Quarterly
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# Welcome to the Spring 2015 edition of the NeoWealth Management Quarterly

The quarter started strongly following a soft period as Greece made its attempts to reach an agreement with the Eurozone. However this gave way to unease, as globally markets became wary of risks around China and the uncertainty regarding the US Federal Reserve interest rate cycle.

China was the main driver of volatility following some soft economic data that fed into fears for commodities and a hard landing. The government had to take extraordinary measures to calm investor nerves including devaluing the currency which only compounded the issue.

The Federal Reserve left rates on hold, which disappointed markets and fuelled concerns regarding the strength of the global economy. However the recently released minutes of the Federal Reserve appear to suggest that it is seeking to manage market expectations and, with steady improvement in employment and US confidence remaining strong, it would appear to be only a matter of time before rates are increased.

Domestically during the period it was also an interesting time with a change in leadership and the majority of companies reporting financial year results.

The new leader is promising to consult and explain the case for policy change and it is clear that Turnbull is targeting business confidence in a step to reinvigorate the prominence of the 'small-L liberals' within the party.

In relation to reporting season overall our portfolios performance have been strong relative to the market. Macroeconomic events however tended to overshadow these results but we have been relatively satisfied.

Looking out, markets continue to remain volatile. Continuing uncertainty regarding the US Federal Reserve interest rate direction, leadership in Australia, and the strength of the Chinese economy dominate the outlook.

However a factor supporting markets is expectations are low. Consensus forecasts remain modest and little is expected for either the global or domestic economies so small improvements will be well received.

Additionally the currency pullback supports the earnings of exporters and those operating offshore. The adjustment that occurs with the lower A$ will support earnings for a range of companies. Furthermore, offshore investors (who are often the incremental buyer) will be more inclined to buy into Australia at these levels.

# House prices expected to cool towards the end of this year

- Growth in real estate investments is predicted by many to slow this year
- Sydney and Melbourne property markets are more likely to cool than suffer massive falls
- Relying on mining will likely fall further, while those that look to tourism may improve

**The property market has been hot for a few years but analysts are predicting a more subdued 12 months ahead.**

While the expectations are for a cooling property market in the next 12 months, there are no big shocks expected for those investing in real estate, according to property market experts.

For example, an optimistic assessment — assuming improving economic conditions — is price growth in Sydney of between 7 and 10%, says Domain Chief Economist, Andrew Wilson.

In Melbourne, Wilson expects a more moderate 5 to 7% increase, while a challenging economy in South Australia should limit Adelaide's growth to 3 to 5%, in line with Brisbane.

The slowdown in the resources sector will continue to bite Perth, keeping its prices at 0 to 3%, similar to Hobart, says Wilson.

The net result is "very unremarkable" for investors, says Louis Christopher, managing director of SQM Research.

As recently as mid-October , investment banks, such as Macquarie have begun stating that house prices are set for a 7.5 per cent decline from March next year, with the resulting slowdown hitting the broader economy and risking a recession.

Several leading investment banks have tipped that Australia's housing market, which has been a driver of economic activity as mining has slowed, is close to peaking as household budgets are stretched and supply begins to outstrip demand.

### What's affecting the market?

Slower growth in property prices is being driven by a number of factors.

1. It's considered that prices have reached an 'affordability cap' and that a slight increase in unemployment figures is also contributing.
2. Recent moves by the Australian Prudential Regulation Authority (APRA) to slow the investor stampede to bricks and mortar – by forcing banks to hold more capital to buffer against mortgage defaults – might also be starting to have an effect.

"People will be watching and bit nervous about measures taken by APRA to rein in investment, and the way the banks have responded to that," says Eslake.

But there are questions about whether this is a short-term effect. After all, investors can turn to non-bank lenders who are not covered by the APRA changes or, given that interest rates are so low, they might just choose to absorb any increases in the rates of borrowing for property investment.

Eslake believes "the jury is still out" on final result but auction clearance rates and stock-on-market figures suggest "a little bit of the froth has been taken out of the market right now."

Throughout the rest of Australia the property market is patchy thanks to slow population growth and lacklustre local economies.

In particular, regions that depend on mining are suffering thanks to the downturn in that sector, and that's led to a drop in house prices in both Perth and Darwin, says Christopher.

Meanwhile, the lower Australian dollar offers hope for regions that rely on tourism, with an influx of overseas visitors expected and a resulting boost to local economies. And that is expected to drive demand for property.

*Source: Colonial First State: Sep 22, 2015*

## **CLIENT IN FOCUS:** JUSTIN MORAN OF JUST IN TIME PERSONAL TRAINING

Justin is one of Melbourne's leading tertiary degree qualified Personal Trainers with a focus on peak performance health and wellbeing coaching. As a client of NeoWealth Management, Justin is kindly offering clients a COMPLIMENTARY 1 hour health, fitness and posture assessment and a fitness program review at a location of your choosing. The complimentary consultation will cover:

- Body composition analysis
- Comprehensive posture assessment
- Complete review with suggestions based on your current health, fitness and exercise regime.

Should you be interested in accessing this opportunity, please contact Justin directly on:
0411 798 934, justin@justintimept.com, www.justintimept.com

# A Super change is coming ...

With our new PM, Malcolm Turnbull refusing to rule out changes to superannuation, unlike his predecessor, Tony Abbott, it looks like we are for an interesting ride over the next few years, provided the current government wins another term in office.

The pressure is on the government to deliver meaningful changes to the taxation system, whilst not undermining our confidence in the superannuation system. The more that the system is tinkered with, the less likely it will continue to be viewed as a "safe" retirement savings vehicle for most of us.

Super reform does in fact appear inevitable in the short to medium term, with the overwhelming perception being that taxation concessions in super are primarily favouring the wealthy.

Whether this is fact or fiction is not even particularly relevant as, on the surface Australia does appear to have some of the most favourable taxation rules in the developed world. Many of course would not believe this to be necessarily a bad thing either, as we are the fourth largest superannuation holders in the world. The Future Fund, which is a government wealth fund established to fully fund the future superannuation payments of public servants, currently stands at approximately $117 billion!

## Taxation reform cannot happen without looking at super

It is difficult to look at broad based tax reform without looking at super. The perception that the current taxation on super is helping the rich get richer goes a long way to further encouraging this.

The time might have come, where the generous super provisions gifted by the Howard government go under the microscope. After all, the world looks a little different to what it did in the boom years of Howard and Costello.

> ARE YOU LUCKY ENOUGH TO BE IN THE TOP TAX BRACKET AND POTENTIALLY HAVE ADDITIONAL FUNDS TO CONTRIBUTE TO SUPER?

Start contributing as much as possible to super now (within your contribution limits)! These arrangements are not likely to stay as they are for much longer.

| | |
|---|---|
| **Under 50** | $30,000 per year* |
| **50 plus** | $35,000 per year and $180,000* after tax contributions |

* $180,000 after tax contributions applies to all under 65 in that financial year

## Utilise the "bring forward rule"

If you are under age 65 on 1 July of the financial year, the ATO allows you to "bring forward" an extra two years ($540,000 from 1 July 2014).

To do this you do not have to madly sell up your other assets to fund this entire contribution (although this will need to happen over the following two years). The bring-forward is automatically triggered when your after-tax contributions are more than $150,000 ($180,000 for 2014–15 and 2015-16) in a particular year. So the sale of assets can then occur without the need for borrowing or quick sale, provided the $150,000 or $180,000 contribution is made prior to turning 65 (see above).

Importantly, where you will be turning 65 in the following year, CGT will be more favourable to sell those assets once you turn 65.

## Contribute into your spouse's account

You can also contribute to your spouse's account, which would nearly double your tax-effective contributions. What are the risks of moving money into super?

- **Volatility** — Inevitably this is a feature of market linked investments, however in a down market it is cheaper to buy into the market. Also you only realise "losses" when you cash out of the super environment. Therefore if you are close to retirement, as long as you have cash available to survive the volatility won't need to withdraw funds when times are tough, and also will not "realise" these losses.
- **Complexity** — Getting the right advice is critical when looking to move significant assets into super. Contribution limits, taxation and strategic planning implications all need to be taken into account in order to ensure that you are in the best position you can be for retirement.
- **Availability** — Once you move assets into the superannuation environment, you have to satisfy specific conditions of release to access it. This is not a problem if you meet preservation age requirements (see below). However if you are some years from preservation age, these assets will need to remain in the superannuation environment.

## WHEN CAN YOU ACCESS YOUR SUPER?

**You can access your super:**

- when you turn 65 (even if you haven't retired), or
- when you reach preservation age and retire, or
- under the transition to retirement rules, while continuing to work.

There are very limited circumstances where you can access your super savings early. These circumstances are mainly related to specific medical conditions or severe financial hardship.

Your preservation age is not the same as your pension age. Your preservation age is the age at which you can access your super if you are retired (or have started a transition to a retirement income stream).

Your preservation age depends on when you were born. You can use this table to work out your preservation age.

| Date of birth | Preservation age |
|---|---|
| Before 1 July 1960 | 55 |
| 1 July 1960 – 30 June 1961 | 56 |
| 1 July 1961 – 30 June 1962 | 57 |
| 1 July 1962 – 30 June 1963 | 58 |
| 1 July 1963 – 30 June 1964 | 59 |
| From 1 July 1964 | 60 |

*Source: ATO https://www.ato.gov.au/Individuals/Super/Accessing-your-super*



# Insurance …
## check the fine print!

Most of us have some form of personal insurance. Often we have some life insurance, or several life insurance policies through jobs we are in now, or might have had in the past. Or perhaps you took the initiative some time back to get some stand-alone insurance cover.

Frequently people assume that they are covered, or have enough cover, and don't want the hassle of reviewing all of their insurance policies. Insurance is usually only top of mind, when you need to make a claim, or you know of someone who has had to make a claim.

It is really important that you look at the fine print of your insurance policy(ies) and check:

### 1. Are you covered for what you think that you are?

Most insurance policies have exclusions, such as for pre-existing conditions, lifestyle related risks such as if you smoke, are overweight, or have high blood pressure.

**Did you know?**
1 in 2 Australians are affected by mental illness in their lifetime (1 in 5 each year!) * With these statistics it is inevitable that many people believe that they are covered for this, but in fact might be assessed as having a mental illness pre-condition. What does this mean? Claims might not be accepted if it can be proven that you had some form of mental illness at the time of taking out the insurance. This might even relate back to previous short-term use of anti-depressants for example.

### 2. Did you disclose everything truthfully when applying for the insurance?

If there is any indication of non-disclosure it is extremely unlikely that your claim will be paid. Also, all those premiums you have paid over the years will be wasted!

### 3. Have you got enough?

Often if you have life insurance with your superannuation fund, the amount of cover is usually a minimum or default amount. How much would your loved ones need if you were to pass away or become ill or disabled? You need to consider how much debt you currently have, and ongoing living costs. You also should take into account the income that you would have earnt and contributed to the family had you still been there.

### 4. What is the chance that your claim will fail?

- Have you disclosed everything?
- Do you understand what your policy does actually cover?
- Are you living overseas? (Often, you can only claim if you live in Australia)
- If you change employers and change super funds as a result, check the fine print in terms of pre-existing conditions. You might have been covered for conditions under your other cover that you will not be covered for under the new.

### 5. Are your details correct with the insurer?

If you are a non-smoker, white collar worker for instance, make sure that this is the details attached to your fund. If you don't check this you could end up paying a much higher premium than you need to.

It is important that you check the Product Disclosure Statement (PDS), and seek professional advice as to what cover is most appropriate for you. If you are in any way uncertain, ask questions, and contact the NeoWealth Management office for more information.

*Source: Beyond Blue*

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