FINPAC Financial Group

Wealth creation & protection

Outlook

Financial Update & Outlook

Summer 2018

Welcome to the summer edition of Outlook. I hope you all had a wonderful Christmas and New Year break and got to spend some quality time with family and friends.

It is in this new year newsletter we get to report on the performance of the last year's investment markets and make predictions for the next 12 months.

Compared to previous years 2017 was relatively uneventful. There were the often-quoted worries about the unique style of President Trump, elections in Europe, nuclear ballistic missiles in North Korea, the continuing prospect of a local property crash and whether the USA and China would become involved in a serious conflict. Despite these worries it has been a positive year for investors.

Global growth has continued with the rate for last year of around 3.6%, the best for six years. At the same time inflation remained low and below target.

Most global equity markets performed strongly with relatively low volatility. The US market achieved a rise (after adding dividends) in every month of the year, the first year since 1958. After such a good year it is worth reflecting on lessons we can learn from 2017.

Firstly, it was the fundamentals of improving profits due to a recovery in global economic growth that ultimately mattered to markets. This is not to say that politics don't impact on markets, but it is through the actual or perceived impact on the economy.

Secondly, is the importance of inflation in the post GFC world. The key driver of the inflation volatility over the past several years has been the wild movements in oil, with prices ranging from $US114 per barrel to $US26 per barrel.

This has impacted equities through profit relationships with nominal growth and bonds through inflation expectations.

Lastly, is the level and change in interest rates. The US Federal Reserve (Fed) raised the official cash rate by 1% in four 0.25% steps over the past year and a bit. We can gather from this that when policy is moved at a modest predictable pace, the change is not overly important. We will have to keep an eye out for what level cash rates will become problematic for the economy and markets.

How do we apply these lessons to the outlook for 2018? Generally, politics will be favourable to the economy. Politics has moved from fearing debt and deficits, to using fiscal policy such as tax cuts in the US to support growth. While not a long-term strategy it will support global growth in the near term.

Inflation will be the most important call in 2018. While oil prices have been edging up recently, the moves have been modest relative to recent performance. Markets are generally pricing in a continuation of the benign environment.

We see sound investment returns to continue, as the fundamentals remain positive – with strong nominal growth and profits. How long this positive environment for risk assets lasts will depend on the level of future interest rates.

In summary, continuing strong economic and earnings growth and still-low inflation should keep overall investment returns at acceptable levels.

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 **gricks@finpac.com.au.**

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thinking about retiring?

Everyone has a dream for retirement, whether it be an overseas trip, moving to the coast, playing golf or spending more time with the family.

Planning for your retirement can seem confusing and complicated and many retirees are unsure as to what to do with their superannuation when they retire.

Better medical technology and lifestyle means that Australians are living longer. Many Australians retiring today at age 65 can expect to live well into their 90s.

That's great news, however this puts a greater demand on your retirement savings. Your retirement savings will need to generate the kind of returns that will sustain your capital over the long term despite tax and inflation.

FINPAC Financial Advisors offers a service that significantly reduces the complexity of retirement planning and helps stretch your retirement savings further. One of the strategies our advisors often use to achieve this are known as income streams, such as Account-Based Pensions.

Account-Based Pensions

The ultimate retirement investment! You have an opportunity to convert your superannuation money into an investment structure where you won't pay an tax on the earnings or capital gains for the rest of your life.

In addition, you can nominate the tax-free income* you wish to receive on a regular basis, plus you still have access to your capital at any time without paying tax on withdrawals.

*for people over age 60, minimum pension amounts apply

How does an Account-Based Pension work?

Assume you are 65 years of age and just retired. You have $900,000 in your superannuation fund and you estimate that you require $60,000pa to finance your proposed retirement lifestyle.

Your FINPAC Financial Advisor recommends you convert your superannuation to an account-based pension income stream.

You can then elect to receive an income of $5,000 per month and not pay any tax on this amount. In fact, if this is your only income, you can cease lodging a tax return.

In addition, if you need a new car or want to go on a holiday, you can make lump sum withdrawals at any stage, and this will also be tax free.

Most importantly, your funds in the account-based pension are still invested in an underlying diversified portfolio, similar to superannuation, so that it will continue to generate returns that can sustain your capital over the long term.

Under 60 years of age and want to retire?

If you are under 60 years of age, some tax may be payable on your account-based pension income. Your FINPAC Financial Advisor can assist you in providing a strategy to minimise this tax.

Please feel free to contact us for more information or to request a copy of our Retirement information brochure.

and preservation

long awaited strata inspection scheme moves forward

Financial Services Minister Kelly O'Dwyer has announced that the Federal and Queensland Governments will work with James Cook University on developing and implementing the Strata Title Inspection Scheme.

The biggest issue being investigated is pre-disaster mitigation to build strength and resilience within communities.

The Insurance Council of Australia (ICA) initially commissioned a study by James Cook University in 2013.

The key recommendation was that strata-title properties in tropical Queensland undergo engineering inspections to ensure they are resistant to extreme weather.

If buildings are shown to be resilient, this evidence can be presented to insurers and could lead to reduced premiums. If they are vulnerable, building owners have the opportunity to make improvements.

Communities in disaster-prone areas need investment in permanent, well-designed mitigation solutions and if these are not in place or poorly designed, insurers have to price the risk of these events, resulting in higher premiums.

Unfortunately the scheme has suffered from at least a three-year delay with the first announcement in the Federal Budget in 2014 and this has now been sitting with State Government since then. Also there is no guarantee any insurance company will take any notice of the results.

However the message being passed down from insurers is that they are individually underwriting Home and Contents, and Strata insurance based on many parameters such as claims, address, and mitigation.

cyclone preparations

The State Emergency Service recommend having an Emergency Kit ready for storm season that contains essential items you may need during and after a severe storm.

An Emergency Kit contains essential items that you and other members of your household may need during and after a severe storm.

The following basic items should be included in your Home Emergency Kit:

- Your Home Emergency Plan, including emergency contact numbers
- Portable radio (with batteries or wind-up)
- Torch (with batteries or wind-up)
- First Aid kit
- Sturdy gloves
- Important documents and cash in waterproof bags
- Essential medication
- Special items for babies, the disabled, elderly or pets
- Drinking water and non-perishable food for three days

If you live in an area that is prone to storms and/or floods, you may consider adding the following items to your emergency kit:

- Mobile phone, spare battery and charger
- Change of clothing and shoes
- Pillows, sleeping bags and blankets
- Toiletries
- Camping stove or gas burner
- Valuables, photos and mementos in waterproof bags
- Books and games for children

Tips:

- Keep your kit in a waterproof box and store it in an easy to access location.
- Check your Home Emergency Kit regularly and re-stock any out-of-date items.

Finally ensure that all your insurances are in force and up to date, it is too late after the cyclone has been named.

home and contents for Airbnb hosts

Do you list your home as a short-term rental property on Airbnb? If you rent out a property through Airbnb, even if it's just one room in your house, you're a landlord, and that means you need insurance.

Most Airbnb hosts do not know whether their own home and contents insurance would cover them hosting guests. It probably doesn't.

Home and contents insurance for short-term rentals is a specialised industry. There are a few specifically designed products currently on the market, including Airbnb's Host Protection Insurance, and ShareCover offered by IAG. Then there's landlord insurance, which will cover you for much more than the standard short term rental policy.

Airbnb Host Protection Insurance

Airbnb's Host Protection Insurance program provides hosts with up to $1 million of liability cover. It covers primary liability claims where a guest is physically injured or has their property damaged or stolen during their stay on your property. Airbnb's website says that Host Protection Insurance may also cover claims if a guest damages building property.

ShareCover

IAG ShareCover is an extra home and contents insurance product designed for people who list their house or a room on online accommodation sharing services such as Airbnb. It is designed to cover short term stays, so you only pay a premium for the nights that you have a guest staying. ShareCover covers theft, damage, personal liability, identity theft, and portable valuable contents on holiday rental properties.

Landlord insurance for Airbnb

Hosts and landlords of renting hosts will be better off with a full landlord insurance policy instead of relying on the fact that damage to their property may be covered by Airbnb Host Protection Insurance.

Landlord insurance typically covers the property owner for the entire year as opposed to a few days to a week. There some landlord insurance policies that are specifically designed for short-term rental situations.

Landlord insurance will cover your property for inclusions such as accidental damage, damage caused by storms and natural disasters, theft or malicious damage by a tenant (a paying guest), public liability in case a tenant is injured on the property.

Importantly, landlord insurance also covers you for loss of rent, which is not covered by most short term rental policies such as Airbnb Host Protection Insurance and ShareCover. This means that if for example your guest doesn't pay you or you aren't able to rent out the property while repairing damage caused by the tenant, your insurance company will cover you for the expected rent.

Why you need landlord insurance

Renting a part of your own home is not usually covered by ordinary home and contents insurance and can even void your policy because it is considered a commercial use of the property rather than private use.

If you aren't covered, they can face expensive repairs of their property after a renter leaves. Even worse, they could face expensive public liability claims if a renter is injured while staying on their property, which could amount to hundreds of thousands of dollars.

We can discuss the best policy to suit you if you use Airbnb.

Report by Anthony W Muller, Director & Representative of FINPAC Insurance Advisors PTY LTD (Australian Financial Services Licence 252590).