MONEYNEWS

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A Global Sea of Change

If 2016 taught us anything, it was to expect the unexpected. Britain's vote to exit the European Union and Donald Trump's election as the next US President surprised the pundits and markets alike. Markets generally hate surprises, yet in the closing weeks of the year so-called 'Trump trades' pushed shares, bond yields and the US dollar.

Then, in a not-so-surprising move, the US Federal Reserve lifted rates for only the second time since 2006. At its December meeting, the US Fed lifted rates to a range of 0.5 to 0.75 per cent and forecast three more rises in 2017. This was viewed as a vote of confidence in the US economic recovery and a signal that the global economic tide may be turning.

Economy poised for growth

The Federal Reserve board forecasts US economic growth of 2.1 per cent in 2017 and unemployment of 4.6 per cent. In Australia, the medium-term outlook is also positive but there were hiccups along the way in 2016.

Uncertainty surrounding the US election, Brexit and our own mid-year federal election weighed heavily on the local economy, which shrank 0.5 per cent in the September quarter. This was the first negative quarter since March 2011 and lowered the annual growth rate from 3.1 per cent to 1.8 per cent.

The Reserve Bank has warned that the economy could slow further before picking up in 2017.[i] Our trade performance is moving in the right direction though, thanks to higher commodity prices and the lower dollar. Australia's trade balance moved back to surplus in November for the first time in 33 months; the rolling 12-month deficit of $23.8 billion was the lowest in 18 months. What's more, the unemployment rate, at 5.7 per cent, remains near three year lows.

Australian Key Indices as at 31 December 2016		Share Markets (% change) Jan – Dec 2016	
GDP annual growth rate*	1.8%	Australia ASX 200	+7.0
RBA cash rate	1.5%	US Dow Jones	+13.4
Inflation	1.3%	UK FTSE 100	+14.4
Unemployment	5.7%	China Shanghai Composite	-12.3
Consumer confidence	97.3	Japan Nikkei 225	+0.4

*Year to September 30, 2016 Sources: RBA, Westpac Melbourne Institute, CommSec

Commodities rebound

One of the big turnarounds of 2016 was the surge in commodity prices. Iron ore almost doubled in price to $80 a tonne. Other metals were also up strongly, along with agricultural commodities and oil. Crude oil rose 45 per cent to US$53.72 a barrel as OPEC and non-OPEC nations agreed to cut oil production.

While more expensive fuel is bad news for motorists, higher commodity prices are a boon for Australia's mining and agricultural sectors. As these higher prices flow through to inflation they should help pave the way for central banks to lift interest rates to more normal settings. Inflation in Australia is running at an annual rate of 1.3 per cent, well below the Reserve Bank's target band of 2-3 per cent.

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Interest rates on the rise

Australia's cash rate remains at 1.5 per cent but there are signs that we may have reached the bottom of the rate cycle. The major banks have already begun lifting home loan rates and this trend looks set to continue as mortgage funding sourced from overseas becomes more expensive.

Donald Trump's election victory also marked a turning point in bond yields on the expectation that his policies will be stimulatory. US 10-year bond yields rose slightly to 2.45 per cent in 2016, while Australian 10-year government bond yields lifted to 2.79 per cent after reaching an all-time low of 1.83 per cent in August.

The US dollar has also strengthened against the Aussie dollar, which finished the year at US72.36c after hitting a high of US78c in November.

Shares finish strongly

Global sharemarkets reacted positively to Trump's promised tax cuts and infrastructure spending. After negative returns in 2015, the US market finished the year up 13.4 per cent and Australian shares rose 7 per cent led by the resources sector.

Despite the solid gains in shares and residential property, Aussie consumers finished the year in a sober mood. The Westpac-Melbourne Institute Index of Consumer Sentiment eased to 97.3 in December, down 3.5 per cent over 12 months. By comparison, business confidence is improving. The NAB Business Confidence Index rose from 4.3 points to 5.0 points in November.

Patchwork property market

The residential property market continues to grow, but it was a tale of many markets. Home prices grew 10.9 across all capital cities, but a modest 2.8 per cent outside the metropolitan areas. Sydney prices rose 15.5 per cent, followed by Melbourne (13.7), Hobart (11.2), Canberra (9.3), Adelaide (4.2), Brisbane (3.6) and Darwin (0.9). Perth prices fell 4.3 per cent.[ii]

Although housing affordability remains a national issue, the property market shows no signs of a hard landing.

Looking ahead

The prospect of higher interest rates and inflation, after almost a decade of abnormally low rates, marks a turning point for global financial markets. There are bound to be setbacks along the way, as the world weans itself off cheap credit, but the gradual recovery in global economic growth is just what the central bank doctors ordered.

If you would like to discuss the contents of this article in the context of your overall investment strategy, don't hesitate to call.

i Statement by Philip Lowe, Governor: Monetary Policy Decision, RBA, 6 December 2016, https://www.rba.gov.au/media-releases/2016/mr-16-30.html

ii Core Logic Home Value Index, http://www.corelogic.com.au/news/capital-city-dwelling-values-surge-10-9-higher-over-the-2016-calendar-year/

Getting Your Balance Right In 2017

"We should catch up more often!"
"Ooh, I could get used to this!"
"I've been meaning to do that more often"
"Mmm, this is the life…"

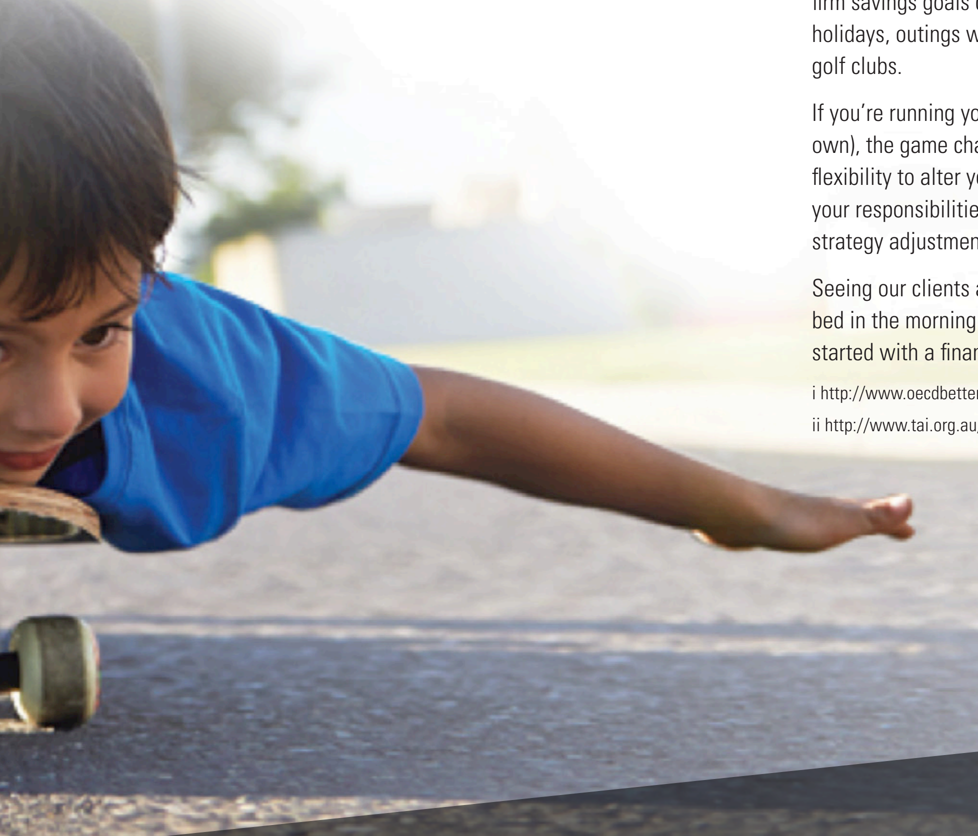
Sound familiar? If you've ever said (or thought) the above, you're not alone. It's natural for the holidays to shape your ambitions for work/life balance in the year ahead. Unfortunately, the stats show for most the situation is less than ideal. The OECD Better Life Index ranks Australia a miserable 31 out of 38 countries for work/life balance.[i] In late 2014, the Australia Institute found that only one in five workers are working the hours they would like to.[ii] Does this include you?

What does your ideal life look like?

The first step is working out what you want the 'life' part to look like.

Everyone's values, commitments and drivers are different. Working out and acknowledging what you want from life is an important first step. You might want to spend time looking after an elderly relative, keeping an eye on kids or grandkids, or volunteering in your community. You may want to broaden your horizons by going back to study, or filling up the pages in your passport. It could be as simple as having enough hours in the day to shop for produce and cook a delicious meal from scratch. The important thing is to formulate your own vision.

Once you've worked out what you want, beyond just 'more work/life balance', it's time to turn those wants into goals, and those goals into plans. And that starts with knowing how to cut down on the work side of it.



Finding more time for the good things in life

- **Trying to cut down your hours?** It might be a matter of working smarter, instead of just stacking on the hours. Try implementing one simple time management initiative at a time. Start by creating a to-do list at the start of each day.
- **Feel like you're at work even when you're not in the office?** Time to start setting some limits. Avoid taking calls and responding to emails out of hours.
- **Don't hoard your annual leave and save it up for one huge holiday every year.** Take time off throughout the year; you'll feel better in the long run.
- **It doesn't hurt to enquire about flexibility.** Even if flexi-hours aren't a standard policy where you work, you have the legal right to at least ask your employer.
- **Working for yourself?** It's all too easy to pour all your (non-sleeping) time into your business, but try setting boundaries so that you're not working 24/7. Making the aforementioned to-do list will help you feel better about stopping work for the day, when the only things left to do are less urgent tasks.

Things to consider

There's a strong likelihood that your new work/life balance goal will throw up a few financial challenges. If you're reducing your overall working hours, you'll have less in your paycheque. Depending on your life stage, coping with this may mean getting smart with your household budget, developing a new income stream, or transitioning to retirement. It's not just a matter of opportunity cost, either; the very thing you want to spend time on could become a growing line item on your expense list. Setting firm savings goals can help ensure you have enough to cover more frequent holidays, outings with friends and relatives, or that brand new set of golf clubs.

If you're running your own business (or thinking about striking out on your own), the game changes altogether. You may have much more or much less flexibility to alter your working hours outside the 9-5, take on staff to cover your responsibilities, or work remotely. It could take some serious business strategy adjustment.

Seeing our clients achieving their lifestyle goals is what gets us out of bed in the morning. Make an appointment with us today and we'll get you started with a financial plan that fits your new work/life goals.

i http://www.oecdbetterlifeindex.org/topics/work-life-balance/

ii http://www.tai.org.au/sites/defualt/files/P99%20Walking%20the%20tightrope.pdf

Counting The Cost Of Education

A quality education is a lifelong resource and a powerful launching pad for young Australians. But with education costs rising at more than twice the rate of inflation, it's more important than ever to plan ahead for the investment you're making in your child.[i]

Grandparents may also like to help their family by investing money for the future school and university costs of their grandchildren. This is becoming increasingly common with 29 per cent of grandparents wanting to draw down on their super to pay school fees.[ii] This can be done in the grandparent's name or the child's name, depending on your individual circumstances.

The actual cost of your child's (or grandchild's) education will depend largely on whether they are enrolled in a public, systemic (e.g. Catholic) or independent private school.[iii]

The ASG survey found that the cost of private education in metropolitan areas – from preschool to year 12 – ranged between $360,000 and $550,000. Private schools in regional areas are slightly more affordable.

In contrast, Melbourne public schools, even at 12 percent above the national metropolitan average, will still only set you back $75,000. Regional areas, again, cost less on average at $50,000. These estimates include the 'voluntary contributions' in lieu of fees that most public schools ask for.

Systemic schools, such as religious and other alternative institutions, sit between the two extremes. Here the national metropolitan average is an estimated $230,000 and $172,000 for regional areas.

Of course, fees aren't the only cost you need to budget for. There are the traditional outgoings of uniforms, books and extracurricular activities. It's also becoming increasingly common for schools to require students to purchase laptop or tablet computers.

ASG estimated that in 2016 families were spending an average of $1,000-$3,000 on these 'extras' per child every year. It was also found that these costs increased as the student aged, whether they were private, systemically or publicly schooled.

And let's not forget the cost of higher education. An undergraduate degree currently costs between $6,000 and $10,000 each academic year, depending on the course chosen.[iv] Most students choose to defer payment via a HECS-HELP loan, but many families would like to help their children or grandchildren pay some or all their fees upfront to avoid a large student debt.

Where students live away from home, parents may also need to factor in the cost of student accommodation and other living expenses.

Explore your savings options

Like any major investment, the sooner you start saving the more options you will have. You could open a dedicated savings account, but the interest rate is unlikely to keep pace with inflation. Here are some popular strategies for long-term education savings:

- **Education Funds.** These are specifically designed to lock money away for your child's education. They offer some attractive tax concessions, but there are restrictions and fees to consider.
- **Term deposits.** Are simple and virtually risk free, but interest rates may not keep pace with inflation.
- **Managed Funds.** You don't need much money to get started, you can make regular contributions and you get the benefits of diversification and professional management.
- **Insurance Bonds.** Like a managed fund, these offer a diversified investment menu but with additional tax advantages. Earnings are taxed inside the bond at the company rate, which may be less than your marginal rate. If you withdraw your money after 10 years, all investment earnings are tax free.[v]

Investing in a child's education is a long-term commitment, but the satisfaction that comes from knowing you have given them the best possible start in life is priceless. Call us if you would like to discuss an education savings strategy for your child or grandchild.

i Trading economics, http://www.tradingeconomics.com/australia/inflation-cpi ii http://www.smh.com.au/national/education/grandparents-stumping-up-for-private-school-fees-20160225-g... iii https://www.asg.com.au/doc/default-source/Media-Releases/Planning-for-Education-Index-2016/ASG_EdCos... iv http://www.gooduniversitiesguide.com.au/Support-Centre/Funding-your-education/Degree-costs-and-loans... v https://www.moneysmart.gov.au/investing/complex-investments/investment-and-insurance-bonds

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