MONEYNEWS

The newsletter of Moneywise Personal Financial Management Pty Ltd

Issue 2 2019

More please: FY2019 was almost everything up

This article was originally published in Cuffelinks, written by Ashley Owen, Chief Investment Officer at advisory firm Stanford Brown and The Lunar Group. www.cuffelinks.com.au.

The month of June 2019 capped off a rare half-year when all of the main types of investment posted higher returns than their long-term annual averages for a full year. Everything went up except residential property.

A game of two halves

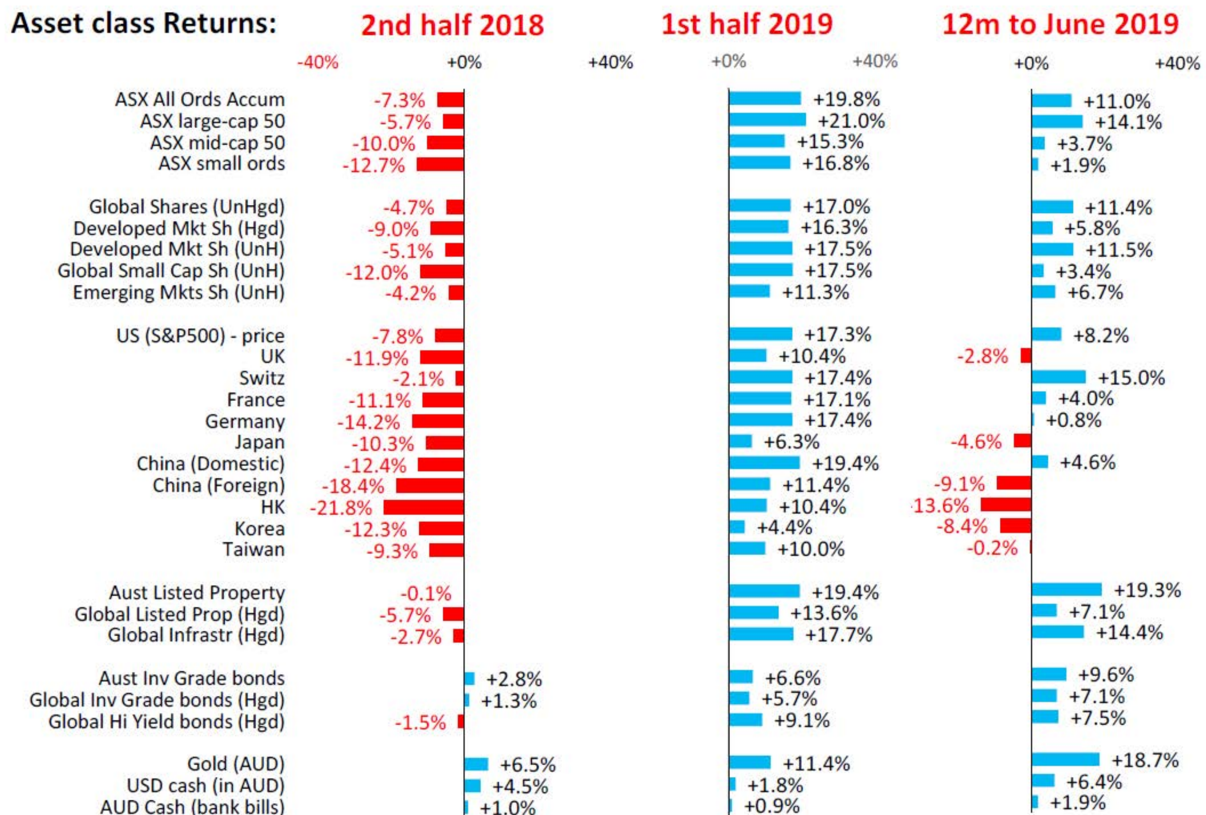
Although the overall returns for the 12 months turned out to be good, it was a 'game of two halves', with a sea of red ink in the first half and strong rebounds in the second half.

In fact, if an investor had been living on the moon or under a rock for a year, they would have returned delighted at the end of June. If they looked at their portfolio balances for the first time in a year, they would have said something like, "What a great year – everything must have been good in the world. I'll have another one of those, thanks!"

All they would see are the returns for the full 12 months, shown below in the right-hand set of bars.

The broad Australian share market returned 11%, as did unhedged international shares. Bonds also returned better than their long-term averages: 9% for Australian bonds, and 7% for global bonds. Returns from the Australian listed property market were nearly double their long-term average. And all with inflation at just 1.3% for the year.

We had turned defensive from April 2018 by reducing allocations to Australian and global shares to prepare for a fall. We also reduced our currency hedging on global shares to benefit from the falling AUD, increased bond allocations and added gold and US dollar cash. These changes helped cushion investors from most of the December pain. Then in 2019 after the sell-off, we increased our allocations to shares and shifted portfolio settings back toward a moderately-bullish stance.



Continued overleaf >

More please: FY2019 was almost everything up

From previous page

Why such a difference?

In the first half (July to December 2018) share prices fell sharply in a global slowdown scare, driven by fears of Trump's trade wars slowing global growth rates, China's reluctance to stimulate its slowing economy, two more rate hikes from the US Fed, and fears the Fed would continue to raise rates despite early signs of a slowing US economy. Australian shares followed the global rout, although by not as much as the sharp -20% fall in the US market from late September to late December. It was the worst December for US shares since 1931. In the midst of this global panic, I fielded numerous calls and emails from worried investors asking if this was 'the next GFC' or even worse.

The first half of 2019 turned out to be a complete turnaround. The Fed stopped raising US interest rates and even started talking about possible rate cuts, the Bank of Japan and European Central Bank also talked up the prospect of providing more support, and China ramped up its stimulus efforts with spending increases, tax cuts and subsidies. In Australia, the RBA shifted its stance toward lower rates. Bank shares benefited from being let off lightly by the Hayne Royal Commission and the re-election of the Morrison government.

Some highlights among Australian stocks

Australian shares have beaten most other countries this year, driven largely by three broad themes:

- Collapsing local and global bond yields
- Hopes of a housing turnaround following the re-election of the Morrison government, the easing of APRA lending restrictions, and rate cuts from the RBA, and
- One-off commodity price rises.

The collapse in bond yields helped utilities (mainly APA +36% this year, and Ausnet +26%), infrastructure (Transurban +30%, Atlas Arteria +27%), listed property trusts (mainly Mirvac +46%, Goodman +45%, Dexus +29%, Stockland +25%, but the retail trusts were very weak), and also Telstra (+36%).

Hopes of a rebound in housing has helped the banks, especially after the election. Shares in the Big Five are up 13-15% each.

Miners have done well despite the general global slide in most commodities prices with the global slowdown. Iron ore miners have benefited from rising iron ore prices caused by mine closures in Brazil (Fortescue +119%, BHP + 25%, RIO + 32%), and rising gold prices lifted the gold miners (led by Newcrest +47%). The mini-recovery in oil prices this year thanks largely to the escalating Trump/Iran conflict has also benefitted oil/gas stocks (Santos +29%, Woodside +16%).

Most global share markets have also been strong this year. The US tech giants have led the rebound: Apple +25%, Amazon +26%, Facebook +47%, Microsoft +32%, Netflix +37%, and even Uber has climbed back above its IPO price after a poor start. Only Alphabet (Google) has been flat this year (+4%).

Every other global sector, and every major country (apart from Japan +6%), has also returned more than 10% this year, which is more than their usual annual averages.

Bond prices and returns in Australia and around the world have benefited from the continued broad decline in bond yields across the board.

But there is a major disconnect here

The global collapse in bond yields reflects increasingly grave fears of slower growth and even possible recessions in Australia, US, Europe, Japan and many other countries, but share prices everywhere have been surging in anticipation of more sugar hits in the form of lower interest rates and more stimulus to try to arrest these slowdowns. These two are incompatible of course and cannot last for years.

We will no doubt have another 'global reflation' scare or two (like February and October 2018), and share prices are sure to correct once again as they are starting to run ahead of weakening profit growth rates.

3 ways to lift Retirement incomes

Aussies are living 10 years longer than we did 50 years ago; we are also staying fit and active well into retirement. Expectations of retirement are also higher, whether that be overseas travel, learning a new skill or spoiling the grandkids.

Recent changes to boost retirement income may go at least some of the way to achieving your dream retirement and providing for a healthy, independent and good life in your later years. While there are some changes that affect self-funded retirees, the changes generally relate to those with Centrelink entitlements.

Here are the three main areas where changes have been introduced as of 1 July 2019.

Pension Work Bonus

If you receive the age pension or a Veterans Affairs pension, you can now earn up to $300 a fortnight (up from $250) without impacting on your Centrelink payment. Together with the income test free area of $174, this means singles can earn $474 a fortnight before your pension is affected.

The work bonus applies whether you are an employee or self-employed. And you don't have to earn a maximum of $300 every fortnight. You can accumulate unused work bonus up to $7,800 (previously $6,500) and use this when you earn employment or business income in the future.

For instance, if you haven't worked for a year, you accumulate $7,800 of unused work bonus. Then if you earn $4,000 for contract work over a six-week period, $4,000 of your accumulated work bonus (leaving a balance of $3,800) is used so your Centrelink payment will not be affected.

Not only can you improve your income, but you may also enjoy the stimulation of remaining in the workforce.

Pension Loans Scheme

Changes to the Pensions Loans Scheme mean that more people can tap into the equity in their home.

The fortnightly loan to boost income has been extended to apply to all age pensioners as well as self-funded retirees.

You can borrow up to 150 per cent (previously 100 per cent) of your maximum fortnightly pension rate to provide you with a better standard of living in retirement. The amount borrowed is secured by property you own in Australia.

The loan can be repaid at any time you choose, although it is recovered either when you sell the property or it's sold from your estate (whichever comes first).

Currently retirees are charged a compounding variable interest rate of 5.25 per cent a year. The scheme is effectively a reverse mortgage facilitated by the government. Of course, such a loan will reduce your home equity, but it will give you added cash flow in the meantime.

New means testing of annuities

Changes have also been made to the treatment of pooled lifetime retirement income streams such as lifetime pensions, lifetime annuities both in and out of super and deferred lifetime annuities.

An annuity is a product where your money is pooled with other investors and a set amount is paid to you each year, usually for the rest of your life. The changes do not apply to account-based pensions or to annuities purchased before 1 July 2019.

Under the new rules, Centrelink will treat a fixed 60 per cent of all annuity payments as income. And for the assets test, it will assess 60 per cent of the nominal purchase price for the period until you are age 84 (for a minimum of five years) and after that 30 per cent for the rest of your life.

While the 60 per cent ruling may improve your circumstances, it won't in all cases. If you have or are considering an annuity, give us a call to discuss what works best for you.

As the interest rate on annuities is set at the time of purchase, they are less attractive when interest rates are low. But there is an argument for investing part of your retirement savings in an annuity to give you guaranteed income on top of any Centrelink payments or a superannuation account-based pension that may not last your lifetime.

These three changes are all aimed at giving you additional sources of stable income in retirement. If you would like to know more, give us a call.

Lessons from the 'Rich List'

Most people who are intent on building their personal and business finances know there is no quick road to wealth. While some people dream about their lucky numbers finally being called, others are making every day count.

Of course, not everyone can make it onto the Forbes rich list, and some individuals rise to wealth largely through privilege and circumstance. However, for many others, their position can be directly attributed to exceptional work habits and a determination to succeed.

If you're committed to delivering a serious boost to your finances, then cultivating the techniques favoured by those on the rich list can assist you to achieve your personal and professional goals.

Having a strong work ethic

The wealthiest and most successful people in the world demonstrate a single-minded commitment to their goals; eating, sleeping and breathing their enterprises. You need look no further than Zhou Qunfei, the world's richest self-made woman, who started out working in a factory by day and taking accounting classes by night. She proves that determination over a sustained period produces undeniable results.

Pursue a dream

A number of very prosperous people don't start out pursuing wealth; they pursue a passion. Consider Bill Gates or Elon Musk, who both conceived an exciting, innovative idea. Passion compels people to continue pushing for their goals. In a society where many people just pursue income, successful people use their knowledge and talent to turn their passion into a revenue-generating venture.

Setting goals with a long-term view

Innovative ideas require big-picture thinking. The wealthiest people in the world didn't stop after one success (or failure). They remained committed to their vision and focussed on the long term. Ultimately, individuals who have accumulated significant wealth tend to be entrepreneurs whose determination to 'win' motivates them to map out the future and set specific and achievable goals.

Having support

Jeff Bezos, amazon CEO, has a notoriously rigorous hiring process. Why? Because he understands the importance of surrounding himself with other driven people. Successful people act intentionally to nurture valuable professional and personal relationships, putting time and energy into helping these relationships grow.

Not being afraid to fail

Sir James Dyson, who literally made his fortune out of hot air, famously said '99% per cent of my life is failure', in reference to the number of prototypes his company makes before they get it right. What he shows us is that failure is an inevitable part of the process and that each failure is an invaluable learning opportunity. Realising that the insights gained from failing have practical applications, successful people continually find inspiration for new ideas and devise ways to execute them.

Making smart investments

Finally, there are many ways that affluent people go about growing and managing their wealth, and making smart financial investments is certainly a critical component of building capital. Whether you are looking to invest in the share market, a new venture or property, knowledge is power. It pays to do your homework and ask for expert advice where required.

While, the extent to which your own mindset and habits dictate how successful you are cannot be understated, it's always good to have an expert in your corner. We're here to help you maximise your wealth and achieve your vision of success.

MONEYWISE

Moneywise Personal Financial Management Pty Ltd
ABN 43 764 170 979
Australian Financial Services Licence 287804
Australian Credit Licence 287804

Level 17, Tower One, Collins Square,
727 Collins Street,
Melbourne Victoria 3008
PO Box 505 Collins Street West VIC 8007

Telephone: 03 9649 7611
Facsimile: 03 9649 7633
Email: info@moneywise.com.au
www.moneywise.com.au

All representations and information contained in this newsletter are made in good faith and are believed to be correct at the time of preparation. Articles are of a general nature and do not purport to be specific investment advice. Individual needs or other considerations have not been taken into account, thus information contained herein should not be relied upon as a substitute for detailed advice. Moneywise Advisory staff are Representatives of Moneywise Personal Financial Management Pty Ltd, holder of Australian Financial Services Licence No. 287804.