MONEYNEWS

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2019 Year in Review: A year of highs and lows

It was a year of extremes, with shares hitting record highs and interest rates at historic lows. Yet all in all, 2019 delivered far better returns than Australian investors dared hope for at the start of the year.

The total return from Australian shares (prices and dividend income) was 24 per cent in the year to December.[i] When you add in positive returns from bonds and a rebound in residential property, Australians with a diversified investment portfolio had plenty to smile about.

Humming along in the background, Australia entered a record-breaking 29th year of economic expansion although growth tapered off as global pressures mounted.

Global economy slowing

The US-China trade war, the Brexit impasse and geopolitical tensions weighed on the global economy in 2019. Yet late in the year optimism grew that US President Donald Trump would sign the first phase of a trade deal with Beijing. The re-election of Boris Johnson's Conservatives in the UK also raised hopes that the Brexit saga may finally be resolved.

The US economy is in good shape, growing at an annual rate of 2.1 per cent. China has fared worse from the trade tensions, with annual growth of 6 per cent its weakest since 1992. In Australia, growth slipped to an annual rate of 1.7 per cent in the September quarter.[ii]

Despite the global slowdown, Australia continued its run of healthy trade surpluses thanks largely to a 29 per cent increase in iron ore prices.[iii]

Interest rates at new lows

The Reserve Bank cut the cash rate three times in 2019 to an historic low of 0.75 per cent. The US Federal Reserve also cut rates to a target range of 1.50-1.75 per cent. This was the main reason the Australian dollar lifted from its decade low of US67c in October to finish the year where it started, around US70c.[iv]

Rate cuts flowed through to yields on Australian 10-year government bonds which fell to just 1.37 per cent.[v] Total returns from government bonds (yields plus prices) were up by around 8 per cent.[vi]

Retirees and others who rely on income from bank term deposits had another difficult year, with interest rates generally below 2 per cent. After inflation, the real return was close to zero. It's little wonder many looked elsewhere for a better return on their money.

Bumper year for shares

The hunt for yield was one reason Australian shares jumped 18.4 per cent in 2019, the best performance in a decade.[vii] The market climbed a wall of worries to hit a record high in November on optimism about a US-China trade deal, then eased back on concerns about slowing economic growth.

Despite low interest rates and personal tax cuts, consumers are reluctant to spend. The Westpac/Melbourne Institute survey of consumer sentiment fell to 95.1 in December – anything below 100 denotes pessimism.[viii]

Australian Key Indices as at 31 Dec 2019		Share Markets (% change) Jan - Dec 2019	
GDP annual growth rate*	1.7%	Australia ASX 200	18.4%
RBA cash rate	0.75%	US S&P 500	28.6%
Inflation	1.7%	Euro Stoxx 50	24.5%
Unemployment	5.2%	Shanghai Composite	22.3%
Consumer confidence index	95.1	Japan Nikkei 225	17.8%

* Year to September 30,2019 Sources: RBA, Westpac Melbourne Institute, Trading Economics

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Property prices recovering

Australian residential property prices rebounded strongly in the second half of 2019, driven by lower mortgage interest rates, a relaxation of bank lending practices and renewed certainty around the taxation of investment property following the May federal election.

According to CoreLogic, property prices rose 2.3 per cent on average, led by Melbourne and Sydney, both up 5.3 per cent. When rental income is included, the total return from residential property was 6.3 per cent.[ix]

Looking ahead

Property prices are expected to recover further this year but with shares looking fully valued and bond yields near rock bottom, returns could be more modest.

The Australian government is under pressure to do more to stimulate the economy in the short term to head off further rate cuts by the Reserve Bank. More fiscal stimulus could inject fresh life into the local economy and financial markets.

Overseas, the US-China trade war is far from resolved and could remain up in the air until after the US Presidential election in November. There is also uncertainty over the Brexit deal and its impact on trade across Europe.

The one thing we do know is that a diversified investment portfolio is the best way to navigate unpredictable markets.

If you would like to speak to us about your overall investment strategy, give us a call.

i Econonomic Insights: Sharemarket winners and losers, CommSec Economics, 2 January 2019
ii Trading Economics, viewed 1 Jan 2020, https://tradingeconomics.com/indicators
iii https://dfat.gov.au/trade/resources/trade-statistics/Pages/australias-trade-balance.aspx
iv Trading economics, as at 31 Dec 2019, viewed 1 Jan 2020, https://tradingeconomics.com/currencies
v RBA, https://www.rba.gov.au/statistics/tables/#interest-rates
vi Economic Insights: Year in Review; Year in Preview, CommSec 2 January 2020.
vii Trading economics, viewed 1 January 2020 https://tradingeconomics.com/stocks
viii https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/economics-research/er20191211BullConsumerSentiment.pdf
ix https://www.corelogic.com.au/news/corelogic-december-2019-home-value-index-strong-finish-housing-values-2019-corelogic-national

2020 vision for financial fitness

What better year to have your financial health in tip top shape than the one requiring 20/20 vision!

The start of any year is always a good time to assess your financial situation and make sure you are on track to achieving your dreams, but the start of a decade is even more significant.

So where do you start?

Firstly, look at your current position. After all, if you don't know where you are, how can you know what you need to do to achieve your financial goals?

Assess your income and outgoings and see how you can create a budget, to increase your savings and reduce your debt.

Don't be afraid to haggle

It's not just about cutting back on spending. You can also make savings without feeling any pain. For instance, instead of foregoing small pleasures, look at negotiating a better deal on your household bills.

So shop around for a better priced insurance policy; check your current internet provider's offering; and seek a cheaper deal with your electricity and gas provider or on your mortgage.

Has your variable home loan come down in line with the general fall in interest rates and others on the market? See if your bank can match that better rate. If not, you may wish to consider changing lenders but make sure the costs of switching don't negate the benefits.

Boost your super

On the other side of the ledger, you should also consider strategies to help build your wealth. For example, why not put a little extra into your super for your retirement? You can make concessional contributions of up to $25,000 a year. If your employer's compulsory Superannuation Guarantee contributions fall below this level, consider salary sacrificing or making a personal deductible contribution to top up your super balance. Concessional contributions only attract 15 per cent tax on your pre-tax income versus your personal tax rate. That means you keep $85 of every $100 invested.

If you didn't reach your concessional contributions cap last year, and your super balance was less than $500,000 at 30 June 2019, you can contribute that shortfall this year or carry it forward for up to five subsequent years.[i]

And if you are aged 65 to 74 and no longer working full time, you may still be able to make a voluntary contribution to super this year, provided you pass the work test. You need to have worked at least 40 hours over 30 consecutive days in the year you make the contribution.[ii] An exemption may apply for 12 months if you satisfied the work test in the previous financial year and your super balance is less than $300,000.

Revise your investments

On the subject of super, why not take a look at your investment mix. Make sure it's working for you in the current interest rate and investment environment while still meeting your risk profile.

And most importantly, consolidate your super. While some people have more than one fund to access better insurance or other benefits, for others, having multiple accounts means you could be paying extra fees without any added benefits. You might find this has been done for you, as since July 2019 the Australian Taxation Office has acquired inactive low balance super accounts with the intention of consolidating them into another existing account. But this only occurs if the balance is less than $6000.[iii]

You might also look at other avenues to save money. Perhaps consider depositing a percentage of your salary into a savings account to provide a buffer should some emergency occur.

Protect your family

The start of a new year is also a good time to check your Will is in order. Have your circumstances changed in the last 12 months? If so, you really need to update your Will to reflect your new lifestyle.

The new year, whether financial or calendar, always offers a good opportunity to assess where you are in building your financial wealth and making sure you are financially fit.

Why not call us to discuss how you can make the 2020s a decade with a perfect vision.

i https://www.ato.gov.au/Rates/Key-superannuation-rates-and-thresholds/?page=3
ii https://www.ato.gov.au/Individuals/Super/In-detail/Growing-your-super/Super-contributions---too-much-can-mean-extra-tax/?page=3
iii https://www.ato.gov.au/Individuals/Super/Growing-your-super/Keeping-track-of-your-super/

The full nest: living with adult children

The number of young adults living in the family home well into adulthood is growing. ABS data indicates, amongst adults under 35, nearly one third are still at home, and the trend is on the rise.[i]

If managed well, multigenerational living can be beneficial to both your adult kids' financial goals and your relationship with them, that said it's not without its challenges.

What's behind the shift

Today's young Australians spend longer in higher education, stay single for longer or choose not to tie the knot at all and start families later than previous generations. They're also living through a period of sluggish wage growth, high underemployment and youth unemployment and despite recent corrections, a housing market that is inaccessible for many first home buyers.

There are however, young adults who use living at home as a strategic move, with 28% using it as an opportunity to save for their financial goals[ii] – like owning a home or planning for a big trip.

Benefits of having a kid at home

Helping kids save for their future isn't the only benefit of continuing to provide a roof over their head. For many, especially those who boomerang (returning to the nest after a period away), it offers the chance to build a relationship on a level footing. You get to know each other as adults which can be a wonderful thing.

Having adult kids at home can also mean you get help with the domestic duties and maintenance around the house or assistance looking after younger siblings.

Problems can arise

Despite the benefits, in some cases continued cohabitation can become detrimental to the relationship. Common gripes include: entitled kids who don't contribute to costs and chores, and overbearing parents who continue to treat their offspring as if they were tantrum prone toddlers.

Equally worrying is the added cost of having an extra mouth to feed and the associated costs of an extra member in the household. If you are a parent in this situation, make sure the not-so-empty-nest is not derailing your retirement plans. According to a 2018 study, Aussie parents spend a combined $235 million each week on adult children living at home.[ii]

i https://www.smh.com.au/money/planning-and-budgeting/young-adults-living-at-home-are-costing-aussie-parents-12-2b-a-year-20180527-p4zhtx.html

ii https://mozo.com.au/family-finances/2-18-report-what-stay-at-home-adult-children-cost-aussie-parents

Set boundaries early

Communication is key to making co-habitation with adult kids work. This means staying in touch to make sure everyone's expectations are understood and that boundaries are in place. If your kids are earning, are they paying board? How much are they contributing towards groceries and bills? And what about household labour?

On the parent's end, there also needs to be some flexibility. Are you happy to have your child's friends over to socialise? Are partners allowed to stay the night? Rules around curfews that may have been appropriate when they were a teenager may not be relaxed enough to allow your adult child freedom so as not to become resentful.

Both parties need to be aware of each other's boundaries and expectations early on to set the foundations for a happy domestic life.

Shared goals

While your adult kids are at home it's a great time to make their financial dreams a reality. Frame it as a shared goal, one that you all have a stake in. If both sides are willing and eager to uphold their side of the bargain, it will alleviate tension and make the goal more likely to succeed.

It might look like this: the parents allow their offspring to live with them rent free, provided the kid puts away 40% of their income towards a house deposit. You can have a system in place to prove this is happening and regularly meet to help make sure everyone is staying on track.

Not always the right choice

It's important to acknowledge that cohabitation is not the right choice for all families. If things aren't panning out well, be honest with each other. Then work together to find alternate living arrangements.

Modern kids are likely to come and go throughout their lives. Treasure the times you have living together while making them as fruitful for both your relationships and finances as possible.

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