Outlook

Financial Update & Outlook

Summer 2017

Welcome to the start of a new year where I get to report on what happened last year and to provide my predictions for the ensuing year.

2016 started with worries from investors about global growth and deflation but growth turned out better than expected resulting in a good investment year with our market (ASX200) up 7% & the Dow Jones & FTSE up around 14%.

At the start of the year some investment analysts were predicting extreme gloom and doom. In fact investment bank RBS warned investors to "sell everything". When commodity prices collapsed in February some people started to think they may be something to their predictions.

It was a year full of surprises with Brexit, increasing terrorism in Europe & the election of Donald Trump.

Brexit was tipped by some to be the end of the world sending the UK economy into recession. Well we all know this didn't happen. It dropped the value of their currency which will be good for international competitiveness.

If there is one thing we have learnt from Brexit, it's that you should always separate the socio-political issues from the market issues.

The next major event to bring about "the end of the world" was the Trump election. Instead, this may be just what Wall Street needs with promises of big spending on infrastructure, cutting business red tape and reduction in business taxes. We believe a "sensible" Trump outcome could be very good for the US and the world.

So what will happen in 2017? To answer this we must ask what the "experts" will predict as the next trigger to Armageddon. Of course those who foresaw the "financial crisis of 2016" will just roll their call into 2017! But there are good reasons to believe disaster will yet again be averted.

There is no sign of the sort of excesses that drive recessions & deep slumps in shares; there has been no major global bubble in real estate or business investment; inflation remains low; share markets are not unambiguously overvalued and global monetary conditions are easy.

For Australia, the economy is likely to continue to rebalance away from mining investment; the ramp up in resource export volumes has further to go; there is still a huge pipeline of housing activity yet to be completed and the rebound in commodity prices tells us that the income recession in Australia is over. Expect Australian growth to be around 2.5% through 2017.

However, inflation is likely to remain below target for longer than the RBA is forecasting, the RBA is likely to need to offset increases in bank mortgage rates and the $A remains too high.

So we expect another rate cut in the first half of this year taking the cash rate to 1.25%. A rate hike is a long way off.

To my mind the words "watch this space" have never been more important.

Remember if you have any questions please contact the relevant advisor listed below. Alternatively, if you have any feedback on our updates or articles you would like covered please give me a call or send an email to
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prepare for superannuation changes post 30th June

The biggest changes to superannuation in a decade are about to start to affect super investors. These changes were first mooted in last May's Federal budget and there is still massive confusion about how the changes will affect certain people.

Most people think it only affects the wealthy with super pension balances over $1.6 million. Think again, as it can also be of concern people with a much smaller super balance who are also in receipt of a defined benefit pension or a government superannuation pension (such as CSS).

There have been reports of people who may be affected by the $1.6m transfer cap selling property and shares prior to 30th June. This will not be necessary as investors in this situation may elect to reset the cost base on assets where a capital gain exists.

The worry with this is it is permanent and if done incorrectly can prove costly in later years. People with a Transition to Retirement Pension also need to look to reset the cost base of assets in their account.

For well over twenty years now we have been saying that superannuation is the best place to invest your retirement capital.

Why would you have retirement capital outside super paying income tax on the earnings together with tax on capital gains at your marginal tax rate (up to 45%) when it can be in a tax-free environment?

Well, the penny has finally dropped for many investors and the good news is there are still a few months for them to catch up. **Provided you act before 30th June this year most investors are able to contribute up to $575,000.** This consists of $35,000 concessional contributions and $540,000 non-concessional contributions (provided the "bring forward" rule has not been triggered).

It follows that a couple may this year contribute a combined amount of $1,080,000. Next tax year this contribution limit reduces to $325,000 per person.

This provides eligible investors with a window of opportunity to sell a property or a share portfolio and to get the money into a much more tax efficient structure. For those people who don't think that now is the best time to sell a property the option of borrowing against the property is always available.

Given that superannuation tax concessions are unlikely to be better anytime in the future **now is the time to talk to your FINPAC advisor** as superannuation will retain its preferred retirement investment status.

and preservation

ensure your accountant is licenced to advise on superannuation

For years many trustees of self-managed superannuation funds (SMSF's) have looked to their accountant for help with running their fund. Accountants have relied on an exemption to be licensed to give certain financial advice but this ceased on 30th June 2016.

After this date anyone who provides advice on an SMSF must be licensed under the Australian Financial Services (AFS) licensing regime.

There are various reasons that people run their own super fund. Mostly it is to minimise costs or because the member thinks he can manage investments better than a professional fund manager. Whatever the reason, most have been commenced on the advice of their accountant.

Running your own SMSF can take considerable time and attention to detail. Get it wrong & expect a query from the ATO.

The bottom line is seeking advice from a licensed professional who will assist you with not only correct administration but also provide advice on a properly diversified portfolio of investments.

At the end of the day there is considerably more to long-term investment than term deposits and bank shares that are common in many SMSF's.

insurance in superannuation

I have for a while now been warning our clients about the increasing cost of insurance through superannuation funds. The cost of Group Insurances offered through super has steadily increased over the past few years due to increasing claims costs. This is basically due to a "one in – all in" approach.

A recent article in the Australian (17/12/2016) backs this view up, "the Rice Warner figures show that sky high increases in group insurance rates are likely to continue despite an **average premium rise of 215% for death and TPD cover over the past four years. Income Protection rates have risen a cumulative 82% over the past four years".**

Retail insurance rates have not increased anywhere near these levels and while Income Insurance premiums have risen slightly we have actually witnessed a decrease in Death and TPD premiums.

Most of the time **we can now offer premiums significantly lower than you are currently being charged through your super.** This even applies to government and semi-government funds such as QSuper and LGIA Super.

In the same article Rice Warner found that "over a working life an average white collar worker would retire with a super balance 10% lower than if they had not been charged for insurance. A blue collar worker would retire with an average balance 15% lower."

It is critical that you review how much and what type of cover you **actually need** and where you get this cover for the best price. **FINPAC can do this with you.**

Please note that the premiums for these external policies can still be funded through your superannuation as you do now.

cyclone season - business preparations

With the Bureau of Meteorology predicting more cyclones than average for Australia this summer, is your business prepared? Before the cyclone season starts, you can take some precautions to prepare your business for extreme weather.

Steps to prepare your business

1. Tidy up all loose objects in the open air and store inside.

2. Check roofing and ensure it is secure. In particular ensure all roof gutters are clear as heavy torrential rains can cause gutters to overflow and back up, causing water to enter the interior of the building.

3. Where a metal roof has already been subject to cyclone wind loads, the fasteners can exhibit weakening.

4. Placing plywood in front of large windows, particularly on the windward side, If the business has plywood or a similar material ready for protecting windows, it's a good idea to label each panel so they can be quickly fitted leading up to a cyclone event.

5. Have reinforcing in place for loading roller doors (which typically fail at even low wind speeds).

6. Ensure there are no obstructions to storm water drains and pits to the heavy volumes of storm water expected during a cyclone.

7. Consider raising vulnerable stock and equipment above floor level to protect it from water damage. This will also assist you to resume business quickly following the cyclone.

8. Ensure that vegetation, in particular trees and large branches, are trimmed so there is less likelihood that these branches can impact and damage your buildings.

9. Ensure vital records are well protected or backed up.

10. Vehicles should be parked in a garage or within a building rather than a carport

11. Ensure you have adequate supplies of torches with fresh batteries, brooms, mops and buckets etc.

12. Ensure the details in your business continuity plan are current – e.g. that the contacts details of all of your staff, vital suppliers, customers, and FINPAC (both office and mobile) are up to date. Review contingency plans addressing business critical functions, as they can change from year to year.

    Ask yourself the following questions:
    i. *What period of downtime can my business tolerate without a significant financial impact?*
    ii. *Are there any functions necessary to fulfil legal or regulatory obligations?*
    iii. *What business functions are essential for maintaining my key customers?*
    iv. *Do I have an alternative site for staff, customer and supplier communication? Have I let everyone know about this site?*

Speak to your FINPAC Insurance Advisor to make sure you have the right cover in place for your business.

Ask about business interruption cover, and make sure the sum your business is insured for is enough.