Quarterly

WINTER 2015 EDITION

INSIDE:

Welcome to the Winter 2015 edition of the **NeoWealth Management** Quarterly

Market review

Volatility has returned to the market with quite a decent pullback following a strong run in the first quarter. The correction is circa 10%, which is quite a substantial pullback and was led by a fall in bank shares.

We have noted in recent months the PE of the market has been high by historic levels and vulnerable to a pullback. Our core view has been that greater volatility will emerge but the lower interest rates will ultimately support the market. As a result we have tended to carry a little extra cash but have been looking to buy the dips. This remains our core view and we have been finding some buying opportunities as the market has weakened.

The volatility in the market has been driven by some key factors:

1. Uncertainty regarding whether Greece stays within the Euro. While a Grexit (phrase for 'Greek Exit' from the Euro) might create some uncertainty in the short term, we tend to think Europe is better placed to cope than it was a couple of years ago. This source of uncertainty can cause potential buyers to hesitate until there is a clearer resolution which adds to the weakness in the market.

2. Global inflation expectations are changing. Last December the world was awash with concerns about the potential for deflation to emerge. The policy response, particularly in Europe and Japan appear to

have put paid to this concern. Furthermore the US is seeing some initial signs of a pick-up in labour costs. In one sense an increase in inflation is what the world has needed. It enables growth to eat into debt levels and encourages an increase in spending.

3. Concerns regarding the bank sector. The rising bond rate environment is reducing the level of demand for high yielding assets. Additionally bad debts are at such low levels they are no longer likely to provide a tailwind to earnings. While the Murray Inquiry has recommended the majors will need to raise circa $25b in capital.

From a market perspective, investors have been buying risk assets due to their attractive yield relative to the low bond yields. Any deterioration in bond yields can cause an increase in volatility.

The question is whether valuation appears attractive yet? The PE has pulled back to 15x which represents an average over the last 15 years. We think this appears reasonable especially considering we do not anticipate bond yields increasing rapidly. The higher inflation rate might cause bonds to tick up but there is enough excess capacity and low enough growth that we do not see the bond yields spiralling upwards, and reducing the attractiveness of equities. Equities still appear attractive compared to bond yields and will remain so even if bond yields were to move a further.

In particular the sharp pullback in the bank shares this month has opened up some value in the sector. We have participated in the capital raisings to enter at attractive valuations. While growth rates will remain subdued for the banks, the yields remain attractive and they will look to pass on the extra capital cost onto their customers by lifting mortgages rates.

Source: Dalton Nicol Reid June 2015

How will you spend your tax return?

June 30 means one thing to many of us … a tax refund once we lodge our tax return.

- **70% —** Taxpayers likely to get a tax refund
- **$3,140 —** Average tax refund
- **27% —** People do their own tax

Source: Australian Taxation Office Annual Report 2012/13

What did people do with last year's tax refund?

- **31% —** Saved it
- **24% —** Paid bills
- **18% —** Loans or credit card payments
- **11% —** Home loan payments
- **7% —** Holiday
- **7% —** Other things (including engagement ring, education, car rego/tyres, party)
- **2% —** Household appliances

Source: MoneySmart poll, September 2014 (n-2240)

Make the most of your tax refund: Work out where you can make a difference

Your personal financial situation will obviously dictate how you will spend your refund (if you are lucky enough to be handed back cash by the ATO). It is important not to just fall into the trap of viewing this as "free money" and spending it all on something that will not be make a positive impact on your financial situation. It doesn't hurt, though to set aside a portion of the refund to spend on something that you have always wanted. However it is also a great idea to sit down and think about how you could get this money working for you in the best way possible. Some of these might include:

REDUCE DEBT STRESS

- Credit cards
- Personal loans
- Mortgage
- Outstanding bills or fines

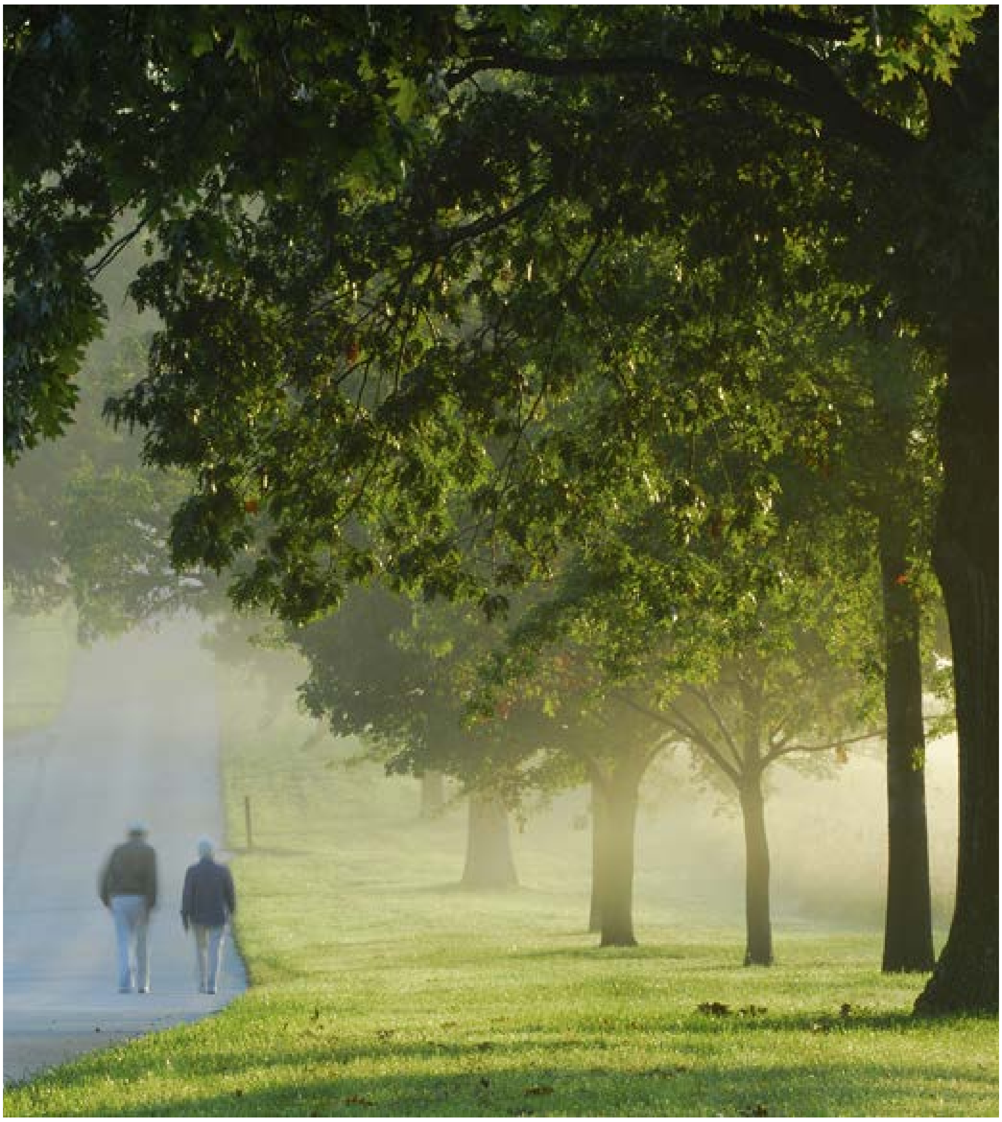
SAVE OR INVEST IT

- Save some cash for emergencies or unexpected costs
- Contribute to Super … that way the money will continue to work hard for you
- Home deposit- think about a variety of ways to save or invest the money to build the value of this over time

Source: ASIC MoneySmart

NeoWealth MANAGEMENT

Make your super last the distance



Australians enjoy one of the highest life expectancies in the world, which means you can look forward to a long and healthy retirement. Here's how to make sure your super lasts.

Did you know that Australia is now one of just four countries in the world where both men and women can expect to live into their eighties?[1] While that's fantastic news, it also makes saving for retirement more important than ever.

Almost half of Australians over age 40 are worried about outliving their retirement savings, while many are confused about the best way to achieve the retirement lifestyle they dream of.[2] But by getting good advice and planning ahead now, you can take control and enjoy the peace of mind that comes from knowing your future may be secure.

Work out how much you need

The first step is to figure out how much income you want to receive each year in retirement, and how much you may need to save in order to get there.

At NeoWealth Management we can help you work out how much you really need. We will examine your current super savings and salary, and the annual income you'd like when you retire. We will then provide an indication of your life expectancy and super savings at retirement, including any potential super gap. We can then discuss how much difference extra contributions could make, and what you may need to do to close the gap.

Plan for different stages of retirement

It's also important to think about how your spending patterns may change during your retirement, to plan ahead accordingly.

For example, in the early stages when you're at your most active, you're likely to need more funds for travel, sports and recreation. Then, as you enter a more relaxed phase of retirement, you'll need to be ready for possible health issues, so you can afford the care you need as medical treatments are becoming more sophisticated and more expensive every year.

When you crunch the numbers, you may find you're facing a super gap. An effective way to grow your super savings while potentially paying less tax may be via salary sacrifice.

You may also want to keep your options open for the later years when you may need more intensive health support, including specialised accommodation.

Also don't forget to factor in lump sum spending on big ticket items, such as home renovations or a new car. Because, as retirements grow longer, our cars and appliances are increasingly likely to fade away before we do.

Boost your super

When you crunch the numbers, you may find you're facing a super gap. An effective way to grow your super savings while potentially paying less tax may be via salary sacrifice. Even a small contribution can make a big difference over time, as you earn returns on your contributions. When you invest pre-tax income through salary sacrifice, you may also benefit from the 15% concessional tax rate on super contributions, putting you even further ahead.

Currently you can contribute $30,000 a year up to the age of 50 in concessionally taxed super contributions (which include employer super guarantee contributions), or $35,000 if you're aged 50 or over.

Finally, if there is a large sum you will like to contribute to super, for example, if you plan to sell a non-super asset, such as an investment property you can do this by making a non-concessional personal contributions of up to $180,000 a year from your after-tax income You may also utilise the bring forward rule which allows for members age 64 or less to bring forward two years' worth of non-concessional contributions and contribute up to $540,000 at any time over a three year period.

Review your investment option

Our super is one of our most valuable assets, so it's not surprising many of us seek to protect it by investing in a low risk option. But it's also important to remember that trying too hard to avoid risk today could expose you to a greater risk – running out of money tomorrow, when your savings don't produce the returns you need for a comfortable retirement. So it's important to choose the right investment option for your goals and investment time-frame.

That's where we can make a difference. At NeoWealth Management we can help you calculate how much super you'll need, then find the best strategy to reach your goal. Please feel free to give our office a call to discuss.

[1] Australian Bureau of Statistics, Aussie men now expected to live past 80, 2014.

[2] Investment Trends, Retirement Income Report, December 2013.

Source: Colonial First State – "Make your super last the distance" 28 May 2015

To downsize or not to downsize? ... the million-dollar question

With the property market so strong at the moment, we have had many of our clients who are in or heading towards retirement, questioning whether now is the time to downsize, or sell their family home in order to take advantage of the higher prices currently being paid.

It seems like a done deal for those with plans to move after retirement from an urban area, into a more affordable region. However there are a number of emotional, practical and financial factors that you need to consider first.

It is really important to remember that there are several stages of retirement, and a lot depends on your health, your financial position and the network that you surround yourself with. With people living longer, retirement is an entirely different proposition to what it used to be. Your retirement could stretch for over 30 years if you are lucky! Now this might take some planning!

Interesting Fact: Almost one in four Australians aged between 55 and 64 moved home in the previous five years?[1]

The Argument for ...

- As you approach retirement you may have substantial equity in your home or may own your house outright.
- Selling your home with the intention of buying another one that is easier to maintain or closer to family might be a good lifestyle choice.
- It could also release money for you to invest in shares, term deposits, managed funds, another property or superannuation. This could provide you with more income in the future, giving you different choices in retirement.
- The market is hot at the moment, and depending on where you live, this might not be the case for much longer. Depending on where you live, there might not be any better time than now to capitalise on these high prices.
- It might suit you to simplify your finances, sell up and move on.
- Following the death of your spouse, or other family members it might be a great opportunity to move on, and live closer to other loved ones.

The Argument against ...

- Unless you are moving out of the area, it is likely you will still need to purchase another house in this market … Your purchasing power in a strong housing market will suffer and you might need to make some sacrifices on location, size or type of home (such as an apartment).
- If you are going into Aged Care or "Retirement Living" accommodation, selling your home might mean that you will have to contribute more in this arrangement, with the new Aged Care arrangements. Often the more valuable your home is, the more attractive it is to hold onto it from a financial standpoint.
- The family home is exempt from the Centrelink assets test. As soon as you sell up the income that you might derive from investing these funds, becomes assessable.
- There are potentially other ways to take advantage of the equity you have in your home, without having to sell.

Before putting your home on the market you should seek advice in order to:

- Understand your reasons for thinking about selling.
- Have a clear idea of all of the implications of selling your home – financial and otherwise
- Gain a solid understanding of your entire financial situation and what retirement might look like for you.
- Work out how much income you will need in retirement.
- Explore other options for releasing the equity in your home. These options definitely aren't for everyone, but might be worth considering depending on your personal situation.

1 Australian Housing and Urban Research Institute, Downsizing amongst older Australians 2014.

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