Outlook

Financial Update & Outlook

Summer 2019

Welcome to 2019. I hope you had a wonderful Christmas and New Year break and had time to catch up with family and friends.

Firstly, I must apologise for the lateness of this newsletter but as all of our local clients would know we have experienced a major natural disaster in late January/ early February. With over 1.3 metres of rain falling in just 12 days and our office having to be closed temporarily, we have been struggling to complete our December Portfolio Reviews and everything else had to be placed on the back burner.

Our thoughts are with those many poor people who have suffered serious damage to their homes and businesses. All of us here at FINPAC hope you and your families are now starting to get your lives back into some form of normalcy.

A big thank you must go to the emergency services and the Army personnel for all their rescue and clean-up efforts. These guys have worked tirelessly throughout a big couple of weeks and in particular that Sunday night when so many people had to be saved from possible drowning by boats and high-clearance military vehicles.

A thank you must also go out to those southern and overseas FINPAC clients who phoned to enquire about our wellbeing. We might only be a small firm based in Townsville, but we have so many caring long-term clients based far and wide.

In this Outlook, I provide on the next page my thoughts on the economic conditions as they occurred in 2018 and my thoughts for the near future.

Tony Muller of FINPAC Insurance Advisors gives an update on the standard definition for flood on home and contents policies. He also explains the importance of life insurance cover, including the types of cover available and how much you may need.

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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wealth creation

december quarterly market report

Another year over and time to reflect.

2018 saw the US experiencing its worst sharemarket year in a decade. Their major indices have lost between 16% and 26% and December was the worst since the Great Depression in 1931.

The major factors influencing the market would however likely dissolve in the coming months. These factors are the US-China trade war and the government shutdown. We believe that both problems will be sorted by President Trump because if they continue too long, they will affect his election chance in 2020.

The US economy has been growing since 2009 and it should continue albeit at a slower pace. As stated, the major near-term problems will be trade disputes with China together with the slowing economies in Europe and China.

Chinese exports fell 4.4% in December compared to market expectation of a rise of 5.4%. Trade tensions with the USA are hurting China, the world's largest exporter. Fortunately, the Chinese government recently has shown its willingness to open its economy by cutting tariffs and treating foreign companies like local companies.

It has been a challenging year in Australia also with markets performing strongly over five months (April 3.5% and June 2.7%) but poorly over the remaining months (October -6.5% and March -4.1%). Overall 2018 was down around 7%, the worst year since 2011. This has left investors thinking what 2019 will bring. Should investors switch their portfolios to cash until conditions improve?

Between Christmas and New Year US share soured around 7% and local shares by around 3%. So, does this indicate we have seen the bottom? It is too early to say but we do not believe we are heading into a deep bear market sometime soon.

We have observed many times in the past that when markets eventually turn around the greatest gains are often immediately following the rebound. History has also shown that it is quite common for share markets to have four negative years each decade. Always remember you do not make a loss unless you sell and converting to cash is just that.

Australian property valuations haven't escaped bad news either. According to Core Logic national residential property values fell 4.8% in 2018. Sydney (-8.9%) and Melbourne (-7.0%) saw the biggest falls. Perth and Darwin have been the big losers with drops of 15.6% and 24.5% since their respective peaks. Falling house prices always mean tougher times for retailers.

ANZ and AMP both predict that property will fall around 20% from its peak to the bottom which means that it still has a fair way to fall. This begs the question, is it better to rent than buy? This is a story for another day.

After last year, investors may be confused and looking for answers. We believe volatility will likely continue for a while yet, but no global recession is expected, and markets should bottom sometime in the first half of 2019. In the meantime, investors should continue with their diversified portfolios and not panic even when financial journalists peddle doom and gloom stories.

franking credits update

What is it with Bill Shorten and Labor wanting to pick a fight with retirees? They are presently saying they intend to eliminate the refund of excess franking credits which will mean a loss of income to many retired couples.

As the situation now stands, companies pay tax on profits and can then pay the after-tax income to shareholders as dividends. The shareholders then pay tax on the grossed-up dividend & claim back the franking credit (company tax paid). This eliminates the double taxation that used to occur before the current dividend imputation system was introduced by Treasurer Paul Keating in the 1980's.

In 2000, the then Prime Minister, John Howard softened the rules regarding dividend imputation so that excess franking credits were paid to shareholders as a cash refund.

Should Labor win the next federal election and introduce the above changes then retirees with limited capital could be worse off. There are many self-funded retirees in Australia whose only investments, apart from their superannuation, are small holdings of shares in Australian companies and they rely for income the dividends and the cash refund of franking credits.

Should this occur we will be seriously considering re-weighting certain portfolios to include more international investments at the expense of Australian investments.

Unfortunately, the changes will not stop with dividend imputation. A future Labor government is proposing changes to negative gearing on all new investments except housing and also how tax on capital gains of new investments is calculated.

ICA releases claims update for Townsville catastrophe

The catastrophic floods that swept across Townsville has resulted in **21,515 claims** as at February 24, with the **estimated insurance losses of $887 million**, according to the Insurance Council of Australia's latest figures. This represents 19,614 residential claims and 1,901 commercial claims.

To assist flood-impacted Townsville householders and business owners with their insurance claims, ICA will be hosting two forums, one on February 25 and the other on March 25.

The events will cover key aspects of the recovery process for policyholders, including claims management and rebuilding process, and will provide participants the opportunity to talk face to face with insurance company representatives and ICA disaster-recovery experts.

Registration is essential. To register, visit **www.disasters.org.au/fnq-forums** or call 1800 734 621.

standard definition for flood - home and contents policies

Home and Contents policies now include the insurance industry's standard definition of flood.

The current definition is the covering of normally dry land by water that has escaped or been released from normal confines, any lake, or any river, creek or other natural watercourse, whether or not altered or modified; or any reservoir, canal, or dam.

The damage caused by water released from a dam is covered, provided flood cover is included in a person's home insurance policy.

This standard definition of flood was introduced by the federal government in 2012, following the damaging 2010-11 Queensland floods.

Insurers were given two years to include this definition in their home and contents policies.

Flood cover must be selected on Business Insurance policies with each risk being individually assessed.

If you are unsure as to the status of your policies with regards to flood cover please contact your FINPAC Insurance advisor to discuss.

life insurance - how does it work?

Life is full of uncertainties that are beyond our control. However, with the right life insurance cover, you can be certain that your family will be alright should some grave circumstances (such as death, disability or illness) befall you or your family.

Types of Life Insurance

Life Cover is paid out to the beneficiaries listed on your policy when you die. They receive a set amount of money.

Total and Permanent Disability (TPD) Cover is often included in life cover. It pays out a lump sum figure, which will assist in covering living costs and rehabilitation costs, if you are faced with total and permanent disability.

Trauma Cover provides cover when you are diagnosed with certain illnesses and injuries, including those that cause major changes to your life.

Income Protection compensates you for income you may have lost because of your inability to work resulting from injury and sickness.

Even after arranging your cover, it is critical to constantly review your cover in light of your needs, especially in the case of life changes.

Level of Insurance - How Much Do I Need?

This is a critical question that is best answered by assessing what you can afford and what you may need to prioritise, which may sometimes result in reaching a compromise between your wants and affordability.

The following are important aspects to consider:

How much money would your family need to have if you were to die or if you became a person with a permanent or temporary disability? Consider how much money you may have available, for example in shares, superannuation and savings.

How much money would your dependents need if the worst-case scenario came to pass? Consider costs such as childcare, education and any debts.

Switching Life Insurance Cover

The decision to switch your cover should not be based solely on the difference in the premium. There are many factors to be considered:

Level of cover – will the level of cover that you will receive remain the same and will it cover your needs? For example, will your new insurer cover pre-existing conditions that your current insurer covers?

Waiting periods – will your new insurer apply certain waiting periods for different types of benefits?

It is always advisable to compare different policies based on the level of cover that each provides, what they exclude and their value. When switching insurers, it is important to maintain your existing cover whilst your new policy is being put in place so that you remain covered.

Stepped and Level Premiums – What Are They?

As you age, your likelihood to make a claim increases and so do insurance premiums.

In the case of life cover, total and permanent disability cover, or trauma cover, it is possible for you to choose either stepped or level premiums.

The difference between stepped and level premiums:

Stepped premiums - as you get older, your insurance premium may be cheaper in the beginning, but increases year by year. Before selecting this option, it is recommended that you assess whether you can afford the premiums or not. It is advised that you carefully consider what the premiums may be over the next 5 years, or for the duration that you intend to hold the premium.

Level premiums - age is not a major factor for level premiums. However, level premiums are generally known to be pricier than a stepped premium in the beginning and may increase over time due to changes to insurer's fees or adjustments to inflation.

Level premiums may be ideal for you if your goal is to control your costs over time. Despite being higher in the beginning, they end up being much cheaper than stepped premiums when you are older. Thus level premiums turn out to be cheaper if you are hoping to hold the insurance for a longer period of time.

Contact your FINPAC Insurance Advisor for more information or to discuss your existing policies.