informed investor

PINNACLE
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Economic update

Australia

- Australian interest rates were lowered by 0.25% to 0.75% in October but left unchanged in November. Most observers expect borrowing costs to be lowered further in the next few months.
- The latest reading of Australian consumer confidence fell unexpectedly sharply. This was a little surprising given generally buoyant labour market conditions and declining mortgage costs.
- There has also been further evidence of an improvement in the Australian housing market. The latest survey suggested prices added 1.4% in October; the third consecutive month where prices rose by more than 1%.

United States

- The Federal Funds rate was lowered for the third time in as many months, as US officials responded to deteriorating economic indicators. The 0.25% cut had been widely anticipated by investors.
- The latest US manufacturing data was dismal, missing all expectations and falling to a three-year low. The downturn has been blamed on the trade conflict with China.
- Worryingly, weakness in the manufacturing sector appears to be spreading to services sectors. The latest gauge suggested activity levels declined to a three-year low during September.
- All that said, the slowdown in the overall economy was less bad than feared. US GDP rose at an annual pace of 1.9% in the September quarter, above consensus expectations.
- September employment numbers were slightly below expectations, but data for the prior month were revised higher.
- This resulted in the official unemployment rate falling to 3.5%, the lowest level in more than 50 years.

Welcome

Welcome to our latest edition of the Informed Investor newsletter.

As always, should you have any questions or would like some further information, please get in touch and we'll be happy to help.

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- Following three consecutive months of modest increases, US inflation was unchanged in September. Importantly, inflation is below the Federal Reserve's target, suggesting policymakers have room to lower interest rates again, if required.

Europe

- Consumer confidence in Europe has deteriorated to its lowest level this year.
- The survey of economic expectations in Germany was less bad than had been anticipated, but still below zero (indicating expectations of economic contraction) for a sixth consecutive month.
- Germany's trade surplus fell sharply in August, primarily reflecting lower exports.
- In the UK, the Brexit process was delayed yet again. European leaders agreed to a further three-month delay in the UK's proposed withdrawal from the European Union, extending the deadline to 31 January 2020.
- Subsequently, Members of Parliament voted to hold a general election in the UK on 12 December, effectively placing the fate of Brexit in the hands of the British public.

New Zealand

- The value of exports was higher than expected in September, which supported New Zealand's trade balance. Imports were little changed from the prior month.
- Consumer confidence rebounded from very subdued levels – September's reading was the worst in more than four years.
- The RBNZ did not meet and interest rates were unchanged.

Asia

- Annual GDP growth in China remained at 6.4% in the March quarter, aided by the Government's pro-growth policies. These supported consumer demand, which helped offset the impact of ongoing tariff-related trade disruptions. Retail sales were 8.7% higher than in the corresponding period a year ago.
- In Japan, there was an uptick in inflation as food and transport costs stabilised. This is unlikely to be sufficient for the Bank of Japan to abandon its zero interest rate policy.

Australian dollar

The Australian dollar appreciated to a three-month high against the US dollar, reflecting optimism that a trade deal between the US and China might be close to being agreed.

The local currency added 2.1% against the US dollar, closing the month of October at 68.9 US cents. The 'Aussie' appreciated on other exchanges too, adding 1.4% against a trade-weighted basket of international currencies.

Commodities

Commodity prices were mostly higher during October, amid easing trade tensions between the US and China. Most industrial metals posted gains, including zinc (+8.1%), aluminium (+2.9%), copper (+2.5%) and lead (+2.2%).

Nickel (-6.2%) was a notable exception, falling amid policy uncertainty around Indonesia's proposed nickel ore export ban. Iron ore (-10.5%) fell sharply, primarily on an improving supply outlook. Brazilian mining giant Vale continued to bring production back online following severe supply disruptions earlier in the year.

Precious metals were mostly higher, including gold (+0.5%), silver (+3.1%) and platinum (+5.0%). Oil (Brent +2.8%) finished higher, as progress appeared to be made towards a resolution of the US/China trade war.

Australian equities

The Australian share market started October with its worst weekly return in nearly a year. Reinvigorated fears of a weakening global economy, disappointing manufacturing data and ongoing Brexit uncertainty weighed on the index. The market since recovered, as Australian shares followed global peers higher following some reasonably solid corporate earnings numbers in the US.

In the month as a whole, the S&P/ASX 100 Accumulation Index declined -0.4%. Small companies (-0.5%) once again underperformed their large cap peers, extending their underperformance to -2.9% in 2019 to date. The S&P/ASX Small Ordinaries Accumulation Index was dragged lower by the drastic decline in Southern Cross Media (-33.6%) following a quarterly update that showed revenues had slumped -8.5%.

Listed property

Global listed property was up modestly in October. The FTSE EPRA/NAREIT Developed Index returned 0.4% in AUD terms, performing in line with the broader global equity market.

The UK was the best performing property market (+5.0%) for the second consecutive month as the perceived likelihood of a 'no deal' Brexit continued to wane.

In Australia, AREITs returned 1.2% for the month, with the Diversified (+1.9%) and Industrial (+1.5%) sub-sectors leading the charge.

Global equities

Global equities maintained their upward momentum from September. Investors were heartened by the announcement of a "limited trade deal" between the US and China and a reasonably solid corporate earnings reporting season in the US. Together, these positive influences powered the S&P 500 Index in the US to new all-time highs.

The MSCI World Index jumped 1.9% in local currency terms in October, also to a new high, although Australian dollar strength reduced the equivalent returns to just 0.4% for Australian-based investors. The Japanese Nikkei jumped over 5.0% in local currency terms and was the strongest market for a second consecutive month. UK shares struggled with the ongoing Brexit shenanigans. Having been down as much as -4.4% in local currency terms, the FTSE recovered to be down just -1.9% by month-end as the probability of a 'hard Brexit' dissipated.

The improved trade outlook helped emerging markets to outperform developed markets for the first time since January. The MSCI Emerging Markets Index rose 2.0% in AUD terms, led by particularly strong returns from Russian stocks.

Global and Australian Fixed Interest

Government bond yields rose for a second consecutive month, resulting in negative returns from most fixed income markets. While economic data remained reasonably downbeat, hopes of a possible partial resolution to the US/China trade standoff saw yields edge higher. Bond market participants appear to be thinking that we have likely already seen most of the likely interest rate cuts worldwide and that further moves could be some time away.

In the US, 10-year Treasury yields closed the month just 3 bps higher, at 1.69%, but there were larger moves elsewhere.Yields rose 16 bps and 14 bps in Germany and the UK respectively, for example, and by 8 bps in Japan.

Ten-year Australian government bond yields closed October 12 bps higher, at 1.14%, despite the Reserve Bank of Australia's interest rate cut at the beginning of the month.

Global credit

Corporate bonds eked out modest gains in October, partly reflecting ongoing strong inflows into the asset class and a limited amount of new issuance. Overall, investors seemed comfortable with September quarter earnings reported by US firms. Manufacturing-related businesses continue to face headwinds. Encouragingly, however, demand among US consumers for goods and services appears to remain intact.

Source: Colonial First State

6 ways to stay well in retirement

A fulfilling retirement isn't just about money, it's about staying healthy, active and connected.

So much of preparing for retirement is about the dollars and cents:

- Working out whether a transition to retirement strategy works for you.
- Deciding which type of income stream is appropriate to deliver the right balance between income and capital gain.
- Making sure that you structure your finances to receive any government benefit that's due.

Hopefully if you get the numbers right it means you wake up on day one of your retirement fully prepared to meet the financial challenges. But enjoying a fulfilling retirement isn't just about money. It's also about facing up to new social, physical and emotional challenges.

If you don't think about cultivating a healthy body, healthy mind and healthy social network then all your good work may come to nothing.

Fortunately, there are plenty of ways to energise your daily life once you've left the workforce for good.

Get active!

Walking, jogging, swimming, cycling…whatever your preference it's great to get out there and shake off the cobwebs of a long career. If you haven't exercised for a while, start with a modest target and work your way up. And if you're already a MAMIL or gym bunny, set yourself a new target or event to train for.

Help others!

You've got a lifetime of experience so why not use your skills. If you were a project manager, admin guru or design whizz in your previous life, then by helping others you'll be helping yourself feel more connected.

Learn something new!

There's no better way to get the brain cells working than to learn a new task. Whether it's conversational Spanish, spinning a pot or kayaking in the bay, you'll be firing up the synapses and keeping your cognitive skills ticking over. And you'll be meeting like-minded new friends to keep you on your toes.

See the world!

The kids have flown the coop, the mortgage is paid off or substantially reduced and you suddenly have heaps of free time. So what are you waiting for? Now's your chance to head off on that trip of a lifetime.

It doesn't matter whether it involves cruising along the Rhine enjoying a cold glass of local Riesling as another majestic fairy tale castle comes into view or zigzagging up the east coast in your campervan on the grey nomad trail, you've now got the time to realise your travel dreams.

Go back to work!

Seems crazy? More work after a lifetime of work? Maybe…but take a moment to think it through. It can be difficult to adjust after making a clean break between the world of work and the world of retirement. One day you're surrounded by the support network of colleagues, valued for your expertise and experience, and the next you're sitting at home wondering what to do.

One answer is to keep your hand in at work. Whether it's a day or two a week as a consultant in your old profession or something completely new in a local business, it can be hugely satisfying to keep working on your terms, not to mention beneficial to your hip pocket.

Be spontaneous!

Don't plan everything to the final degree. Remember when you went on that road trip across Tassie back in the day? Every morning you'd get up and decide what you'd do. Go for a swim. Cast your line to catch something for the BBQ. Head off on a bushwalk. Or simply pack up your things and drive up the coast.

For a long time you've been at the beck and call of work hours, kids' activities, mortgage repayments. Everything's been super planned down to the finest detail. Now you're free, why not go free range and do something different, whether it's adopting a new pet or volunteering at the local op shop.

So whatever your retirement plan, it's a good idea to go beyond the spreadsheet and think more broadly about what makes up a comfortable retirement.

Source: AMP

Going solo in retirement

While divorce rates have fallen in Australia in recent years, there is one age group where it's becoming more common.

In the two decades to 2017, the divorce rate for men aged 55-59 more than doubled. For women in the same age group it has tripled. We explore the pros and cons for your lifestyle and finances and speak to Dianne Kemp about her experience of planning for retirement after divorce.

The financial impact of divorce

For women approaching retirement, divorce can potentially introduce greater financial insecurity into their lives. In a 2018 report from Monash University and Australian Super, 40 women were interviewed about their financial situation in retirement. 45% of interviewees had been divorced at least once, often with significant impact on their finances.

This was particularly the case for women who had taken on the lion's share of childcare and household tasks, with limited opportunities to work and save for retirement as a result. After a divorce they no longer have their partner's financial assets and income to rely on in their retirement years and little in the way of savings or assets of their own.

Retirement, then divorce

Not only can divorce be disruptive to lifestyle and finances in the lead up to retirement, it can also ambush the best laid plans for life after work.

"I'd been married for 35 years and our second child had just left to start university when we decided to relocate from Sydney to Noosa," says Dianne Kemp.

"After the move, my husband met somebody else. We tried to reconcile but eventually went our separate ways. I found myself single again at age 65, which meant a lot of unexpected decisions about my future and finances."

The pros and cons of independence

Although Dianne had made the move to Noosa expecting to continue life as part of couple, she was quick to adjust to her new situation.

"The minute I walked out and said it's done and dusted a huge relief came over me," says Dianne. "Being able to make choices and plans based on my own wishes was a really good outcome." But Dianne also needed to adjust to meeting her needs and enjoying life on just one income.

Living as a single person generally costs more than half what you'd spend as a couple. Many essential costs – rent, utilities, running a vehicle – are the same whether you're living alone or with someone else.

Making the most of a settlement

Having said this, Dianne is quick to acknowledge that she hasn't had to 'do it tough' with her finances as other women in her situation have.

"Fortunately I had a decent amount from the sale of our house in Noosa. But I knew that it wouldn't last unless I made smart choices. So I went to see a financial planner back in my home town in Wagga who had provided really sound advice to my parents."

"Together we decided that I would invest in a managed fund and the income from that, with a part Age Pension, would be enough to cover my rent and other living expenses."

Navigating changes and opportunities

Becoming single hasn't been the only important turning point in Dianne's life in the last decade. She's met a new partner, Ralph, who has relocated from New Zealand to make a new life with her in Queensland.

Sadly, she's also had to farewell her father who passed away recently. Both these changes have meant making new choices about her financial circumstances and living arrangements.

"Buying a home with Ralph was a big decision and soon afterwards, I was left some money by my father," says Dianne.

"Losing Dad was awful but it's given me an opportunity to invest in a property nearby so I continue to have an income. If something should happen to Ralph and I'm on my own again, it's somewhere I can move to as it's right on the golf course where I love to spend time."

Source: FPA Money & Life

Tips for boosting retirement savings and investments in a lower-for-longer world

Retirees now face a bold truth: investing in traditional safe haven assets do not provide the returns they once did. So, where to from here?

The first thing is to accept that today's returns are lower on retiree favourites, like cash and bonds.

Second, there are tools available to provide forecasts for what the market will return over a 10-year period. These forecasts have been relatively reliable through history and are useful for investors who, understandably, are looking at short-term volatility and thinking there is no hope in predicting long-term patterns.

What the future could look like

In our view, investors should expect lower returns on bonds over the next 10 years than the past 10 years, simply because the starting point of today's yields is extremely low.

Low bond yields have the potential to cause other riskier assets such as equities to trade at higher valuations and therefore also offer lower expected returns. Because of market conditions, annuities may also pay less.

The combined effect in our view is that the expected return on a simple 50/50 stocks and bonds portfolio is likely to be less than 5% p.a. over the next 10 years. The only compensation accompanying these lower returns is that this environment is likely to produce lower levels of inflation.

This is the lowest forecast return for this type of portfolio in history, matched only by those made in the run-up to the global financial crisis. In that instance,

high equity valuations were driving down expected returns. This time, it's low bond yields.

This is a very importance difference; if you were aware in 2007 that equities were the source of deterioration in your expected return, you could de-risk your portfolio into cash and bonds and still expect a reasonable result. However, in 2019, there is nowhere to hide.

To avoid the risk of holding a poorly performing asset, like cash and bonds, one option is to look beyond these conservative asset classes and take on higher levels of risk with more volatile assets. At a time when investors can least afford shocks to the downside, this is a conundrum with no simple answer.

Retirement savings, then and now

For retirees whose focus is to preserve and prolong their stockpile, all this begs the question: how large a reduction in retirement income should one expect?

The bottom line is: retirement savings won't last nearly as long as they have in the past. Based on the average market return from 1969 to today, a retiree could have expected to receive a comfortable retirement income for 18.5 years. For retirees in 2019, that drops down to just 13.5 years.

There is no doubt that the investment environment moving forward is going to be significantly more challenging than it has in the recent past, with today's retiree facing the prospect of some of the lowest returns in living memory.

What retirees can do?

Still, far from waving the white flag, in our view there are some things investors can do to improve their prospects.

With traditional strategies returning less in today's environment, retirees will now more than ever reap the benefit of a good adviser. Three investment strategies which could help manage the situation are:

1. Retirees can seek higher returns from active management. By finding managers who can outperform the market, retirees can give their returns a boost that may go some way to offsetting the impact of lower market returns.
2. Retirees can also employ a dynamic asset allocation approach in their diversified portfolio. Dynamic asset allocation seeks to navigate the market cycle and gain exposure to asset classes that are delivering the most attractive returns. By dynamically managing their exposure to different asset classes through the cycle, retirees may be able to secure more attractive returns and better manage risk compared to a traditional 'buy and hold' strategy.
3. Retirees could consider increasing their exposure to alternative sources of return that aren't linked to bond and equity markets and aren't likely to suffer as badly from the low-return environment.

Additionally, retirees will benefit from an effectively constructed portfolio that minimises waste, such as transaction costs, and maximises structural advantages, such as access to franking credits.

Unfortunately, there is no magic tonic for the situation and retirees should be wary of anyone claiming to have one.

Source: AMP Capital

What assets can you have before losing your pension

There are many benefits to receiving a pension or even a part pension, but there are limits to what level of income or assets you can have to be eligible.

Regarding assets, the key limits as at 1 July 2019 are as follows. To receive a full pension, assets (excluding the value of the primary residence) must be less than:

	Homeowner	Non-homeowner
Single	$263,250	$473,750
Couple	$394,500	$605,000

Indexed every 1 July.

To receive at least a part of a pension, assets must be less than:

	Homeowner	Non-homeowner
Single	$574,500	$785,000
Couple	$863,500	$1,070,500
Couple - separated by illness	$1,017,000	$1,222,500

Indexed every 20 March, 1 July and 20 September. Recipients of Rent Assistance will have higher thresholds.

There are a number of strategies that can be used to reduce asset levels, which can result in qualifying for a

part pension or increasing the current pension amount received.

However, before reducing your assets it is important to bear in mind whether your remaining savings can support any shortfalls in retirement income needs, as any increased pension amount may still be inadequate. Personal circumstances can also change and increase the reliance on your reduced savings.

For example, future health issues may require a move into aged care, which can bring increased expenses. With that in mind, here are six assessable asset reduction strategies:

1. Gift within limits, or more than 5 years before qualifying age

If there is a desire to provide financial assistance to family or friends, gifting can reduce your assessable assets. The allowable amounts a single person or a couple combined may gift is $10,000 in a financial year or $30,000 over a rolling five financial year period. Any excess amounts will continue to count under the asset test (and deemed under the income test) for five financial years.

If you are more than five financial years away from reaching your age pension age or from receiving any other Centrelink payment, you can gift any amount without affecting the eventual assessment once you reach Aged Pension age.

2. Homeowners can renovate

Your home is an exempt asset and any expenses paid to repair or improve it will form part of its value and will also be exempt from assets testing.

3. Repay debt secured against exempt assets

Debts secured against exempt assets do not reduce your total assessable assets. An example is a mortgage against the family home. However, using assessable assets to repay these debts can reduce asset levels. Crucially, you must make actual repayments; depositing or retaining cash in an offset account will not achieve this outcome.

4. Funeral bonds within limits or prepay funeral expenses

If you wish to set aside funds or pay for your funeral costs now, there are a couple of ways to do this and reduce your assessable assets. A person can invest up to $13,250 (as at 1 July 2019) in a funeral bond and this amount is exempt from testing. Members of a couple can have their own individual bond up to the same limit each. By contrast if a couple invests jointly, this must not exceed $13,250, not double the limit.

In comparison, there is no limit to the amount paid for prepaid funeral expenses. For the expenses to qualify there must be a contract setting out the services paid for, state that it is fully paid, and must not be refundable. Importantly, both methods of paying for funeral costs are designed purely for this purpose preventing assets being accessed for any other reason.

5. Contribute to younger spouse's super and hold in accumulation phase

If you have a younger spouse who has not yet reached their age pension age and is eligible to contribute to super, contributing an amount into their account may reduce your assessable assets. The elder spouse can even withdraw from their own superannuation, generally as a tax-free lump sum, to fund the contribution.

Investments held in the accumulation phase of superannuation are not counted towards their assessable assets if the account holder is below the pension age. Before using this strategy any additional costs incurred should first be considered.

Holding multiple superannuation accounts may duplicate fees. Shifting funds into an accumulation account may increase the tax on the earnings on these investments to 15%. Alternatively, earnings on the funds are tax-free if invested in an account-based pension or potentially even personally.

Additionally, contributing to a younger spouse who is under age pension age who is still working will 'preserve' the funds. They should also ensure they do not exceed their contribution caps.

6. Purchase a lifetime income stream

Lifetime income streams such as an annuity purchased after 1 July 2019 may be favourably assessed, according to the Social Services and Other Legislation Amendment (Supporting Retirement Incomes) Bill 2018. Where eligible, only 60% of the purchase price is assessed. This drops to 30% once you reach the later of, age 84 (based on current life expectancy factors) or five years. To receive concessional treatment, the lifetime annuity must satisfy a 'capital access schedule' which limits the amount that can be commuted voluntarily or on death.

Conclusion

Reducing your assessable assets within the relevant assets test threshold can provide many benefits such as increasing your existing pension or allowing you to qualify for a part pension if you were above the upper threshold. While it is tempting to intentionally reduce your asset levels to gain these benefits, it is important to remember the payment rate is determined by

applying both an income and assets test.

The one that results in a lower entitlement determines the amount payable. If the income test is the harsher test, reducing your assessable assets may provide no benefit.

If the assets test is harsher, you should not lose sight of the fact that any reduction in your assets means there are fewer assets for you to call upon if required.

Source: BT

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