**winter**edition 2019

# **financially**speaking

Brought to you by your Financial Planner, MTJ Wealth Management Pty Ltd an Authorised Representative of Lonsdale Financial Group Limited

## Economic outlook

Overall, we are likely to see a slowdown in growth for both the Australian and global economies over the next year. The recent Federal election will have a major influence on the economy as will government spending in the future.

In Australia, new lending standards will continue to affect lending levels which, in turn, will influence property prices and the overall economy.

### The global economy

The global economy is predicted to be slow this year. Europe and Japan are both at risk of being in a recession. However, the outlook for the US remains positive as its economy performed relatively well during 2018 and still appears to be the most robust developed economy so far this year.

Globally, interest rates are on hold as a slowdown in growth alleviates any pressure to raise rates. However, central banks may try a mix of rate cuts and unconventional policy measures in a bid to stimulate growth.

### In this issue




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## The Australian economy

The Australian economy is likely to slow throughout 2019, continuing the weak economic growth experienced in the second half of 2018. This is due to weaker consumer and business sentiment influenced by a mix of weaker global growth and the decline in house prices

However, population growth which, in turn, grows the economy, interest rate cuts and government stimulus could help offset this.

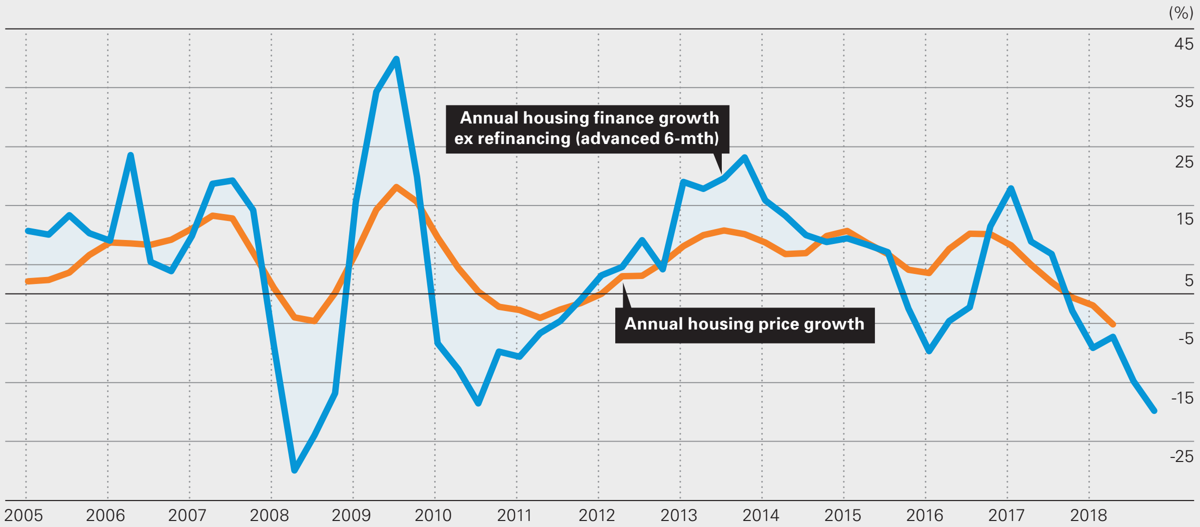
## Property market

The property price correction is likely to continue until the end of 2019, perhaps beyond.

Borrowers are finding it harder to meet lending standards and this has seen lower levels of investor lending especially in the key markets of Sydney and Melbourne.

As illustrated in the graph below, **credit growth** (in blue) has generally been a predictor of future **house price growth** (in red). Current (weak) lending points to falling house prices in the short term.

**Figure 1: Annual housing price growth versus housing finance growth, Sep 05 to Dec 18**




Source: ABS, IOOF

## Unemployment

The labour market tends to lag behind other parts of the economy and therefore it is anticipated that unemployment will increase owing to the lower economic growth outlook for Australia.

## Interest rates

The Reserve Bank of Australia (RBA) will probably make at least one interest rate cut by the end of 2019 as the weaker economy and inflation outlook prompts a response from the RBA. Inflation continues to track below its 2% minimum target.

# The financial power of women

With financial inequality continuing to be an issue for many Australian women, Fidelity recently conducted a study which reveals the barriers that exist for women when it comes to investing.

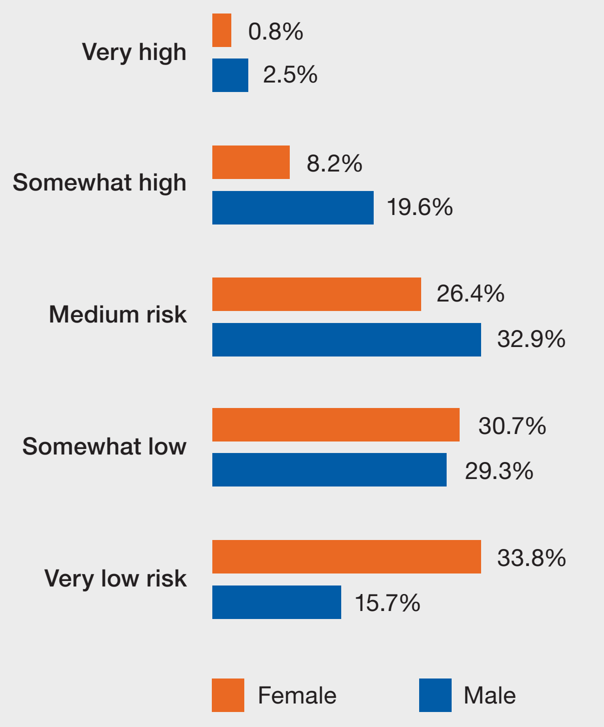
The research reveals that while women invest less than men and they are more worried about their financial future. In fact, 42% of women worry about this on a daily or weekly basis, and more than half don't think or don't know if they are on track to achieve their financial goals.

A major hurdle women face when it comes to securing their retirement is that many do not invest in the stock market. As a group, women are more risk averse, prefer the perceived safety of cash and feel that the investment industry is not tailored to them.

Why does this matter? Despite recent progress, women are still earning less, they take career breaks and there are fewer of them in senior positions which has resulted in a superannuation gap.

Given that their ability to earn and then save during their working lives is much less than their male counterparts, it is more important than ever that they have access to the tools to make their money work hard for them. A lack of time and confidence, and fears about the risks are obstacles that are stopping women from believing that investing is for them.

### What is your appetite for financial risk




## Top barriers for women when it comes to investing

### Feeling they do not have enough money

- Half of women (50.5%) said that they didn't have any spare money to invest (compared to 35.2% of men)
- Perhaps this is because almost half (46.3%) believe they need a lot of money to invest in the stock market

### A high aversion to risk

- Almost half of women (46.2%) say minimising risk is their priority when it comes to investing, compared to just over a quarter of men (26.8%)
- More than double the number of women than men (33.8% vs 15.7%) describe their appetite for financial risk as 'very low risk'

### Confidence in their financial knowledge

- Less than a third of women (28.3%) describe themselves as 'very' or somewhat' confident when it comes to investing, compared to 50.8% of men
- 58.8% of women say they have the right level of information or knowledge about investments, compared to 73.5% of men

### Feeling that investing just isn't for them

- When asked about how they would describe investment communications, 52.6% of women say 'complicated', 25% say 'intimidating' and 20.8% say 'tailored to men'
- Half (49.4%) felt that they would be better putting their money into a typical savings account than investing it elsewhere

One of the most interesting findings was the way that women engage with their money. The research found that women tend to focus more on goals rather than financial gain for instance having enough money to provide for their families, paying off their mortgage and having enough money for the lifestyle they want in retirement all ranked as top priorities. As an industry, if we can find a way to better engage with women, we can in turn help them to unlock their financial power. That's a change that will not just benefit women, but society and the economy as a whole.

Source: Fidelity

# Tax tips and tax return hints

## Tax offsets and deductions

You may be entitled to the following tax offsets (rebates) and deductions for the year ended 30 June 2019.

### Private health insurance offset

Depending on your income and age, you may be eligible for a tax offset of up to 33.4% on your health insurance.

If you haven't claimed a reduced premium from your health fund, then you can claim an offset in your tax return.

### Spouse super contribution offset

If you made personal superannuation contributions on behalf of a spouse, there is a tax offset of up to $540 per year. This is available for spouse contributions of up to $3,000 per year, where your spouse earns less than $37,000 per year, and a partial tax offset for spousal income up to $40,000 per year.

### Net medical expenses tax offset

You may be eligible for this tax offset until 30 June 2019, if you have out-of-pocket medical expenses relating to disability aids, attendant care or aged care.

### Senior Australians pensioner tax offset

If you are eligible for the senior Australians pensioner tax offset (SAPTO) you are able to earn more income before you have to pay tax and the Medicare levy. In the 2018/19 financial year, you will pay no tax on an annual income less than:

- singles – $32,915
- couples (each) – $29,609.

## Super tax hints

Superannuation is a very tax-effective vehicle to save for retirement. Following are some tips to help you maximise your super.

### Contribution limits

For the 2018/19 financial year the maximum non-concessional (or after-tax) super contributions are capped at $100,000 per person per year or up to $300,000 over three years using the bring-forward provisions. The ability to make non-concessional contributions and take advantage of the three year bring-forward provision is subject to your total super balance at 30 June the previous financial year, your age and whether you have satisfied the work test (if between ages 65–74).

Concessional contributions, or those made with pre-tax money, are limited to $25,000 per person per year. Please note voluntary concessional contributions such as salary sacrifice or personal deductible contributions are subject to age restrictions and the 'work test' (if between ages 65–74).

### Salary sacrifice

A salary sacrifice strategy allows you to make contributions to super from your pre-tax salary. Your salary is then reduced by the amount you choose to sacrifice. The benefits of this are two-fold: not only does your super balance increase, but this strategy could also reduce your taxable income and therefore the amount of tax you pay. Also, super contributions are concessionally taxed at just 15% (up to 30% for individuals with income over $250,000) instead of your marginal tax rate, which could be as high as 47%.

### Personal deductible contributions

From 1 July 2017, if you are eligible to contribute to super, you may make voluntary personal contributions and claim a tax deduction up to your concessional contribution cap.

This gives you greater flexibility to top up your concessional contributions made by your employer, especially if your employer does not offer salary sacrifice. For instance, you can time your final contributions leading up to 30 June each year and make the most of your concessional contribution limits and the resulting tax benefits.

### Super co-contributions

If you receive at least 10% of your income from employment or self-employment and you earn less than $37,697, you may be eligible for the maximum super co-contribution of $500 from the Government for an after-tax contribution to super of $1,000. The co-contribution phases out once you earn $52,697 or more.

The ATO uses information on your income tax return and contribution information from your super fund to determine your eligibility.

### Super splitting

If you want to split your super contributions with your spouse, don't forget this usually can only be done in the year after the contributions were made. Therefore, from 1 July 2019, you may be able to split up to 85% of any concessional (or pre-tax) contributions you made during the 2018/19 financial year with your spouse.

Apart from making the most of your super, there are other ways you can minimise your tax liability.

### Capital gains and losses

A capital gain arising from the sale of an investment property or shares and capital losses can be used to offset the capital gains. For example, you may have sold investments that were no longer appropriate for your circumstances and any capital losses realised as a result can be offset against any capital gains you have realised throughout the year. Unused losses can be carried forward to offset capital gains in future years.

Specialist advice should be sought before making changes to your investments.

### Prepaying interest

If you have an investment loan you can arrange to prepay the interest on that loan up to 12 months and claim a tax deduction in the same year the interest was prepaid.

### Negative gearing

Negative gearing is another strategy used to manage tax liabilities. Geared investments use borrowed funds to enable a higher level of investment than would otherwise be possible. Negative gearing refers to the cost of borrowing exceeding the income generated by the investment. This excess cost can reduce the tax you pay on other income. If you invest in shares, you may obtain imputation credits which can be used to further reduce the amount of tax you pay.

### Income protection insurance

If you hold an income protection policy in your name, then any premium payments you make are tax deductible.

### Resident tax rates for 2018/19

Note: Medicare levy of 2% will also apply where applicable.

| Individual tax rates for the year-ended 30 June 2019 | |
|---|---|
| Up to $18,200 | Nil |
| $18,201 to $37,000 | 19% of the portion over $18,200 |
| $37,001 to $90,000 | $3,572 + 32.5% of the portion over $37,000 |
| $90,001 to $180,000 | $20,797 + 37% of the portion over $90,000 |
| Over $180,000 | $54,097 + 45% of the portion over $180,000 |

Source: IOOF

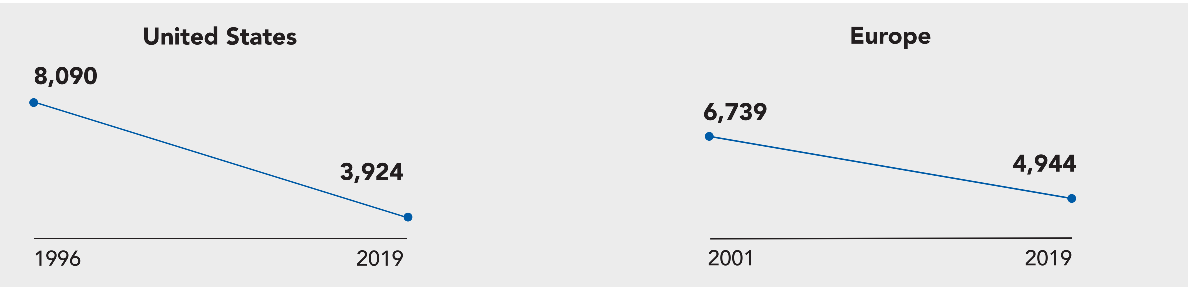
# The private equity opportunity: public companies are only the tip of the iceberg

Private equity typically involves taking an ownership interest in a private business or asset. It includes a broad range of longer-term and company specific exposures which, because they are not listed on a public market, tend to exhibit somewhat lower correlation to traditional stock and bond markets. Private equity managers seek to generate superior returns through taking an active role in monitoring and advising companies through restructuring, refocusing and revitalising tactics in order to sell the investment at a profit.

There are significantly more private companies than public companies, and the number of listed companies has been steadily decreasing. Since 1996 the number of US listed companies has fallen 50%.

### Private markets are significantly larger than public markets


### The number of listed companies has been steadily decreasing

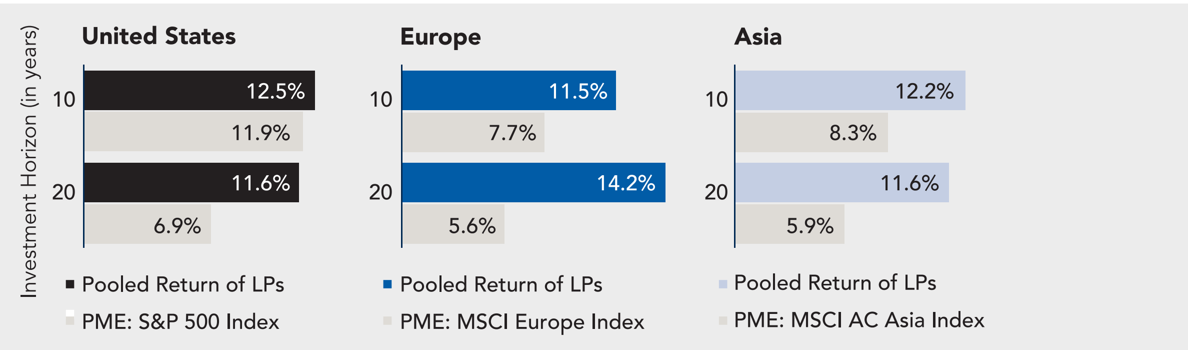



Source: S&P Capital IQ

Global allocations by investors to private equity have been steadily growing since 2000, increasing almost 6 times.

One of the key reasons for this is that performance has outperformed public equity across long term time horizons as well as geographic regions. The below compares private equity investments against hypothetical funds that buy and sell shares of the relevant equity index at the same time the private equity vehicles call and distribute cash.

### Annualised Performance (IRR) of Private Equity versus Public Equity across Time Horizons and Geographic Regions




Source: GCM, using data from Burgiss Group and MSCI

There are a number of factors that have historically contributed to this strong performance. The most significant are the lack of short-term public pressure allowing for a long-term investment orientation, the historical resilience of performance across various market environments, and the illiquidity premium – investors prefer liquid investments and therefore demand an increased return on less liquid alternatives.

The unlisted and hands on nature of private equity investments suggest different risk considerations compared to public equity markets. Some risks are of course the same – economic, market, currency, political – but others differ.

Unlisted private equity investments are typically illiquid. Private equity funds may hold securities or other assets in companies that are thinly traded or for which no market exists. Distributions tend to be irregular and depend on the sale of an underlying investment.

Third party pricing information is also not available for a large proportion of private equity assets. Valuations may therefore require discretionary determinations and in certain circumstances investors may have to rely on valuations from the underlying managers themselves.

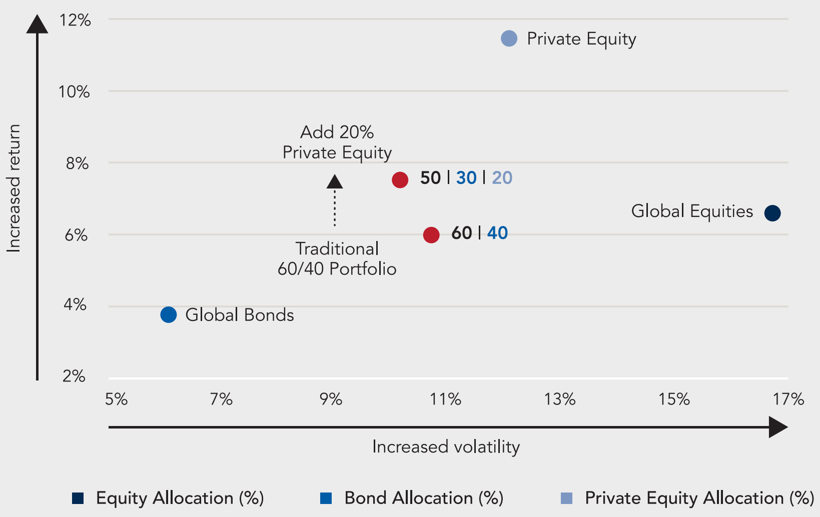
## Due diligence and monitoring

The companies invested in may involve a high degree of business and financial risk. They may be in the early stage of development, may be rapidly changing, may require additional capital to support their operations, or may be in a weak financial condition. While these are also opportunities, they clearly represent risks that need to be controlled by private equity managers.

There is also generally less information available about private companies than their listed peers. This means that investors with higher quality information are often able to make better investment decisions, and is one of the reasons performance dispersion in private equity tends to be greater than in the public markets. Extensive due diligence and careful monitoring are essential safeguards when constructing private equity portfolios.

Historically, one of the key benefits of private equity has been its somewhat lower correlation to other traditional assets and the diversification benefits this has provided at a portfolio level. The chart below shows that adding a 20% allocation of private equity to a traditional 60/40 equities/bond portfolio generated higher returns with lower risk (as measured by volatility) over the last 20 years.

### Risk vs Return




Annualised return (%) (the vertical axis) versus annualised standard deviation (%) (the horizontal axis), 20 years ending 30 September 2018. Annualised Standard Deviation is a measure of risk of investing in the portfolio of assets

Source: GCM using data from Burgiss Group

To an extent, the diversification may be derived from the resilience of private equity's historical performance across various investment environments and, in particular, periods of economic stress such as 2008's GFC.

Private equity has been a difficult asset class to access for individual investors. However, there are now a handful of unlisted and listed funds and trusts in Australia that overcome many of the hurdles that have prevented investment in the past.

Source: Pengana

Listed and unlisted vehicles have their own pros and cons, but the key one relating to private equity is liquidity. Unlisted funds may offer daily or monthly liquidity, however, given the illiquid nature of the underlying investments, they have the ability to restrict or freeze redemptions. Listed vehicles provide liquidity for investors who can buy and sell on market as long as an active market exists.

The private equity universe is vast, differentiated by types of companies, investment strategies, and implementation options. Private investment vehicles differ markedly across these variables and, as with listed equity vehicles, it makes good sense to have more than one in your portfolio.

# Will you be comfortable with comfortable

It could be fair to say that many Australians aspire to at least a "comfortable" retirement. Do you know what annual income would provide "comfort" by your standards? Do you know how much that means you'll need in retirement?

To enjoy a "comfortable" retirement, singles at retirement (aged 65) will need $545,000 in savings, to generate a yearly income of $43,317. Similarly, couples at retirement will need $640,000 to generate $60,977 a year. The figures in both cases assume that the retiree(s) own their own home, and do not pay rent or make mortgage payments. That's according to the ASFA Retirement Standard for the December quarter 2018.

## If the retirement lump sum doesn't work for you

BT's Technical & Strategy Specialist Tim Howard acknowledges that ASFA's lump sum figure is a great start, but ultimately, it's about the individual and the lifestyle they want to lead.

It's about defining the kind of lifestyle you'll want and what kind of income that might require annually, combined with your expectation for how many years you'll live. That can then be converted to a dollar amount.

## Reap the benefits of compound interest

Start contributing when you're young and you could reap the rewards of compound interest.

"Compound interest is one of the simplest and greatest financial concepts to understand, and I strongly suggest you adopt it in your financial life," says Tim. "By spending less than you earn and saving the rest, you allow the interest on the amount you save to earn interest on interest over time, year after year"

In theory, it should be easier to put extra money into super when you're young. You're likely to have fewer financial commitments (eg mortgages and children) and are less likely to have to leave the workforce to look after children.

## Already 50 and not feeling "comfortable"? It's never too late to get started

If you're older and not where you want to be in the quest for a comfortable retirement, it's not too late. Tim suggests four steps to take action:

- Get yourself well educated around your choices and potential strategies.
- Use a Retirement Income Calculator to see the potential impact that additional contributions could have on your super balance over time. A transition-to-retirement strategy for instance could also potentially enable you to put additional money into the tax-effective environment of superannuation.
- Look at your current lifestyle and see if there are any trade-offs you could make that allow some of today's disposable income to be placed towards tomorrow's savings.
- Depending on what you can afford, personal advice from a financial adviser can benefit individuals.
- Think about your retirement not as just what you've got in your superannuation, but the value of all your assets which can help fund your lifestyle in retirement.

## Time to get moving

Overall, Tim believes that Australians aren't thinking all that hard about what is required to finance their retirement. He believes, what would be useful, is spending more time considering the way they want to lead their later years.

"While this might sound challenging at first, by having a plan and breaking things down into simple, achievable steps, targeting a comfortable retirement may not be as far off as you think" says Tim.

Source: BT

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