has made mistakes, what business doesn't, I think the bigger issues which have led to the demise of Holden, Ford, Toyota, Mitsubishi and many other manufacturers, with more to come, is the cost of doing business in Australia, this includes taxes, levies, power, wages and the ongoing decline in productivity relative to income earned.

I have made further comments in the article WHAT'S COMING IN TERMS OF JOB LOSSES on the next page.

John Fairlie, Chairman

MONEY MATTERS

ATO SCAMMER

Scammers claiming to be from the Tax Office are fleecing millions from Australians before the different deadlines for repaying tax return debts, and are even using cardless ATM withdrawals and WhatsApp to steal cash.

About 620 people have paid scammers more than $2.1 million in 2019 after being contacted by phone calls, texts or emails purporting to come from the Tax Office.

The emerging tactics being used by criminals include scams involving cardless withdrawals from ATMs and WhatsApp messages.

One Sydney resident lost $500 after sending a scammer the withdrawal code from the bank. The victim later reported the scam to authorities.

The biggest-ever peak in money being lost to scammers pretending to be from the ATO had occurred in 2018.

Scammers are always changing their tactics, so people should always be on the lookout, especially when they're expecting to interact with the ATO.

While there was a spike in phone scams at the end of 2018, in October 2019 there was an increase in the number of email and SMS scams asking people to update their personal details.

These scams can contain fake links to dodgy online services set up to get personal information which can be used as identity theft.

The ATO says the number of scams has doubled between January and October 2019, compared with 2018, but the percentage of people who fall for scams and pay money is falling.

The Tax Office will never project a phone number on to a caller ID function. If a number is displayed, it is not the ATO calling.

Taxpayers will never be asked to pay a debt via cardless cash withdrawals, iTunes or Google play cards, pre-paid Visa cards, cryptocurrencies or direct credit to a personal bank account.

And the ATO will never send email or SMS messages that request a tax-payer to click on a hyperlink to log on to government services.

If you get a call purporting to be from the ATO advise them to call your tax agent. To check if you have any debts with the ATO give us (GDA) a call.

CATCH-UP ON CONCESSIONAL CONTRIBUTIONS

This Financial Year (2019 – 2020) represents the first-time super fund members will be able to use the catch-up concessional contribution rules.

Super fund members are now able to carry forward and contribute any unused concessional contribution cap amounts that accrued in the previous five years (commencing from 1 July 2018) where their total superannuation balance (TSB) at the end of the previous financial year is below $500,000.

For example, a member who had concessional contributions in 2018–19 totalling $10,000 and a total super balance under $500,000 on 30 June 2019, has the capacity to make concessional contributions this year of up to $40,000 ($15,000 + $25,000).

The catch-up rules will, in the future, allow members to make quite significant concessional contributions in one year, when they have unused cap amounts from the previous five financial years, plus the standard concessional cap in that year.

As an example, someone earning a salary of $70,000 in 2019–20 and contributing standard employer contributions only, would accumulate an unused cap amount over the next two years of $36,500, allowing total concessional contributions of $64,000 in 2021–22. Taking things to the extreme, the new rules could allow an eligible member to make total concessional contributions of up to $157,500 in the 2023–24 financial year, assuming they had no concessional contributions in any of the preceding five financial years.

Finally, it is important to note that a member will only be able to carry forward any unused concessional cap amounts for a maximum of five years. For example, a member's unused concessional cap amount for 2018–19 must be used by the end of 2023-24.

The catch-up concessional contribution rules provide members with the flexibility to make additional concessional contributions via either a salary sacrifice arrangement or by making personal deductible contributions in a later year when they may be better able to afford it, or seek to optimise their tax position following the disposal of a Capital Gains Tax assessable asset.

Members wanting to make extra concessional contributions could consider strategies, such as:

- selling assets to fund personal deductible contributions or transferring listed shares or managed funds into super as an in-specie contribution;
- contributing some or all of an annual bonus as a contribution;
- contributing all or part of a windfall, such as an inheritance, as a contribution; or
- from preservation age, entering into a salary sacrifice arrangement and replacing the lost income with a transition to retirement pension.

The catch-up concessional cap rules may provide super fund members with additional flexibility to top up their superannuation. However, the rules are complicated, and advice in this area is required to identify all relevant amounts, so your Adviser can correctly calculate your unused concessional cap amounts for previous years, and therefore your effective concessional cap. Contact any one of our Financial Planners to discuss whether this strategy might benefit you, or a family member, or friend.

OPINION: WHAT'S COMING IN JOB LOSSES

You would have noticed over recent years the ever-increasing number of self-serve checkouts and subsequent reduction in staff numbers. On occasion when a staff member has tried to direct me to a self-serve counter, I have asked the question, "do I get a discount for serving myself", the answer is "NO". Generally, my response has been that I am happy to go to a manned checkout and see if I can keep a few people employed for just that bit longer.

Take it to the next level and consider what is coming. Amazon in America has been trialling its "no-checkout" Amazon Go technology at more than 20 Amazon owned convenience stores in major US cities. Customers can walk into an Amazon Go Store, use their phone to "swipe in", pick up what they want and walk out. From all accounts those who have used it say it works well.

You would imagine that Coles, Woolworths, Aldi and others would consider the same or similar technology. Very recently, a senior Coles Executive stated that the next five years would likely see the loss of all checkouts. That seems to be a great option except for the flow on effect, more job losses. In Australia, this means potentially in excess of 150,000 jobs lost. Add in the job losses coming in the banking and other industries and you are talking serious numbers.

But wait, there is good news from the government's perspective, both Labor and Liberal, so long as all persons aged 15 years and over, during the reference week, worked for one hour or more for pay, profit, commission or payment in kind, they are considered employed, so not a problem - unemployment figures won't change too much.

Given that miraculously unemployment won't change too much, you won't see an increase in the number of people and families facing hardship, nor an increase in crime rates. If you believe that you likely believe in the tooth fairy.

MONEY MATTERS

GOT ANY CASH ON YOU?

With tap and go payments becoming ever more popular and the advent of instant transfers between domestic bank accounts, how much longer will we be using cash as a form of payment? Find out more about when we can expect Australia to go completely cashless and what it means for us, as business owners and consumers.

Got any cash on you?

According to recent survey results produced by You Gov Galaxy and commissioned by payments provider Square, the average answer to this questions is likely to be 'about $38' if you're under the age of 40. Baby boomers are much more likely to have a few more notes and coins on them, carrying $72 in cash on average. And almost five million Aussies haven't visited an ATM within the last 4 weeks or can't even recall the last time they withdrew cash[1].

Put this together with the Reserve Bank of Australia's report from 2016 that found only 37% of payments in Australia were being made in cash and you can see where we're heading – a time when having cash just won't be necessary or practical for the vast majority of the transactions we make. Using the RBA's data from 2016, comparison site Finder have forecast that cash could disappear completely from Australia as soon as 2026[2]. But do we have good reason to look forward to being a cashless economy and society?

Tap happy?

Unfortunately, the convenience of tap and go payments may end up having a negative impact on our ability to keep our spending within reasonable limits. According to a study from the University of Sydney, people can be expected to spend up to 50% more by paying with any payment type other than cash. "There's good empirical evidence that people spend more money when they don't actually have to use cash, and that goes across different alternative forms of payment," says Donnel Briley, Professor of Marketing and Behavioural Psychology at the University of Sydney.

A survey of high school students back in 2017 demonstrated that many teens simply don't understand key concepts around personal borrowing with credit cards. This makes them particularly vulnerable to the perils of buying something without really thinking through how much it costs in real terms. When there is interest to pay on their purchase, as well as the opportunity cost of having already spent the money, young people can be particularly vulnerable, to buyer regret as well as serious financial struggles when they're saddled with repayments on long-term debts.

For parents of kids, teens and young adults – help is at hand. In 2018, the FPA commissioned research into our 'invisible money' generation and how parents are handling the challenges of raising kids to be financially savvy in an increasingly cashless context. The *How to talk money with children* e-book is packed with insights, advice and tips from experts on sharing good money habits with children in the digital age.

Good and bad for business

As well as presenting economic challenges for consumers, a cashless world also has pros and cons for businesses. While some small and medium sized businesses might celebrate saying goodbye to hours spent counting notes and coins – 216 hours on average each year according to the You Gov Galaxy/Square survey – others could be losing out on revenue with less cash changing hands. A 2017 survey by ME Bank reports a 51% fall in cash payments in the last five years for industry employees traditionally remunerated in cash, such as tradespeople and hospitality staff. Tipping and on-the-spot charity donations are two of the biggest casualties of the disappearance of cash, with each recording falls of 45% and 44% respectively in the frequency of cash payments in the same period.

Easier than EFT

A significant game changer for Australia's move towards being cash-free could well be the National Payments Platform (NPP). Officially launched in February 2018, the NPP technology could end up replacing many EFT and cash transactions but hasn't been offered broadly by financial services institutions yet. Assuming that widespread adoption of the NPP, and its associated services like PayID and Osko, are just a matter of time, the move towards a cash-free economy could pick up speed in the months and years to come.

[1] The Australian, One-in-three shoppers go cashless: poll, Luke Costin, 17 September 2018 https://www.theaustralian.com.au/news/latest-news/oneinthree-shoppers-go-cashless-poll/news-story/f3ed60f050d15e5f1609da7a2497ba08

[2] News.com.au, Cash payments predicted to disappear within a decade as tap and go takes over, Alexis Carey, 24 May 2018, "A projection of that data by comparison site finder.com.au has revealed that if the current trend continues, physical cash could vanish in Australia as soon as 2026." https://www.news.com.au/finance/business/retail/cash-payments-predicted-to-disappear-within-a-decade-as-tap-and-go-takes-over/news-story/75026efec69b7e4bbdee90b1dd363429

CONSIDERATIONS FOR GOING INTO AGED CARE

We understand that when it comes time to access aged care services the process, paperwork and financial impact can be daunting; most people feel like a fish out of water. Below is a simple checklist to start the process, and a list of issues for you to consider.

First steps

- Obtain an aged care assessment, through your local aged care assessment team
- Research care services or residential facilities that best meet your needs
- Seek a clear understanding of the costs
- Secure professional help to clarify your financial options and to access all of your eligible entitlements

Important issues

- What are the likely monthly fees and charges, and are they sustainable?
- Can the aged pension be obtained and/or retained?
- How can investments and assets be preserved?
- Will I have enough money to cover lifestyle and other expenses?
- Are there financial strategies available to improve my financial position?
- Can my estate planning wishes be honored?
- How can the estate be best preserved so assets are not wasted?
- Are the agreed strategies sustainable in the future and how often should they be reviewed
- How are the fees and charges calculated?
- What's the best way to fund the Refundable Accommodation Deposit?
- Is it better to pay the Daily Accommodation Payment, or a combination of Deposit and Daily Payment?
- What will my Means Tested Care Fee be, what's counted and is it realistic?
- Is it best to KEEP or SELL the family home to pay costs?

Congratulations!

Congratulations to Byron Arnold and Katrina Hutchinson on their marriage on the 1st February, 2020. We wish them all the very best for a long and happy future together.

MARKET REVIEW

2019 YEAR IN REVIEW

2019 can be considered once more as the year of the bankers. Bankers have managed to reinflate financial markets by easing monetary policies, implemented through reductions in interest rates (e.g. US and Australia), or in the case of the Eurozone, through expansion in the central bank 's balance sheet.

Investors started 2019 with anxiety after a sharp decline in share markets in the last quarter of 2018. In early 2019 Chairman Powell signalled that the US Federal Reserve (the Fed) has pivoted from tightening bias to a more neutral, "data dependent" policy stance. The Fed subsequently reduced policy rates by 75 basis points to a target range of between 1.5% and 1.75%. Other central banks followed suit. The Reserve Bank of Australia (RBA) reduced the target cash rate by 75 basis points to 0.75%. The European Central Bank (ECB) brazenly announced that it had reduced the interest rate on deposit facility by 10 basis points to negative 0.5% and would resume net asset purchases at a monthly pace of 20 billion Euro per month. It also wrote an open cheque by announcing that the asset purchase program would remain for as long as necessary.

Easing monetary policy comes amid deteriorating economic conditions, especially in manufacturing sectors. The Purchasing Managers' Index (PMI) suggested that the manufacturing sectors in the US, Europe and China were all experiencing recessionary conditions by the end of 2019.

As the tide of central banks' lifted all asset classes, investors have been richly rewarded for taking risks in 2019. The year-to-date returns of the main asset classes are shown in Table 1 – all of which returned positive numbers. Australian bonds returned just over 7.3% as the RBA reduced policy rates three times during 2019. Global sovereign bonds (hedged) also delivered a very solid 7.2% to investors – impressive considering around 1/3rd of the global sovereign bonds universe comprises negative-yielding bonds. Further out on the risk curve, listed real estate assets benefited from falling bond yields and generated returns above 20%. Both global and Australian shares performed strongly despite concerns about economic recessions, lower earnings growth and expensive valuations, while emerging market shares have been a relative laggard.

However, the high one year returns masked considerable volatility in markets, which were often driven by macro headline news on US-China trade tensions, Brexit and developments in the Middle East. The S&P 500 fell by 6.8% in May and by 5.8% in the first week in August. The US equity market recovered strongly and quickly after those falls. One of the factors supporting the recovery is the fall in US 10 year bond yield, which started the year at close to 2.7% and was around 1.92% in December.

2020 OUTLOOK

Expect much more of the same in 2020.

Interest Rates

Interest rates or rather how low can they go, how long will they stay there and will we get unconventional monetary policy measures will be the continued key point of focus for 2020.

This is unlikely to change this year as central bankers across the globe continue to play an outsized role in the shape of the global economy.

Some economists expect two more cuts in Australia to take the cash rate to an unprecedented 0.25% by the middle of 2020. Possibly the first cut to be delivered in February. There is also the possibility that the RBA will then launch quantitative easing where it will begin issuing new currency and buying bonds from banks, increasing money supply in a bid to encourage more lending and investment. However, the RBA may hold off on a bond-buying program if the Federal Government pushed through a new round of tax cuts at the May Budget, but unlikely given its commitment to a surplus.

Shares

The Australian share market notched up its best year in a decade in 2019 in a run which added close to $340 billion to the value of the nation's biggest listed companies. All up the S&P/ASX 200 Accumulation Index was up 23.4% for the year. This expected continued low interest rate environment will prompt investors to persist in piling into high-quality companies which are paying good dividends and have clear growth potential. Any move by the RBA to launch quantitative easing is also likely to cause the Aussie dollar to fall against its US counterpart, this would be supportive of companies earning income from overseas. Market expectations for 2020 Australian share market is for a rise of between 5% to 7%.

Property

The sharp bounce back in house prices was one of the few areas of the Australian economy which surprised to the upside in 2019. House prices peaked in Melbourne and Sydney in mid to late 2017 before falling 11% and 15% respectively. They bottomed out in both cities in the middle of 2019 as interest rates were slashed to record lows, stress tests for new home loans were relaxed and a surprise federal election result removed uncertainty about the future of negative gearing. Prices have since bounced back and in a far quicker fashion than most economists had tipped. Based on expected further interest rate cuts strong growth in house prices is set to continue in 2020 especially when there is pent up demand and the level of housing stock on the market is still relatively low. It is predicted that house prices in Melbourne and Sydney are set to rise by 10% in 2020, as low interest rates and a more relaxed approach to lending by banks entices buyers.

The Economy

RBA governor Philip Lowe says the economy appears to have reached "a gentle turning point". Some economists are not so sure. In 2019 the Australian economy was a best described as sluggish. Economic growth slowed from 2.3% to 1.7% over the year. That took growth to its lowest level since 2009 as the unemployment rate ticked up from 5.1% to 5.3%. However, it is expected economic growth to recover to between 2% to 2.2% by the end of 2020, but still well below the 2.75% the RBA is forecasting. It is predicted that the domestic economy will not get any worse but there are no strong signs that the economy will get better in 2020.

In conclusion

The weaknesses in the Australian economy can be attributed to a mix of weak consumer spending, driven by low wage growth and the wealth effect from corrections in house prices, and deteriorating corporate sentiments. It is anticipated that more accommodative monetary policy, the reduction in income tax in July 2019 and the recovery in house prices seen in the second half of 2019 may stabilise the economy, helping Australia maintain its record of uninterrupted economic growth since the early 1990s. The modest recovery in economic growth could benefit equities. However, given most share markets are currently trading at around fair value through measures such as forward price/earnings and price/book, investors should expect modest returns in the single digits.

SOURCE: Atkinson Consultants Market Review- Decmeber 2019

Table 1: Market Performance – Periods to 31 December 2019

Sector	1 Month %	3 Months %	1 Year %	3 Years % pa	5 Years % pa
Australian Shares	-2.2	0.7	23.4	10.3	9.0
Australian Shares Small Cap	-0.3	0.8	21.4	10.0	10.6
International Shares Ex-Aus (Unhedged)	-0.9	4.3	28.0	13.8	12.2
International Shares Ex-Aus (Hedged)	2.4	7.7	27.4	11.8	9.2
Emerging Markets (Hedged)	5.7	9.5	18.1	11.5	7.5
Emerging Markets (Unhedged)	3.4	7.3	18.6	12.7	8.9
Australian Listed Property	-4.4	-1.0	19.4	9.1	10.9
International Listed Property ($A)	-3.1	-2.2	23.5	10.4	9.7
Australian Direct Property*	0.8	1.7	7.0	10.8	11.7
Australian Fixed Interest	-1.6	-1.3	7.3	5.1	4.2
International Fixed Interest (Hedged)	-0.3	-0.8	7.2	4.1	4.2
Cash (BAUBIL)	0.1	0.2	1.5	1.7	1.9
		Change over the month			
Australian Govt. 10 yr Bond Yield	1.03%	0 bps			
AUD/USD	$0.69	$0.01			

*as at 30 September 2019