Quarterly
2015 AUTUMN EDITION

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

INSIDE:

Living longer ... Great what's the big deal?

Some sobering facts...

- The average retirement shortfall is **$150,000**.*
- Australians underestimate the length of time they will be retired by up to **7 years**.*
- Only **10%*** of people have a plan if they do live longer than they expect.
- If you are 65 now, there is a **50%*** chance that you will be alive at 95 … you might need to plan for over 30 years of retired living!
- **12%#** of working people expect to never be able to retire
- **64%#** of retirees wish that they had worked full time for longer
- Of retirees not prepared for retirement, **14%#** said they'll have to go back to work to fund their financial shortfall

It is fair to say that most of us have thought about when and how we might like to retire, whether it's 10 or 30 years into the future. Most of us have a rough idea of the age we would like to retire, however it is important to understand that many of us don't get to live out our plans as we might

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have hoped! More often than not, injury, illness or redundancy puts a spanner in the works, and prevents us from staying in the workforce to continue to build superannuation assets.

There is no magic $$$

There is no magic $$ amount that you need to retire on, despite what you might have heard. In reality it all depends on your health now and in the future, if you are in a relationship and what your lifestyle expectations are.

It is also important that you don't simply think of your retirement savings as a lump sum. For example, *I need $1,000,000 in superannuation assets before I retire …*

It is the income that you can generate from the lump sum that is important. This is where quality financial advice really comes to the fore, as investment strategy can help make the difference between you living how you want to in retirement versus how you can afford to live.

Retirement isn't a one-off event anymore

In the past you would hit 60 or 65, have some tea and sandwiches, receive a nice watch and be on your way! Now, retirement tends to be a progressive event that occurs over an extended period of time. It is evolving for a variety of reasons …

- We need to work for longer to fund our longer lives
- We don't want to be removed entirely from the workforce for 20 plus years
- A lot of us actually like working, and want to keep active

There are some strategies, such as Transition to Retirement which enable you to access super, whilst salary sacrificing when working, to maximise taxation benefits.

In the "prime" of your life and retirement is a distant dream for you?

What you do in your 30's and 40's can have serious implications on the state of your finances when it comes to finally retire.

Contribute over the superannuation guarantee… a simple understanding of compound interest would tell you that there are amazingly tangible benefits from contributing extra to super now.

Consider what might happen if you were out of the workforce for an extended period with a serious injury or illness. If this happens when you are in your late 40's or 50's it could prove difficult to make up the difference by the time you retire...also you might need to face the possibility that you might not be able to re-enter the workforce in the same capacity, if at all. This is why we focus on ensuring that your wealth is protected whilst you are building it over the most productive period of your employed life.

FOOD FOR THOUGHT?

Give us a call or email, as we would be happy to discuss how your future retirement is shaping up, and how we can help get you on track.

What is ahead?

The Federal Budget is rapidly approaching on May 12. It will be interesting to see what announcements are made, considering the failure to pass many of the budget measures for the 2014 budget. We will be considering the potential impact of the announcements on our clients, so stay tuned!

Market review

Markets have been steady over the past month consolidating gains earlier in the year. The key focus for the market remains the direction of interest rates both domestically and in the US. This is understandable as low interest rates have been such an important catalyst for markets in the past couple of years. In addition commodity prices remain soft and continue to impact the currency and the outlook for a range of companies in Australia.

The focus remains on the timing of the Federal Reserve's next interest rate rise. Recent economic data has been a little soft suggesting they will have more room to move regarding the timing of the interest rate rise. The question the market is asking is whether this softness reflects a seasonal slowdown due to poor weather and the cycling of stronger data or if the recent strength in currency is causing growth to slow.

We think a combination of the weather and the rapid shutdown of oil related spending is the likely culprit as we continue to see improvements in unemployment and the consumer as signalling a strong economy. Additionally we continue to expect the US economy to perform solidly this year but the impact of higher interest rates and cost inflation might crimp profit margins and stock market performance in the US.

Following years of poor performance Europe has started to look a little better, its equity markets remain relatively cheap and are attracting significant capital flows. We see three factors positively impacting the outlook for Europe: Low oil prices with Europe largely an importer; Fiscal constraints are no longer a headwind with budgets significantly improved; and ECB purchasing €60b in assets per month is supporting asset prices.

The main risk factor remains the unstable political environment which is likely to cause some volatility as Europe tries to navigate its way around the disfunctional currency. However there is some cause for optimism for the first time in many years.

Recent Chinese data remains soft as highlighted by the leading indicators and the manufacturing data. As a consequence China continues to loosen its economic policies with interest rates cut twice in three months and Loan to Value ratios dropped for borrowing on new houses. While policymakers have shown willingness to respond through monetary policy and regulatory changes, high levels of debt and a lack of export response remains a constraint.

Emerging markets have struggled in recent years with the capital outflow towards the US and slowing economy contributing. A bounce-back in emerging markets would be a surprise should it occur later in the year and we are looking to see if evidence emerges to support such an outcome. It would likely be helpful for resources (although we doubt it will have a meaningful impact on the demand supply equation playing out in iron ore and oil) and other companies with operations in the Asian region.

The RBA is trying to stimulate the non-resources segment of the economy. However there is a large headwind from a drop in spending on major projects and the fall in national income. The currency looks set to fall further as do interest rates in response to this adjustment that is occurring. Recent confidence levels remains soft as do employment levels so more needs to be done. We would like to think infrastructure spending could accelerate but politics remains a major headwind with a change in Government in Queensland and Victoria and a reluctance to embrace cheap long term debt to finance projects.

A strong first quarter leaves valuation's looking high but still cheap relative to interest rates. We remain overweight cash at present using volatility and capital raisings to add to the portfolio. We continue to see lower oil prices and interest rates boosting consumer and offshore stocks (via lower A$). Further we see growth stocks as undervalued given the compression of PE's in the market.

Will property be hot in 2015?

WITH INTEREST RATES FALLING TO NEW LOWS, ARE PROPERTY PRICES SET TO RISE EVEN FURTHER?

There's no doubt that 2014 was a good year for Australian property investors. In the 12 months to December, residential house prices jumped 6.8% nationally, driven by a stellar 12.2% rise in Sydney and healthy increases in Brisbane (5.3%) and Melbourne (4.5%).[1]

But according to Stephen Halmarick, Head of Economic and Market Research at Colonial First State Global Asset Management, we're still a long way from a property bubble.

"Demand is not being driven by cheap credit, as it was in the sub-prime mortgage boom in the US, Ireland or Spain. Instead, lack of supply is driving the price increase. What's more, official statistics reveal that housing credit growth isn't out of hand," he says.

"The household debt to income ratio in Australia has been flat for about a decade. At the same time, the cost of debt has fallen and incomes have increased."

> "2015 will be one of, if not the strongest year on record for new residential construction, particularly in Sydney."

February's 0.25% fall in the Reserve Bank's official cash rate helped to push the cost of borrowing even lower. As a result, Halmarick says 2015 is one of the cheapest times on record to borrow money, with rates likely to fall even lower.

"I don't think it's ever happened where you'll just get one rate cut — they usually come in a series. The market's expecting another cut of 25 basis points at least by April, so I think we'll be down to [a cash rate of] 2% before too long."

Demand set to remain strong

Halmarick says lower interest rates should continue to fuel demand for residential property, especially in Sydney, Melbourne, and Brisbane. Another rate cut would also mean investors will earn less on savings and term deposits, which mean many will be looking elsewhere for better returns.

And low rates aren't the only factor pushing prices up.

"Much of the demand is due to demographics: the population is growing in big cities, both naturally and through immigration, so there's more demand for places for people to live."

At the same time, there is an increased appetite for property among investors, especially those who have paid off their homes and want to use the equity to buy investment property.

"There is the attractive tax incentive through negative gearing that property investment may offer, depending on an investor's circumstances," Halmarick says.

Less certain is the much-discussed impact from international investors, attracted by Australia's low borrowing costs and healthy economy.

"While international investors have created an increase in demand, it's uncertain to what extent, as unfortunately it is hard to get reliable statistics on international purchasers. In addition, offshore investors are only supposed to buy off the plan, rather than purchase established real estate."

Construction ready to take off

But while demand looks set to stay strong, there are also some factors that could help to cap housing price growth. In the short term, affordability may keep some investors out of the market, despite lower borrowing costs. Over the longer term, supply is likely to rise to meet growing demand. Already, national dwelling approvals have risen by 8.8% in the year to December 2014, with further increases likely[2].

"For a number of years, especially in Sydney, there's been significant undersupply of new residential construction," says Halmarick. "However, I believe that 2015 will be one of, if not the strongest, year on record for new residential construction."

Diversify, diversify, diversify

Halmarick says that, as always, diversification is the key to reducing risk. That could be important for Australian home owners, if they already have a significant proportion of their capital tied up in property.

"Portfolio diversification is critical, especially due to current volatility caused by growth in the US economy, but weakness in Europe and Japan and slowing in China," Halmarick says.

"This reinforces the need for diversification into assets such as property, infrastructure, fixed income or equities."

If you're not sure whether property is for you, talk to a financial adviser. They may help you take advantage of the potential of property and other asset classes, while creating a diversified portfolio to keep risk under control.

[1] Australian Bureau of Statistics, Residential Property Price Indexes, December 2014, Release 6416.
[2] Australian Bureau of Statistics, Building Approvals, Australia, December 2014, Release 8731.
Source: Colonial First State: 11 March 2015: www.colonialfirststate.com.au

Are you protecting the future you imagine?

More often than not, your most valuable asset may be your ability to earn an income. Not only does your income allow you to maintain your lifestyle, but also the future you imagine with your loved ones and therefore it makes sense to protect it.

The following infographic provided by insurance provider TAL presents us with some interesting facts about Australia. You may see some key areas that relate to you. It covers the things we value like the houses we live in, the pet's we have and the cars we drive.

We can see the things we insure on. It might also surprise you what we don't insure.

Here are some facts that illustrate what people are protecting:

- There a three more births than deaths in Australia with a birth every one minute and 43 seconds.
- There are $33 million pets in Australia and we spend between $13,000 and $25,000 on our loveable dog s over their lifetime.
- There are 13 million cars on the road, of which 83% are insured at an average cost of $1,200 per year.
- Interestingly, only 31% of people protect their income which cost on average around $595 per year.

GIVE US A CALL TO DISCUSS HOW YOU CAN PROTECT WHAT IS REALLY IMPORTANT TO YOU.

Source: TAL Services Limited www.tal.com.au 10th December 2014

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