MONEYNEWS

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2017 Year in Review:

Fair winds guide investment returns

Investors had plenty to smile about in 2017, despite a world of worries on the geopolitical stage from the Middle East to North Korea and the South China Sea. The global economy continued its steady improvement and financial markets produced some excellent returns.

The year began with the inauguration of President Donald Trump, whose populist policies on issues such as trade and energy have impacted the global economic agenda. As the year closed the Trump administration's corporate tax cuts were approved by Congress, which should boost the US economy.

The US Federal Reserve lifted its benchmark interest rate three times in 2017 with more expected this year as the economy strengthens. Higher rates could trim the sails of US equities while putting upward pressure on global bond rates and the US dollar.

Positive economic growth

The global economy grew steadily throughout 2017 with the US and other G7 leading industrial nations posting growth of around 2.2 per cent.

China's growth has slowed, but at 6.8 per cent it's still a global powerhouse and a major customer for Australia's natural resources, education and other goods and services.[i] China now accounts for 36.7 per cent of Australia's exports, more than any other country.[ii]

Australia's economy grew by 2.8 per cent in the year to September, marking 26 years without a recession. The biggest contributor was private sector investment as business profits posted their strongest gains in 15 years. Low interest rates and low inflation of 1.8 per cent remain supportive for business and consumers. Unemployment fell to 5.4 per cent, the lowest jobless rate in four years, but sluggish wage growth remains an issue for the Reserve Bank.[iii] A jump in consumer confidence in December to 103.3 on the Westpac Melbourne Institute scale – anything above 100 is viewed as optimism – was good news for retailers leading into Christmas.[iv] shares have held onto their gains but drifted sideways in recent months. The S&P 500 index rose about 18 per cent in the year to June.[ii]

Australian Key Indices as at 31 December 2017	
GDP annual growth rate*	2.8%
RBA cash rate	1.5%
Inflation	1.8%
Unemployment	5.4%
Consumer confidence index	103.3

Share Markets (% change) Jan – Dec 2017	
Australia ASX 200	+7.0
US S&P 500	+19.4
UK FTSE 100	+7.6
China Shanghai Composite	+6.6
Japan Nikkei 225	+19.0

*Year to September 30, 2017 Sources: RBA, Westpac Melbourne Institute, Trading Economics

Mixed signals on financial markets

The Australian dollar finished the year at US78c, up 8.6 per cent due mostly to strong commodity prices. The dollar firmed despite a lack of movement on the local interest rate front. The cash rate held steady at 1.5 per cent all year while interest rates on government 10-year bonds fell from 2.77 per cent to 2.64 per cent.[v] The consensus is that the next interest rate move will be up although perhaps not until the end of 2018 at the earliest.

Commodities were a mixed bag. Global oil prices rose 12.5 per cent to US$60 a barrel in December as OPEC members agreed to extend their production restrictions. Iron ore fell 3.3 per cent to US$74 a tonne on lower demand from China, while coal rose 5.7 per cent to US$100 a tonne.[vi]

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The shooting star award of 2017 goes to Bitcoin. The value of one Bitcoin soared from $1300 in January to more than $22,000 in December before dropping to around $17,000 at year's end. The question as to whether it's a 21st century tulip bubble or a new paradigm has been exercising minds from the world's central banks to the local pub.

Shares surprise on the upside

Global shares powered ahead, fuelled by economic growth, strong corporate profits and low interest rates. Despite ongoing geopolitical turmoil, volatility on equity markets was relatively low.

US shares rose to record highs, up 19 per cent partly in response to the weak US dollar. The greenback has remained lower for longer than expected due to stubbornly low inflation and the long delay in lifting interest rates. The low dollar and Brexit uncertainty were a drag on the UK market, but it still managed a 7 per cent lift. Eurozone leaders Germany and France posted gains of 12 per cent and 9 per cent respectively. Asian and emerging market shares were also among the top performers, with the Japanese market up 19 per cent.[vii]

Property cools

The residential property boom ran out of steam in 2017, as tighter lending criteria and higher interest rates for investors began to bite while state government incentives encouraged first home buyers back into the market.

Australian home prices rose 4.2 per cent last year compared with 5.8 per cent in 2016, according to CoreLogic. Property values in Sydney rose 3.1 per cent in 2017, a far cry from the annual increase of 17 at the height of the boom. Hobart (up 12.3 per cent) and Melbourne (up 8.9 per cent) were the strongest capital city markets, followed by Canberra (4.9 per cent), Adelaide (3.0 per cent) and Brisbane (2.4 per cent). Darwin fell 6.5 per cent and Perth was down 2.3 per cent.[viii]

Most observers predict subdued growth rather than a market bust in the year ahead.

Looking ahead

There is every reason for cautious optimism in the year ahead, although there are risks too. Continuing investigations into Donald Trump could destabilise his leadership and global markets, while closer to home the Reserve Bank is keeping a watchful eye on wages, inflation, the Aussie dollar and property prices.

Even so, local economic growth is on track, interest rates are likely to remain low for some time yet and first home buyers have their best chance in years to get a toehold in the market. Australian shares look fair value although global equities are likely to continue to provide higher returns.

i. Trading economics, https://tradingeconomics.com/country-list/gdp-annual-growth-rate?continent=america

ii. ABS International Trade in Goods and Services, Australia, October 2017, http://www.abs.gov.au/ausstats/abs@.nsf/mf/5368.0

iii. Reserve Bank of Australia, http://www.rba.gov.au/snapshots/economy-indicators-snapshot/

iv. Westpac Melbourne Institute Consumer Confidence, 13 December 2017, https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/economics-research/er20171213BullConsumerSentiment.pdf

v. RBA, rba.gov.au

vi. Trading economics, https://tradingeconomics.com/commodities

vii. Trading economics, https://tradingeconomics.com/stocks

viii. CoreLogic, 2 January 2018, https://www.corelogic.com.au/news/national-dwelling-values-fall-03-december-setting-scene-softer-housing-conditions-2018#.WIKzW1WWZhE

Downsizing—

Many Australian retirees find they want a smaller home, or a home more suited to their empty-nest requirements. For some Australians, selling the family home can be great way to release built-up equity to pay for retirement living expenses or in-home support that will allow them to stay at home longer.

Although downsizing and contributing to super is an interesting idea, there are definitely some benefits and dangers – together with a few unknowns – to consider before taking the plunge.

From 1 July 2018, Australians aged 65 years or older will be able to make a non-concessional (after-tax) contribution into their super account of up to $300,000 from the sale proceeds of their family home if they have owned the property for at least 10 years. The legislated rules indicate that the property sold must be the person's home (main residence and be eligible for the main residence exemption for capital gains tax).

Couples will be able to contribute up to $300,000 each, giving a total contribution per couple of up to $600,000.

Any super contributions made using the new downsizing rules are in addition to any voluntary contributions made under the existing non-concessional (after-tax) contributions cap.

Set out below are 10 important issues to need consider before downsizing your home, and contributing to your super account.

1. Opportunity to boost super balance

Retirees who have not had the opportunity to save sufficient funds for a comfortable retirement will be able to use the new downsizing cap to top up an inadequate super balance. For some people, using the surplus proceeds from downsizing to make a super contribution may be their first chance to use the beneficial tax environment of the super system.

2. No 'work test' or age limit

The existing 'work test' for voluntary contributions made by those Australians aged 65-74 does not apply to downsizing contributions. Currently, people in this age group need to prove they worked in gainful employment for 40 hours within a 30-day period during the year to make a super contribution

Note: People aged 75 and over who are currently unable to add to their super account will also be able to make a downsizing contribution, irrespective of whether they worked or not.

3. Retirement phase transfer balance cap remains in place

Australians making a downsizing contribution into their super account will still face a $1.6 million transfer balance cap on the amount of super savings they can move into tax-exempt retirement phase income streams. If a person has reached their $1.6 million transfer balance cap, then any downsizing contribution he or she makes will need to remain in accumulation phase (and will be subject to 15% tax on any earnings derived from the investments made from that contributions).

A Super Opportunity

4. Contributions not subject to the $1.6 million Total Superannuation Balance restriction

Since 1 July 2017, an individual cannot make non-concessional (after-tax) contributions to a super account if they have a Total Superannuation Balance of $1.6 million or more. Individuals who have maxed out their opportunity to make non-concessional contributions to a super account, will still be able to make a downsizing contribution, as these contributions are exempt from the new $1.6 million Total Superannuation Balance limit that restricts you from further non-concessional contributions (from 1 July 2017).

Tip: The exemption applicable for downsizing contributions means that anyone who has more than $1.6 million in super (in both accumulation and pension phase), can make a downsizing contribution from 1 July 2018.

5. No requirement to buy a new home

An individual making a downsizing contribution (from the sale of their principal place of residence) is not required to buy a new home after they sell their home.

Note: In addition, people selling their home are not required to buy a cheaper or smaller home after making a downsizing contribution, and conversely, it may be possible to purchase a larger or more expensive replacement home.

6. You must submit downsizing contribution form

Downsizing contributions will be invested within the super environment, which means such assets will be able to take advantage of the lower tax rate levied on investment returns within the super system. Earnings received on a super balance are only taxed at 15% (or are tax-exempt if rolled into a retirement income stream), rather than taxed at the person's normal marginal tax rate.

Important: Given the tax advantages, it's worth noting that the ATO will be responsible for administering the scheme. Before accepting contributions under the downsizing scheme, super funds require verification on behalf of the ATO that downsizing contributions are from the sale of a family home owned for more than 10 years. An individual planning to make a downsizing contribution must provide his or her super fund with the special form before or at the time of making the downsizing contribution.

Note: Australians who have reached Age Pension age, may already benefit from lower tax rates due to the effect of the Seniors and Pensioners Tax Offset.

7. Contributions count toward Age Pension tests

The government has confirmed downsizing contributions will be counted for the assets and income tests used to determine eligibility for the Age Pension and DVA benefits. Downsizers will be moving money out of an exempt asset (their family home), into the non-exempt and assessable environment of their super fund (see also Point 9).

It's also worth noting that your super balance (including downsizing contributions), are also used to determine eligibility for residential aged care and home care services.

Important: Anyone considering taking advantage of the new downsizing policy should seek professional advice on how it will affect their particular situation before making any decisions.

8. Transfer and property costs limit surplus capital

The costs involved in selling a family home can be substantial due to high stamp duty and land taxes, so people considering downsizing should carefully calculate their impact.

In addition, selling a large home and downsizing to a smaller property does not always release much excess capital (particularly in a capital city), so potential downsizers should check they will have sufficient funds left over for a worthwhile super contribution.

9. Timeframe (90 days) for contributing sale proceeds into super

The new downsizing law specifies that an individual hoping to take advantage of this measure must make the downsizing contribution within 90 days of receiving the sale proceeds (typically settlement day) from their family home before they are prohibited from making a downsizing contribution. Centrelink rules currently give pensioners who sell their principal residence a 12-month exemption under the assets test for the Age Pension, but there is no grace period for this type of super contribution.

Note: You can only take advantage of this measure for one sale, that is, if you have made downsizing contributions (which can be in multiple contributions up to $300,000) from a home sale, you cannot use this policy again at a later date.

10. 90-day timeframe may give opportunity to invest sale proceeds before contributing

The downsizing policy starts from 1 July 2018. The new laws don't appear to preclude investing the sale proceeds, or mixing the proceeds with other money, in the period between settlement and making a super contribution.

How to protect yourself from email scams

There was a time when fake emails were easy to spot. They usually announced a million-dollar prize in a lottery we never entered or requested urgent access to your bank account on behalf of a long-lost relative. That's no longer the case.

These days, phishing - defined as attempting to gain personal information for malicious reasons - is a sophisticated enterprise, often run by international criminal gangs who pour a lot of time and money into making their emails (or phone calls) realistic enough to trick consumers and businesses into revealing personal information for their own financial gain.

To prevent you or your business falling victim to a phishing email, here are seven things you should always check.

1. Check who the email comes from

While phishing emails usually purport to come from someone in authority, checking the email address of the sender often reveals that's not the case. For instance, a senior figure at a respected company won't email you from their Gmail account or from an organisation whose URL (ie web address, such as www.telstra.com) is different to their own. Sometimes, however, scammers will do a good job of masking their real email address - so it's important to know this isn't always a sure-fire method for detecting a scam.

2. Check the language

Most phishing emails originate from overseas, so no matter how proficient the email's author is, it's likely that some of the language or terminology will be wrong. Check the email carefully to look for missing words, poor spelling or grammar, odd turns of phrase or even poor punctuation.

3. Check the URL they're directing you to

Phishing emails almost always operate by sending you to a fake website. For instance, if Telstra launches a web-based promotion it's likely to be hosted on its main site at an address such as telstra.com.au/promotion not promotion.pn/telstra. You can usually check the details of the URL the email is sending you to. To do this, place your cursor above the icon or 'Click here' sign, without clicking. Alternatively, if you've arrived at the website and you think it's fake, check the address in the menu bar. But sometimes the fake URL can be very difficult to spot. If you're unsure, play it safe - don't click.

4. Check what they want from you

Phishing emails usually rely on tapping into one of two emotions: greed or fear. If you unexpectedly receive notice of a windfall or penalty, chances are it could be an attempt at phishing. Phishing emails also usually try to compel you to act quickly by telling you there will be consequences if you don't do something soon.

5. Check what information they're after

Scammers will usually want more information from you than you might feel comfortable giving out. For instance, they may ask you for your internet banking password even where it's not needed - for instance, if the email says that the sender wants to transfer money into your account. So always be conscious of what information you're giving out and why.

6. Check for attachments

Some phishing emails will attempt to hijack control of your computer by having you open an executable file, which opens a program and causes your computer to perform certain tasks. Scammers can mask the file type, so even a benign looking file such as a .PDF or .docx file may turn out to be something a lot nastier. Never open an attachment you're not sure about.

7. Check the signoff

Sometimes it can be the little things that let a scammer down and nothing seems more innocuous than your email signoff. But scammers will often miss an important detail, fail to stick to company brand and style, or otherwise make their sign off generic without even mentioning a name. So if you're used to dealing with an organisation, check how the email signoff compares to their standard. You'd be surprised how often scammers get this wrong.

And finally…

These are just a few examples of common email scams and there are many more we haven't included. After all, as particular email scams become less effective, scammers will invent new ones to take their place - often making them even more sophisticated and harder to detect.

But by staying vigilant and checking for these seven things, you should be able to spot and avoid most phishing emails. And, if you're ever in any doubt, always err on the side of caution and call the organisation direct - not the phone number listed in the suspicious email.

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