YOUR PERSONAL WEALTH

SPRING 2021

WELCOME TO THE SPRING EDITION

What a difference three months can make, with much of the Australian east coast recently experiencing lockdown and vaccination rates on the rise. Meanwhile the Australian stock exchange has seen recent record highs.

With the recent Super guarantee increase to 10%, it may be an opportune time to look at strategies that suit your stage of life.

We're proud to be part of the Lifespan community, with our licensee, Lifespan Financial Planning, recently announced as winners of the 2021 CoreData Licensee of the Year.

VACCINATION BOOST IS COMING!

The vaccine rollout is gathering pace in most countries and global equity markets have staged a dramatic recovery from the lows of March 2020. Australian and US equity markets are within a percent or two of all-time highs. However, over the last few months the rate of this increase has slowed as markets try to figure out if high inflation, particularly in the US, is transitory or will likely be sustained.

On the positive side, global bond yields have remained low after the spike we saw earlier this year. While we've had large rotations in different sectors of equity markets, we have not had a pullback of even 5% in the US market in 2021.This has been a good effort from markets considering there is speculation that the US Fed will announce tapering at its September meeting, i.e. reducing its bond buying. The Australian dollar has been weak, touching 71 US cents. Some factors contributing to this weakness were, the dramatic fall in the iron ore price, the RBA being perceived as more dovish than the US Fed, and markets becoming risk-averse as the Delta variant sweeps the globe. Markets are only now realising COVID is unlikely to be eliminated and current vaccines will lose effectiveness over time.

As we write this, a humanitarian disaster is playing out in Afghanistan. A Taliban spokesman has said that working women should not go to their offices because they don't know how to protect them. This is undoubtedly going to have major repercussions for the West as a whole and in investment markets.

Economy

While the RBA upgraded Australian GDP growth forecast just a few months ago, it has had to back track as a result of the Delta strain lockdowns. In August, it cut the GDP growth forecast to 4.0% from 4.75% for the year to 31 December 2021. There's now a strong possibility of two quarters of negative GDP growth.

GDP forecast downgraded

↑4.0% over 2021

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YOUR GUIDE TO LIVING A SUPER LIFE

The key to life is living, not retiring.

Even with the 1 July 2021 increase to 10%, the superannuation guarantee cannot be relied upon to provide you a comfortable retirement. That said, not everyone is ready to retire!

A different way to look at super is that planning ahead will allow more choices later in life. This article highlights some possible strategies through the different stages of your working life.

There may come a time in your life when you want, or need, to change what you’ve been doing. To either stop working completely, or take a long holiday and work out what’s next. To be able to have this choice, you'll need to plan ahead.

As a rule of thumb, it’s suggested to aim for a retirement income of between 50% and 70% of pre-retirement salary/wages. Based on this premise, it’s estimated you will need to save around 15% of your income for 40 years. The problem here is that your employer is only compelled to provide superannuation contributions for you at the current rate of 10% of your income each year.

How might this be achieved?

You can start contributing to super earlier in your working life, raise the combined rate of your super contributions to 15% by making personal contributions (keeping under the annual limits of course), and take heed of the following tips throughout your working life.

Young, single and independent

- Retirement is something your parents may be enjoying, but starting small and early lays the foundations for future choices.
- Maximise your government co-contributions— potentially add thousands to your super.
- If appropriate, take out disability insurance through your super fund. It is often the cheapest and most tax-effective way of providing cover.
- Choose an investment strategy that suits your long-term risk profile.

A family and a mortgage

- Your focus may be on repaying the home loan, but don’t forget your super entirely.
- A mortgage and young children mean insurance is a top priority. Taking out life and disability insurance can be a sound decision at this stage.
- Check eligibility for a tax offset on spouse superannuation contributions and government co-contributions.
- Review your investment strategy and risk profile.

The ‘in between’ years

- A higher income and a smaller mortgage open up the opportunity to boost your super, but take care not to exceed contribution and Total Superannuation Balance limits.
- Find out if salary sacrifice or personal deductible contributions could boost your super savings and reduce your personal tax liability while you are working.
- Review your insurance cover and your investment risk profile.

Retirement may be looming

- With the mortgage nearly paid off and children leaving home, you may have more money to contribute to superannuation, but keep an eye on your contribution amounts and Total Superannuation Balance.
- Consider combining salary sacrifice with a transition to retirement pension if beneficial.
- Review your insurance cover as you may not need that much cover, and your investment strategy and risk profile.
- Start comprehensive retirement planning, strategies to ease into retirement, or perhaps a new career focus.

Down tools or start anew

- You’ve made it. For retirees over 60, lump sum withdrawals and pension payments are generally tax free!
- Review your investment risk. Keep enough growth in your portfolio to help ensure your money lasts as long as you do.
- Review your insurance needs.
- Stay active and enjoy life - or launch into your next career.

Remember, it’s never too late – or early - to start planning!

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0.5% CPI July increase | 5.4% US annual CPI rate

The US CPI (inflation) increased by 0.5% in July after rising 0.9% in June. While the monthly pace slowed, the annual rate of 5.4% was the same annual rate as in June. However, this was also the first time in 3 months it did not significantly exceed expectations. In contrast to the US, Australian inflation is quite well behaved.

1.6% estimated 2021 inflation | 2.0% forecast inflation for June 2023

Outlook

Most geopolitical crises are a one week event, but we think Afghanistan is going to have major repercussions for years to come. The manner of the US pull out, without informing its NATO allies, and abandoning its Afghan interpreters, position the US as an untrustworthy ally. Already the Chinese Communist Party mouthpieces are taunting Taiwan about their American friends being there for them. In terms of markets, the Chinese are indicating they want to deal with the Taliban, in order to access the roughly $US1 to 3 trillion of unexplored mineral deposits, including lithium, rare earths and copper, materials critical to battery production and the defence industry.

The RBA has stated for a while that there will be no rate hike before 2024 at the earliest, however, more recently it has back-tracked, saying that an earlier rate hike is possible, given the strength in the economy. Of course, this was before most of Australia was in lockdown. With the Australian economy needing more support, the lockdowns can only serve to extend the period of lower interest rates. The good news is that the vaccine rollout is gaining steam locally, and it's likely we'll have over 70% of the adult population fully vaccinated by late this year.

The consensus is US rate rises are still a long way off; unless inflation is not transitory.

2/3rds fund managers believe current US inflation is transitory

We need to watch the US month to month inflation numbers and their composition. While used car prices and travel costs have come back somewhat, we do not want inflation to persist in more 'sticky' items such as wages and rents.

> **The reason inflation is so important is that higher inflation will lead to higher interest rates.**

One of the reasons equity markets have done so well is that price-to-earnings (PE) have re-rated higher because of very low interest rates. Equity valuations are still a risk, with the Global equity PE close to 20x. The forward PE for the S&P 500 was 21.4x on Aug 20, 2021 (S&P 500 at 4,406). We've had a great reporting season in the US...

94.7% second quarter 2021 US EPS expected to be up from Q2 of 2020

15.8% US companies on average beating expectations

Comparisons get harder as we get further away from the 2020 lockdowns. In the first quarter of 2022 for example, EPS (earnings per share) are expected to be up 5.5% from Q1 of 2021 (source Refinitiv). Also it's very likely we have passed peak EPS and GDP growth quarters in the US.

In terms of allocations, negative real interest rates continue to favour growth assets over fixed interest.

1.3% US 10 year bond yield VS 2.4% 10 year US inflation expectations

While index levels are elevated, there is constant rotation between sectors, which should provide opportunities for managers. Most resource stocks for example are down by over 15% in the last month. We would not aggressively add to positions right now, but suggest investors maintain a mix of growth and value styles, as the wild swings of the last year showed, it's very hard to time these moves.

MANAGE YOUR MONEY, MANAGE YOUR LIFE

As professional financial advisers, we're often the first port of call for people seeking advice on investing. But that is just the tip of the iceberg.

Being able to manage your money can contribute to a sense of security, better health, less stress, and perhaps above all, choice.

We have the knowledge and skills to help you achieve your goals and objectives by tailoring strategies to address your specific needs.

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We can provide assistance and guidance on:

- **Budgeting** – reviewing your finances and identifying opportunities to manage debt and save money.
- **Education** – helping you to understand your investments and other key financial matters, to build your knowledge and confidence.
- **Risk management** – guiding you on protecting your family and your assets in the event of illness, injury, disability or death.
- **Retirement planning** – helping you find answers to the important questions such as; "how much money do I need to retire?"; "what do I need to do before I retire?" and "will I be able to retire comfortably now?"
- **Estate planning** – we work closely with other professionals to show you how best to structure your assets to benefit your estate.

Quite simply, we can help alleviate the worry and stress associated with your finances, leaving you with more time to enjoy life. Let us know if there's someone you know who could benefit from choice and financial peace of mind.

SMSF TRUSTEE UPDATE - SUPERSTREAM CHANGES

SuperStream is an electronic gateway for employers to make superannuation contributions or rollover between funds for employees. Payments and data are transferred electronically, and in the case of SMSFs this is done using an electronic service address (ESA). SuperStream is currently compulsory for fund transfers in the non-SMSF superannuation sector.

The ATO has set a hard deadline of 1 October 2021 for SMSF trustees to use SuperStream when transferring money into or out of SMSF funds.

Examples of when SuperStream will need to be used after 1 October 2021 include:

- Funds from a non-SMSF super fund being part or fully rolled over into an SMSF.
- Super benefits in one SMSF being rolled into another SMSF. This could include adult children rolling funds out of a family SMSF into their own SMSF, or business partners separating. (Note that super received as part of a family law split is treated differently).
- Winding up an SMSF to transfer funds into a non-SMSF super fund.

It is important to note there is currently no requirement for member contributions or contributions from related employers to SMSFs to be made via SuperStream. There are currently no plans for this to change.

These new rules mean more SMSFs will need an ESA. To enable rollovers, new SMSFs should ensure they have access to an appropriate ESA as soon as the fund is established, and for existing SMSFs, as soon as a decision to windup the fund is made. An ESA may be obtained from your software provider or SMSF messaging providers.

If an SMSF is not SuperStream ready by 1 October 2021:

- a non-SMSF will be unable to process a rollover request to the SMSF.
- a rollover out of the SMSF may lead to penalties of up to 20 penalty units (currently $4,400) being imposed on each trustee of the SMSF.

As an SMSF trustee, check your SMSF details are correct and current and if you have any questions about preparing for this change, contact our office today.

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