GDA
Your Private Wealth Specialists

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INSIDE THIS ISSUE

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OPINION

CHAIRMAN'S VIEW

Over recent times we have placed marketing advertising in the Mercury, Australian Financial Review and the RACT magazine. The marketing relates specifically to the GDA Diversified Property Trust. The advertising incorporated photos of several GDA Securities Ltd Directors.

One of the side effects has been that other GDA staff, and Michael Driessen himself, have been asked on several occasions whether Michael still worked for GDA; a brief explanation might be in order.

GDA Group Pty Ltd is the 100 percent owner of GDA Financial Services Pty Ltd, GDA Securities Ltd, GDA Advisory Pty Ltd and several other companies. While there is some overlap, essentially the various companies have separate Boards of Directors. The directors shown in the advert are GDA Securities Ltd Directors, not all directors are shown.

Michael, who is a director of GDA Financial Services Pty Ltd, commenced with GDA in 2007, he subsequently became a partner in GDA Financial Services Pty Ltd and then became a partner in the overall holding company, GDA Group Pty Ltd. Fourteen years later, despite Michael adding a few grey hairs, two lovely children and a dog, he is still at GDA and very much an integral part of the group with many years in front of him.

Speaking of GDA staff, there are now 20 staff members, who between them have 27 degrees and nine diplomas across finance, accounting, economics, financial planning and other. Two members of staff are currently completing their Masters. I would expect both staff numbers and qualifications to increase over the next 12 months.

In Tasmania we have seen the re-election of a Liberal Government, we have a census coming in August this year and we are not far away from a federal election. The Morrison Government just handed down what looks to me like an election budget. I think we are going to be in for a very interesting six months or so.

Having in April cancelled two Victorian Government Belt and Road Memorandum of Understanding Agreements, the Federal Government is now in the process of reviewing further deals done by various states and Territories. This includes a 99 year lease of the Port of Darwin, which is considered to have strategic importance, to the Landbridge Group which has strong Chinese connections. Rightly or wrongly I would consider it more likely than not the lease will be cancelled. You can expect already frosty relations with China to get colder, with potential implications to the Australian economy.

I would not be surprised if the Federal Government has a hard look at Queensland. On the 8th May 2021 the Brisbane Courier Mail published a report on the Queensland State Government's new rule book for public work. Hiding under the guise of Labor's new best practice instruction manual, it is set to blow out the cost of public works. Labor's new best practice manual will set wages up to 131% above the award wage, with millions of dollars flowing to trust funds administered by the CFMEU. A carpenter on a base rate of $194,215, for instance would see his package for a 50 hour week balloon to $254,788. Apparently, the new rules were introduced under the cloak of best practice and safety. When you compare those wages with what might be earned working on a non-government project, same tools, same work, different pay, you have to wonder at the sheer cost to Australia.

The timing of this deal with the CFMEU is interesting given the capital works coming up if the Queensland bid for the Olympics is successful. There are also new procurement rules. The agreement will increase costs enormously and will apply to hospitals, schools, freeways, universities and sporting stadiums. When you take into account what school teachers, nurses, paramedics, office workers and others earn, in my personal view payments such as this to carpenters is atrocious. Personally, I consider it an insult to most working people that the Queensland Government, led by Annastacia Palaszczuk in conjunction with the CFMEU, would force such costs onto the tax payers in Queensland.

Given that it is very likely we will see a federal election this year and that many of these projects have federal money involved, it will be interesting to see if the Morrison Government looks to take action to address the issue.

John Fairlie, Chairman

MONEY MATTERS

Death benefit control better via will

SMSF members wishing to control how a death benefit will be used after their passing should look past a binding death benefit nomination (BDBN) and consider a trust within their will.

SMSF members looking to retain control over how their death benefits are handled by a beneficiary would be better served directing the benefits out of the fund and having them handled under their will, an SMSF lawyer has recommended.

One of the beauties of SMSFs is that members can be flexible with their directions to the trustee through their BDBNs. Subject to the SMSF's governing rules, members can go beyond simply nominating which of their dependants will receive benefits.

This flexibility was unavailable to APRA-regulated funds, which could only direct the benefits to a beneficiary and any decision about the form of the death benefit payment was at the trustee's discretion.

While SMSF trustees could be directed from beyond the grave as to the nature of the benefit paid, such as a lump sum or pension, beneficiaries are not bound by the BDBN as to what they did with the monies, mainly due to mandatory cashing-out requirements and pension rules.

For example, if the death benefits are to be paid in a lump sum, the compulsory cashing of death benefits requirement under Superannuation Industry (Supervision) (SIS) regulation 6.21 mandates the death benefits be cashed in a single lump sum or an interim lump sum and a final lump sum.

Once in the hand of the nominated beneficiary, there is no effective control over how the money is spent by the beneficiary.

The member could try to have control over the use of the death benefit by specifying terms and conditions the beneficiary must agree to before receiving the death benefit. However, there will be no practical way of enforcing the beneficiary's adherence to the terms and conditions once the beneficiary receives the benefit money or property.

The absence of post-death control applied to a benefit paid as an account-based pension, on which there was no limit on the maximum amount that could be taken in any year nor restrictions to prevent the pension being commuted for a lump sum payment.

This lack of control also applied to benefits paid to a child as a mandatory commutation requirement under SIS Regulations would override any additional rules set by the member, and where a deceased's spouse was the beneficiary there was no mandatory commutation requirement for a beneficiary pension in the form of an account-based pension.

If the member's major concern is having control over the death benefits after the member's passing, there are other options for consideration, including a BDBN directing the death benefits to be paid to the executor of their estate with a testamentary trust set up in their will.

This option would come at its own costs, such as loss in tax efficiency and potential risk of the estate being challenged.

Source: Jason Spitts & Townsends Business & Corporate Lawyers superannuation online services division managing solicitor, Jeff Song

Home to roost: Advice for parents with adult kids living at home

Do you have adult children living with you? Thanks to housing affordability and stagnant wage growth, more kids are relying on Mum and Dad to keep a roof over their head well into their 20s and 30s.

The stats are in – Gens Y and Z are staying home with their parents for longer. Looking at results from both the 2011 and 2016 census from the Australian Bureau of Statistics (ABS) we see a 2% jump in the number of 18-24 year olds living at home, up from 41.4% in 2011 to 43.4% in 2016. The rise in the number of 24-year olds still in the nest is even higher, up 3% during the five-year period. This means nearly a third of 24 year-olds are still not ready to go it alone. The number drops to one in five of all Australian households continuing to have least one adult sharing a home with one or both of their parents.

Financial factors driving "Failure to Launch"

While there could be many reasons for adult children and parents choosing to stay under the same roof, the consensus seems to be that it's usually a financial decision. Here in Australia, it's thought that the persistent economic issues young people are facing, like housing affordability and sluggish growth in wages are more likely to be driving our own wave of 'failure to launch' households. On the other hand the ABS also points to a more general "delay in a range of life events" including tying the knot and starting a family. There's also been a surge in numbers of both undergraduate and postgraduate university students in recent times. With HECS debts looming when they move on to full-time work, many of these students could be expected to live with parents to save on living costs while they can.

A boom in Boomerangs?

With the rise in postgraduate enrolments being particularly steep in the last decade – a 123% increase since 2006 – it's possible that the growing 'Boomerang' kids phenomenon could be down to the need for Generations Y and Z to return to the family home so they can afford to invest in their future career. According to figures from the 2018 Deloitte Millennial Survey, 36% of millennials and 29% of Gen Z don't believe they have what it takes to thrive in future workplaces where disruption by automation, data and technology will be the new norm.

Unlike the Failure to Launch category, Boomerangs are the young adults who've flown the nest, only to return later. They have been described as being "unable to sustain independent living", these adult children often come back following a spell studying or traveling, when a relationship ends or they're between jobs. While not all multi-generational households choose this way of living for financial reasons, it's likely that a child who's paying their way through uni (again), experiencing the financial fall-out of divorce or is unemployed, will be struggling with their finances.

MONEY MATTERS

Tax Deductions: What you can claim when working from home

While you can save money by working from home (less transport costs, home made lunches, no need for fancy clothes) it does come with other costs (and paperwork) you may not have thought about.

Fortunately, you're allowed to offset many of these costs against your earnings by claiming a deduction in your annual tax return. According to the ATO, expenses you can claim a deduction for include:

- the cost of electricity for heating, cooling and lighting the area you're working in, and running items you're using for work.
- cleaning costs for a dedicated work area.
- phone and internet expenses
- computer consumables (for example, printer paper and ink) and stationery
- home office equipment, including computers, printers, phones, furniture and furnishings. You can claim either the
- full cost of items up to $300
- decline in value (depreciation) for items over $300.

(Source: ATO – Working from home during COVID-19)

To make a claim, you need to have spent the money and have a record to prove it. You can't claim a deduction where you've been reimbursed by your employer for the expense.

Tax deductions: How do I claim?

Because it can be tricky to track and report on your expenses when working from home, the ATO has introduced a temporary 'shortcut method'. This is now in place up until 30 June 2021 (and may be extended further).

The shortcut method allows you to claim a deduction of 80 cents for each hour you work from home. It covers all of the deductible expenses listed above. You'll need to keep a record of the hours you worked, in the form of a roster, diary, timesheet or similar.

Alternatively, you can still use the Fixed Rate Method or Actual Cost Method which were in place before COVID-19.

For more information, visit the ATO website or speak with your tax advisor.

With remote work now widely accepted, many people can't wait to give hour-long commutes, open plan offices and office politics the flick for good. Just make sure you take the time to get your office set-up right, and avoid those nasty repetitive strain injuries in years to come.

Source: Money & Life team

Paying their way to financial independence

Although supporting your kids during hard times might be second nature for you as a parent, it's very important to foster financial independence in your kids, whether they're living with you or not. Children can come to expect handouts from their parents and spend accordingly, even after they've struck out on their own. This is one of the reasons why parents should be encouraged to charge offspring rent and board when they're continuing to live with them. It boosts independence, financial responsibility and self-esteem. It is also important for young people to prepare themselves for the possibility of becoming the main provider in the household one day.

A home of their own?

The great Aussie dream of living in your own home is still popular, so should children expect to stay with you rent-free so they can save their entire deposit? Or should you dip into your super or use equity in your own property as security for their first home? This is a very personal choice, of course, but it's important to remember young people can often benefit from a spell renting or living in a share house. It's an opportunity to build on their budgeting skills before making that big commitment to a mortgage, and gives them the flexibility they might need to go where the jobs are.

Make it work for everyone

Even if you come to a friendly agreement about finances, even the most harmonious families can expect a few tensions when adults kids stick around. Privacy is considered to be the biggest disadvantage of multi-generational living for all parties involved. So staying aware of each other's need for space and boundaries could be an important way for both generations to enjoy co-habiting for longer.

Returning to the point about raising adult kids to be independent and confident, making sure everyone is doing their bit for the household – financially and practically – could be a positive for their self-esteem. According to the Australian Unity Wellbeing Index for 2016, younger Australians are among the happiest in the country, with a notable exception. Young adults still living at home report the lowest levels of wellbeing – 72, compared with a national average of 76.7. Acknowledging that you're all in it together, respecting each other as separate beings, and doing what it takes to prepare kids for a solo flight might just be the answer to a happier household now and a successful future launch for your offspring.

Source: Money & Life team

MARKET REVIEW

Economic News

Australia

Australia awaits one of the most important federal budgets in history with the government set to take advantage of record low interest rates to plug the deficit following the mass stimulus deployed during the pandemic. Treasurer Frydenberg said Australia can grow its economy while maintaining "a steady and declining ratio of debt to GDP over the medium term as we continue to move towards balancing the budget." Treasury's projections are that nominal economic growth will exceed the nominal interest rate for at least the next decade. The Reserve Bank of Australia left the cash rate on hold at 0.1% ahead of the May budget, noting that the recovery has been stronger than expected and is forecast to continue. The Markit Composite PMI surprised in April, improving 3.3 points to 58.8 (55.0 expected), driven by sustained increases in manufacturing output and services activity. Retail sales rose 1.3% in March, reversing from a 0.8% drop in February and beating expectations of a 1.0% increase amid a reopening of state borders and an improvement in consumer confidence. Prime Minister Morrison said Australia's borders will only reopen when it is safe to do so. Morrison clarified that the government is not pursuing an 'elimination' strategy and that some cases are to be expected as Australians return home from overseas.

Australia's manufacturing sector continued to expand in April, with the AIG Manufacturing PMI rising 1.8 points from 59.9 to 61.7, hitting its third-highest ever reading as the sector bounced back from the depths of the pandemic. All six manufacturing sectors and all seven activity indicators were in expansion, while capacity utilisation index hit a record high (indicating that employment and investment may need to step up in order to facilitate further growth from here).

The Westpac-Melbourne Institute Index of Consumer Sentiment rose 7.0 points in April to 118.8, reaching its highest level since August 2010 when the post-GFC rebound and mining boom were in full swing. Given the survey was conducted in the week following the unwinding of the JobKeeper program, the result suggests that consumers see the economic recovery as sustainable, thanks in large part to growth in employment.

Australia recorded a trade surplus of $5,574 million in March, down $2,021 million on the previous month and missing against the expected $800 million. Exports of non-rural good rose $156 million while rural goods exports fell $28 million, including a fall of $315 million in Cereal grains and cereal preparations. Iron ore prices hit US$200 per tonne in early May as Chinese steel mills rushed to lock in supply in the event that trade restrictions are imposed by Chinese authorities.

Global

Global Covid-19 cases continue to rise with over 150 million cases reported at the start of May, but the race is now on to vaccinate key demographics. The International Monetary Fund revised its projections for GDP growth upwards, with the US expected to grow by 6.4% in 2021 and China by 8.4% over the same period.

The United States has fully vaccinated more than 100 million people—including two thirds of all seniors—against the Covid-19 virus, according to the Centres for Disease Control and Prevention, providing further reassurance to markets that the worst of the pandemic is over. However, while confidence measures point to greater optimism, other economic data points to a recovery that is less emphatic than expected.

April's payroll report came in vastly below expectations (266,000 versus the Dow Jones estimate of 1 million), although the response from markets was relatively muted. The ISM Manufacturing Index came in surprisingly weak in April, down from 64.7 to 60.7 (65.0 expected) as shortages in inputs constrained production. Durable goods orders disappointed in March, growing at just 0.5% month-on-month, below expectations of 2.5%. The result was weighed down by orders for transport equipment which fell 1.7%, with durable goods orders ex-transport printing in line with expectations at 1.6% month-on-month. However, Q1 GDP growth of 6.4% came in above expectations of 6.1% and lifted on the 4.3% expansion in the previous three-month period. Personal consumption was the key driver of the result, lifting 10.7%, while a fall in inventories held back growth.

The Covid-19 situation in Europe is improving as reported cases decline and countries push ahead with vaccine rollouts. According to the World Health Organisation, 5.5% of the European population have contracted Covid-19, while 7.0% have been fully vaccinated—a number which is expected to grow rapidly in coming months.

Economic data has generally been better than expected in recent months, but the eurozone as a whole suffered a decline in GDP (-0.6%, slightly better than the-0.8% expected) in Q1 2021 as the pandemic continued to bite in some regions. The Markit Composite PMI came in above expectations in April, rising from 53.2 in March to 53.7, with both the manufacturing and services PMIs printing ahead of expectations at 63.3 and 50.3, respectively. April's consumer confidence printed in line with expectations at-8.1, while economic sentiment surged to 110.3 ahead of expectations of 102.2, where improvement was seen across all sectors.

The European Central Bank left its policy rate unchanged at 0.00% during its April meeting, as officials took a patient approach following last month's decision to conduct emergency bond purchases at a significantly higher pace over 2Q21. The eurozone's year-on-year inflation rate rose from 1.3% to 1.6% in April, as expected, while core inflation fell from 0.9% to 0.8%.

India has been devastated by a surge in Covid-19 infections, with over 20 million confirmed cases in early May. A number of states have been forced into lockdown as hospitals struggle to provide beds and oxygen, while Prime Minister Modi urged all citizens to get vaccinated to help control the wave. The Covid-19 impact will likely set back India's economic recovery, but it is still possible that the country could see double-digit GDP growth over 2021 once the vaccine drive intensifies and infections come under control.

China has made deep inroads with its own vaccination program, which has so far inoculated over 240 million people, predominately with the Chinese-developed Sinopharm and Sinovac vaccines. The World Health Organisation is considering the Chinese vaccines for emergency use, which could mean wider distribution through the Covid-19 Vaccines Global Access (COVAX) initiative.

China's Q1 GDP increased 0.6%, less than the expected 1.5% growth, however the yearly growth rate increased to 18.3%, marking the highest annual growth rate since the data began to be issued in 1992. March industrial production rose less than expected, with the year-on-year rate coming in at 14.1% (17.2% expected), and retail sales grew to a 34.2% yearly rate in March (28.0% expected). April's NBS Manufacturing PMI slipped to 51.1, down from 51.9 in March and missing expectations of 51.7.

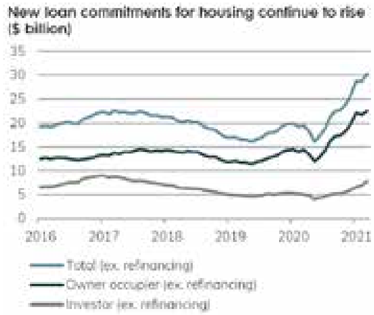
Commodities

Oil prices moved higher through April, driven by the economic recovery, strong economic data from China, and successful vaccine rollouts in the US and Europe, supported by bullish speculative positioning. The Brent spot price rose 6.6% to US$67.7 per barrel in April and the WTI spot price rose 7.8% to US$63.5 per barrel.

Base metals rallied over April, with gains in Tin (+13.0%), Copper (+11.8%), Nickel (+10.0%), Lead (+9.0%), Aluminium (+8.4%) and Zinc (+3.8%). The gold price rose 3.3% to US$1,769 per ounce.

Currencies

The Australian dollar continued to strengthen in April, rising 2.3% against the US dollar and lifting 0.8% in trade-weighted terms, helped by an easing in US Treasury yields over the month. The weaker-than-expected US jobs report has raised expectations that the US Fed will keep rates on hold for longer, although the RBA has also indicated that it will remain highly accommodative until 2024.



Source: ABS

SOURCE: Extract from Lonsec Month in Review, April 2021

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