MONEYNEWS

The newsletter of Moneywise Personal Financial Management Pty Ltd

Issue 2 2015

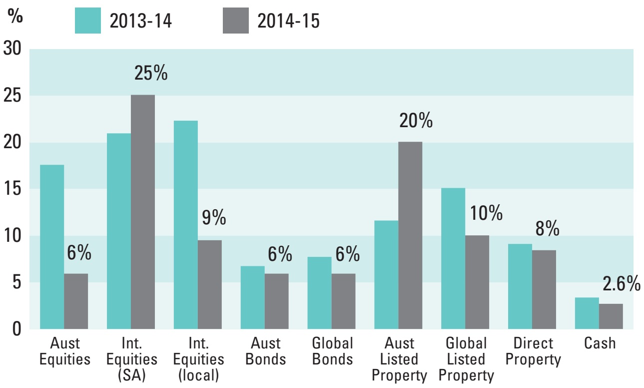
Market Review and Outlook 2015

The end of the 2015 financial year saw a third year of solid returns for diversified investors. Even though returns were a little subdued compared to the previous two years, most asset classes with the exception of cash continued to provide reasonable returns. However, the month of June was marked by a fall in share prices across the world as turmoil in Greece, and China's stalling growth rate, provided an uncertain outlook for investors. We expect in the year ahead for returns to slow, although they will still be reasonable as low interest rates and global economic growth will continue to support share market valuations.

We have emphasised regularly the importance of a well-diversified portfolio across asset classes and individual investments. Further, having the discipline to persevere with particular asset classes when they are not performing to expectations is also an important part of a well thought out investment strategy. Recently, we have seen strong performance for the last two consecutive years of international equities, after many poor years prior.

Below is the breakdown of asset class returns for 2013/14 and 2014/15. The Australian equities returns (ASX Accumulation index) have clearly stalled compared to international equities (MSCI Index unhedged) which achieved high double digit returns. Cash as an asset class provided capital protection; however, the very low interest rates in Australia meant that investors received a very meagre return.

2014-15 Major Asset Class Returns



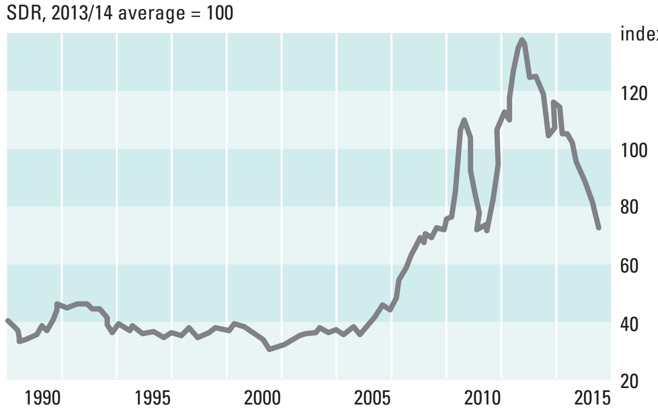
Sources: Bloomberg; MSCI; RBA; Tomson Reuters

If we look more closely at the Australian sharemarket performance, it really continued the trend of the previous six months of declining commodity prices and how they in turn translated into the poor performance of some leading resource companies such as BHP, Woodside and RIO. As these companies constitute a large part of the ASX 200, a large exposure can lead to below par performance compared to a more diversified portfolio.

As the Australian economy relied too heavily on the mining boom to prop up the rest of the economy, we see that the end of the boom is well and truly behind us and this will have implications for the wider economy.

RBA Index of Commodity Prices

SDR, 2013/14 average = 100



Source: RBA

One would say that if we go back to the 1990's and first part of the year 2000, there is potential for the prices we receive for our commodities like iron ore, coal, cooper and gold to fall further. The RBA index of Commodity prices shows the peak in 2010/11 and it has been a downward trend since. The implications of lower commodity prices translate to less spending on mining investment and the associated slow down effects on the rest of the economy.

The major positives for the Australian economy is that the $AUD has now started to fall, and we should see further falls throughout 2015 into 2016. This will help exporters, but also local service industries such as tourism and education. The fall in the $AUD will also make it more attractive for foreign buyers of property and other local assets. We may even see more mergers and acquisitions of Australian companies such as Japan Post acquiring Toll Holdings.

Some of the themes in international markets centre on the world's largest economy, the US. The steady growth of the US economy over the last 3 years has been the signal for the US Federal Reserve to ease its Quantitative Easing and start the process of raising interest rates. The concern is how quickly they will raise rates, and how far they will increase in the next 12 months. This is in the context that US shares are at all time highs and that any steep rate rises are generally a negative for further gains in shares.

Most economic observers foresee the Federal Reserve increasing rates between September and December 2015. If it is a slow and well communicated rate raise by the Federal Reserve, along with steady

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improvement in company profits, then it will generally be positive for investment markets.

The other hot spots were Europe with the Greek debt crisis and, in our region, we saw a recent sell off in the Chinese sharemarket. The Greek crisis was precipitated by the Greek government initially reneging on a repayment proposal by the European Economic Community (EEC) to repay outstanding loans. Even though the Greek economy only accounts for 2 % of the economic output of the region, the concern was that the crisis could spread to other countries with similar debt problems.

If the Greek government reneged on the debt repayment proposal there was the possibility of expulsion from the EEC and danger that it may set a precedent for other member states of the EEC. The implication being that the EEC could break up and cause further uncertainty in the region. In the end, an agreement was reached which didn't fully resolve the real issue of whether Greece could repay the debt, but deferred the matter into the future. Some would say "kicking the can down the road".

Closer to our region, the Chinese economy has been slowing down and the Shanghai sharemarket has become very volatile with recent steep falls in share prices after doubling in value in last 12 months. The initial rapid rises in the share prices were driven by retail investors using leverage (borrowed funds) to buy shares with 'over-hyped' valuations. The Chinese government was keen to avoid panic selling but largely exacerbated the sell off. As Kerr Neilson from Platinum Asset Management commented, "Several measures have been rolled out in quick succession including the suspension of IPOs, easier margin regulations and direct market intervention. By providing support to parts of the market, the Government may have unwittingly encouraged investors to liquidate while there is a propping buyer".

On the positive side there is growing evidence that the economy is moving away from the more volatile movement in investment and export markets, to a reliance on consumption spending. The service sector is growing at a greater rate than manufacturing and construction which results in further job creation.

Our view for the remainder of 2015 is a continuation of positive returns albeit in single digits for well diversified portfolios. Share markets in Australia and our major trading partners are close to their historical averages which suggest we will not see rapid movements upwards, and good paying dividends will continue to play an important role in sustaining reasonable returns. As always, there is the threat of volatile movements which we will look to take advantage of when these opportunities arise.

Centrelink Assets Test Changes and how they may affect you

In the 2015 May Budget, the Federal Government announced changes to the Age Pension assets test. The proposed changes are intended to reduce access to the Age Pension for wealthy seniors and protect pensioners with lower asset levels.

This means that more than 300,000 Age Pensioners will have their Age Pension cut, and around 100,000 of those affected people will lose all entitlements from 1 January 2017.

It should be noted that the Government at present has maintained its commitment to continue to exclude the family home from the assets test.

The table below provides the current assets test and the new assets test that will apply from 1 January 2017.

Current Assets Test

Assets Test	Homeowner		Non Homeowner	
	To receive a full Pension	Pension cut-out	To receive a full Pension	Pension cut-out
Single	$205,500	$779,000	$354,500	$922,000
Couple	$291,500	$1,156,500	$440,500	$1,305,500

Assets Test as at 1 January 2017

Assets Test	Homeowner		Non Homeowner	
	To receive a full Pension	Pension cut-out	To receive a full Pension	Pension cut-out
Single	$250,000	$547,000	$450,000	$747,000
Couple	$375,000	$823,500	$575,000	$1,023,000

Currently the Age Pension is reduced by $1.50 per fortnight for every $1,000 of assets that you have over the full pension threshold (single or couple combined).

From 1 January 2017, the pension will reduce by $3.00 per fortnight for every $1,000 of assets that you have over the full pension threshold (single or couple combined).

Current Age Pension amounts

The full or maximum rates of Age Pension as at 1 July 2015 are:

Single	$860.20 per fortnight
Couples (each)	$648.40 per fortnight

To provide you with an idea on how these changes are potentially going to affect people, we have provided two varying scenarios.

Scenario 1

John and Sue are both retired and own their own home. They have their own Self Managed Superannuation Fund with total assets of $580,000, plus $40,000 in various bank accounts. They have non-financial assets of $35,000 (car, contents and caravan).

Under the current Centrelink assets test rules, they have assets of $655,000.

They both currently receive a part Age pension entitlement of $751.55 per fortnight (combined) or $375.78 (each).

Assets Test from 1 January 2017

- $280,000 of their assets are now above the lower asset limit of $375,000. However the assets test now has the increased taper rate which means that their pension is reduced by $3.00 per fortnight for every $1,000 of assets over the limit.
- Total fortnightly Age Pension entitlement becomes $456.80 (combined) or $228.40 (each).

From 1 January 2017, John and Sue will be entitled to receive the Age Pension reduced by $294.76 per fortnight (Combined) - representing $7,663.76 decrease over a full year.

Scenario 2

Anne is 85 and widowed. She lives in a rented property. She has her own Self Managed Superannuation Fund with total assets of $400,000, and a savings account holding $15,000. She has non-financial assets of $15,000 (car and contents).

Under the current Centrelink assets test rules, she has assets of $430,000.

She currently receives a part Age Pension entitlement of $746.95 per fortnight.

Assets Test from 1 January 2017

- Her assets are now below the lower asset limit of $450,000.
- Total fortnightly Age Pension entitlement becomes $860.20.

From 1 January 2017, Anne will be entitled to an increase in Age Pension of $113.25 per fortnight – representing a $1,359 increase over a full year.

Note: All calculations include pension supplement and clean energy supplement.

Is there anything I can do to reduce the impact of these changes prior to 1 January 2017?

A couple of options that can be used to reduce your assets are:

- Establish a Funeral Bond (as at 1 July 2015, $12,250 is exempt from the assets test)
- Gift Assets – Gifting rules apply
- Do any required renovations on your existing principal residence (principal residence does not count as an asset in the Centrelink assets test)
- Spend some money – e.g. a holiday

The good news?

Some consolation for those people who lose their Age Pension entitlement is that the act proposes to automatically issue them with the Commonwealth Seniors Health Card ("CSHC").

Generally, if you are of Age Pension age, but do not qualify for the Age Pension, you can be eligible for this card which helps senior Australians with the cost of prescription medicines and other health services.

To qualify you must have an annual adjusted taxable income of less than:

	Single	Couple (both eligible)	Couple (one eligible partner)	Couple (separated due to ill health)
Maximum Annual Adjusted Taxable Income	$51,500 p.a.	$82,400 p.a.	$82,400 p.a.	$103,000 p.a.

However, for those who lose access to a part Age Pension, the standard income test for concession cards will not apply.

Should you wish to see how you personally may be affected by the changes or wish to discuss this further please contact your Financial Adviser at Moneywise Personal Financial Management.

Business Expenses Insurance, *Smart Options for Self Employed Professionals*

Most of us look at covering our income if we are injured or ill when in a small business venture. However, expenses are still incurred even when we are absent or unable to work in the business. These expenses may be substantial and if you have insufficient cash resources it may threaten the ongoing viability of the business.

There is a solution called business expenses insurance which is similar to income protection insurance, but it's designed specifically for business owners.

As the name suggests, business expenses insurance pays a monthly benefit – generally for a maximum of 12 months – to cover up to a maximum of 100% of fixed business expenses if you (as a business owner) suffer an illness or injury and are unable to work.

You can generally choose a waiting period between 14 and 90 days, after which the insurance benefit becomes payable. A shorter waiting period usually means a higher premium.

Business expenses insurance is different from business interruption insurance, which is not related to your health or ability to work. Instead, business interruption insurance pays you a monthly amount to cover business expenses if an external trigger event occurs such as fire, theft, property damage or water damage.

How much is enough?

The right amount of business expenses insurance depends on a range of factors. For example, to what extent your absence as a/the business owner would affect your ability to meet ongoing business expenses? And what are your specific ongoing expenses?

Examples of fixed expenses (non income producing) generally include:

- Rent
- Principal and interest payments under a business premises mortgage
- Property rates and taxes
- Electricity, telephone and other utility expenses
- Cleaning and laundry expenses of the business
- Repairs and maintenance
- Remuneration and associated costs of non-income generating employees
- Principal and interest repayments under a loan for the business
- Leasing costs of equipment or motor vehicles
- Business insurance premiums
- Accountancy and audit fees
- Subscriptions to professional associations
- Any regular advertising or marketing expenses

Business expenses premiums are usually tax deductible, and can be packaged with income protection insurance to make sure both your personal income and work expenses are covered.

Am I likely to need to claim though?

It may help you to understand first what some of the latest disability and sickness claim statistics are:

Facts you need to know

- **2.6 million** Australians aged under 65 are living with a physical disability[1].
- **1 in 3** Australians have a one in three chance of being diagnosed with cancer before age 75[2].
- **638 400** Australians were injured at work between 2009 – 2010, with 43% not receiving any financial assistance[3].
- **60%** Australians will be disabled for more than one month during their working life[4].
- **25%** Australians will be disabled for more than three months during their working life[5].

What does it cost?

The cost of business expenses insurance varies based on a range of factors including your age, gender, amount of cover, waiting period and benefit period. As an example, a male dentist aged 45 next birthday and based in Victoria, who is a non smoker earning $120,000 per annum, could obtain $5,000 per month cover for as little as $51.57 per month*.

** Based on the TAL Accelerate policy, with a 4 week waiting period, stepped premium paid annually, but excluding stamp duty and policy fee.*

Business expenses insurance assessment

As always it is prudent to seek specialist advice to determine an appropriate level of cover for your needs. As part of this assessment your current situation should be analysed to ensure you receive more relevant and cost-effective options for this type of cover.

Business expenses insurance can include special benefits such as:

- a three tier disability definition, which allows you to work for up to 10 hours a week without that income affecting your monthly benefit
- a specific injury benefit, which guarantees payment for a specified amount of time if you suffer from a list of injuries
- a crisis benefit, which guarantees payment if you suffer from a list of serious medical conditions

To discuss your specific insurance needs, please make a no-obligation appointment with your Moneywise Financial Adviser or our Insurance specialist Chris Matlock.

References: 1 – AIHW (2008) Australia's health 2008, Cat. no. AUS 99, Canberra. 2 – AIHW (2008) Cancer in Australia: an overview 2008, Cancer series no. 46, Cat. no. CAN 42, Canberra. 3 – Safe work Australia 2009-10 Australian work-related injury experience by sex and age report, published 2012. 4 – Fabrizio, E (2007) Australia & NZ Disability Income Experience www.actuaries.org/IAAHS/Colloquia/Cape_Town/Walker_-_Income_protection.pdf. 5 – AIHW (2008) Cancer in Australia: an overview 2008, Cancer series no. 46, Cat. no. CAN 42, Canberra.

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