

# connect

Winter 2017

## Australia avoids recession

Australia avoided a recession at the end of last year by recording Gross Domestic Product (GDP) growth of 1.1 per cent in the December quarter after recording a very weak -0.5 per cent in the September quarter.

The main reasons for the rebound were increased exports, helped by stronger commodity prices, household consumption and public investment. Despite this, GDP growth is likely to remain subdued in 2017 because there are a number of risks that could negatively affect the economy including a softening in commodity prices, a decrease in debt leveraging in China and potential adverse impacts from world political events.



**Markets can remain irrational longer than you can remain solvent.** ”

John Maynard Keynes

### It's not all smooth sailing for the RBA

The Reserve Bank of Australia (RBA) believes that the rise in commodity prices over the past year has significantly helped increase Australia's value of exports relative to the value of its imports. This could have a bigger flow through to the economy than first thought.

On the flipside, the RBA appears concerned about the spare capacity in the labour market which is hindering wage growth.

The housing market is also a concern because investor borrowing and household debt continues to rise. In particular, Sydney and Melbourne continue to exhibit strong house price growth. The RBA noted that there has been a build-up of risks associated with the housing market and is likely to be reluctant to cut the cash rate to prevent fuelling the house market.

### Europe is powering along despite geopolitical events

Despite the political noise ringing out of Britain, the Netherlands and France over the quarter, many European share markets hit, or came close to hitting historic highs.

For instance, following some parliamentary ping pong, the Brexit bill was approved. This gives the British Prime Minister, Theresa May, the power to officially begin the process of leaving the European Union (EU). This was a non-event for financial markets

with many share markets continuing to trade at or around historical highs.

However, uncertainty continues to persist in the region and the post-exit relationship will have an important economic impact.

The United Kingdom will also hold a general election in June. Theresa May said that the election had been called because "Division in Westminster will risk our ability to make a success of Brexit, and it will cause damaging uncertainty and instability to the country,".

### Trump hits first major stumbling block

In March, Donald Trump hit a major stumbling block in his attempt to repeal and replace the Affordable Care Act (Obamacare). Trump was forced to withdraw his American Health Care Act due to the lack of support in Congress, even though the Republicans hold a majority in both houses, and even though Republicans heavily opposed the Obamacare bill passed in 2009. This setback has raised some doubts about the Trump administration's ability to push through legislation. As a result, Trump has set health care aside to focus on tax and regulatory reform. This will also likely prove difficult given there hasn't been major tax reform since 1986 and many Democrats are unwilling to work with Trump. He is also having trouble drawing support within his own party. Although this has raised doubts about the ability of the Trump administration to push through legislation, it appears that markets are still being too complacent.

Source: IOOF

# End of financial year strategies

June 30 is fast approaching but there's still time to consider the strategies available to you to build your wealth. Below are simple tips that could help maximise what you've got this financial year.

## Before June 30, consider the following

### 1. Pay interest in advance

Borrowing to invest may be a tax-effective means of wealth accumulation. This type of strategy lets you purchase property, shares, or any other asset that generates assessable income, bring forward next year's interest cost, and claim a tax deduction for those costs this financial year.

### 2. Make a concessional contribution to super

If you are self-employed, or earning less than 10 per cent of your income from an employer, you can generally claim a tax deduction for personal super contributions up to \$30,000 if you are under age 50 and \$35,000 if 50 or older. From 1 July 2017 all individuals under age 75\* will be able to claim an income tax deduction up to a maximum of \$25,000.

\*individuals aged between 65 and 74 can only make a contribution if they are gainfully employed.

### 3. Government co-contribution

To be eligible to receive the co-contribution, you must earn less than \$51,021 and make after tax contributions.

If you earn less than \$36,021 and make after tax contributions to super of \$1,000, you could be eligible for the maximum co-contribution of \$500. This amount reduces by 3.333 cents for every dollar of income over

\$36,021 and phases out completely once you earn \$51,021.

### 4. Protect your income and save on tax

Income protection insurance can pay a monthly benefit of up to 75 per cent of your salary if you are unable to work due to illness or injury, with the premiums being tax deductible. Paying premiums in advance enables you to bring forward the following financial year's premiums to claim a tax deduction this financial year.

## After July 1, consider the following:

### 1. Have your key financial goals changed?

Our lives are not constant and our goals can change greatly from year to year. Major life events such as serious illness, the birth of a child, or the death of a parent or spouse can all result in significant changes to our wealth management goals.

### 2. Salary sacrifice arrangements

Have you reviewed your salary sacrifice arrangements to ensure you do not exceed the reduced maximum of \$25,000 per annum from 1 July 2017?

### 3. Prioritise your goals

It's important to be realistic about how soon you can accomplish your financial objectives. For example, reducing credit card debt is likely to be a short-term goal, whereas saving for a home deposit would often be a

medium-term. Paying off your mortgage and providing for retirement are long-term goals.

### 4. Be investment savvy

Make sure that your investments support your appetite for risk and your objectives. A tailored analysis will address your individual risk preferences. Regular portfolio reviews with your adviser are essential to determine any sell-downs or top-ups that would benefit you.

### 5. Do you need to change your financial strategy?

Licensed advisers have the tools and knowledge to create projections that take into account changes to your goals, risk level, and the timeframes for achieving them. These projections will help you to see where your plans for savings, assets or investment contributions may need updating.

The Government superannuation reforms announced last year have become law and most are set to commence from 1 July 2017. Some of the other key changes that you need to be aware of are:

- The Non-Concessional Contribution cap will be \$100,000 per year, down from \$180,000 each year.
- If your total super balance exceeds \$1.6 million, you will not be able to make any non-concessional contributions.
- Currently earnings on Transition to Retirement income schemes are tax-free. From 1 July 2017, investment earnings will be taxed at 15 per cent.

Despite these changes, it must be remembered that superannuation still remains a highly tax-effective saving system. That's why it's important you are aware of the changes that are being made and can make informed decisions on how they fit in with your retirement plans.

Source: Zurich

Speak to your financial adviser to discuss your strategies and plan ahead for the next financial year.

# Reviewing your insurance strategy is a solid investment

We're all interested in reviewing the current status of our wealth creation plan to see how our investments are performing. Unfortunately, however, reviewing our insurance strategy is often forgotten, as many of us adopt a 'set and forget' approach.

## Do I still need my insurance?

If you've ever been involved in a car accident, had a flight cancelled, become seriously ill or had an injury that has kept you out of action for any length of time, you'll know how worrying these incidents can be. If you have insurance, the cost of repairs, medical treatments, travel changes or recovery treatment can be softened.

Insurance provides the money you need when things go wrong, and we all know that sometimes, they do.

## When should I review my cover?

You should review your insurance strategy whenever there is a change in your personal or business circumstances. Changes in any of the following areas should prompt you to review your cover as they can impact the type and amount of insurance cover you need:

- income
- assets
- debt levels
- dependants
- relationship status (for example marriage, divorce or a new partner)
- occupation or employment status (for example if you become self-employed or employed)
- health (improvements or change in health of you or your partner)

## What if nothing has really changed?

You should still review your insurance strategy every year, even if nothing in your personal or business circumstances has changed. Intense competition in the risk insurance marketplace means that insurance providers are always looking for the 'edge' with their products, particularly to ensure they remain in the highest rated products.

This can often result in additional benefits, better policy definitions and the introduction of new additional options which can be of value to you if you need to make a claim. While many insurers will automatically 'pass back' improvements in their policy definitions, this shouldn't be assumed.



It's best to speak with us, your financial adviser, as we specialise in helping you understand the details of any policies you have, or that you are applying for.

# Easy ways to improve your home

You don't need millions to give a house a new lease on life – little things can make a big difference.

Investing in improving your principal home is very tax-effective and also has advantages when it comes to the way Centrelink assess your entitlements – because your home is excluded from the assets test. The other benefit of renovations, compared to other types of investment, is that you can actively enjoy and experience the improvements you make.

The word 'renovations' doesn't have to be associated with spending up big. Depending on your skill level and how much time you're prepared to put into it, there are several home improvements you can do yourself to increase the value of your property. The two rooms in the house that deliver the biggest return on investment are the kitchen and the bathroom, so focus on these, especially if you're looking to sell. Potential buyers classify these rooms as not only the most expensive to upgrade, but also the most difficult.

To renovate a kitchen or bathroom, there's demolition involved. There's waterproofing, appliances, tiling and potentially a few hidden surprises. However, making these rooms feel clean, fresh and modern doesn't have to cost a fortune.

Updating the doorknobs and the power point sockets are quick fixes that can quickly improve the look and feel of a room. And when it comes to the bathroom, you generally can't go wrong with white.

## Dig deep to uncover your home's potential

If you do have some extra cash to spend, continue to focus on the kitchen and bathroom, as well as the flooring throughout the property. If possible, pull up old carpets and linoleum and check the quality of the floorboards hidden beneath. It all comes back to the surfaces that you touch and use every day, and the flooring ties the whole house together. If the floorboards are in good condition, get the whole place sanded — no one likes threadbare carpets.

From there, using those extra dollars on good quality appliances, modern light fittings and tidying up any outdoor areas will be money wisely spent.

People underestimate the power of a good clean. Paying a professional gardener and cleaner to come in and do a thorough tidy up will undoubtedly stand you in good stead if you want to sell.

In terms of the outdoors, as long as it suits the style of the house, you could consider using artificial grass, as well as painting any paved areas in an updated colour palette. A garden that looks tidy and low maintenance will have a greater appeal to potential buyers. It will also give you time to pursue more enjoyable activities.

While renovating can be financially beneficial for you, at a certain time in your life, downsizing or moving can also be an option worth considering, especially if you want to move closer to family or healthcare services.



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