# connect

Summer 2017

# Economic update

## Australian market subdued

The Australian market continued to lag international markets through the September quarter as the S&P/ASX 200 index struggled to break out of its narrow trading range. This can be attributed to mixed economic indicators. Business confidence was weaker, falling below its long term average for the first time since mid-2016. This was due to concerns over customer demand, margin pressure and government policy. Business confidence did lift in September with the construction industry leading the way but the retail sector continues to struggle.

Consumer confidence is also weak and remains in pessimistic territory due to concerns over housing affordability, interest rates and rising energy prices.

## More sanctions for North Korea

Recent North Korean actions have prompted a global response in order to tighten the screws on the country. The UN Security Council has adopted new sanctions on North Korea including limits on oil exports to the nation, a ban on textile imports and the prohibition of work authorisations for North Korean citizens working overseas. China has also ordered North Korean companies operating within China to close up shop within 120 days, a shift in the close relations the two nations have held since the Korean War (1950-1953). If enforced, the order will have a significant impact on the North Korean economy given that China is its largest trading partner.

Investors have not been deterred by the escalation in geopolitical tensions with North Korea. Markets seem to have grown immune to hydrogen bomb tests and missile launches for example. While North Korea remains a tail risk for financial markets, it's unlikely that markets will be significantly affected unless the situation evolves into armed conflict.

## German federal election

At the outset of 2017, the German federal election was viewed as a key risk to financial markets due to the rise of populist and anti-EU political parties during the last few years. However, Angela Merkel's centre-right Christian Democratic Union (CDU) party held a commanding lead in the polls from April onward. Financial markets therefore anticipated that Merkel's CDU party would claim the most seats in the Bundestag (national parliament) and would retain the position of Chancellor of Germany that she has held since 2005. Polls got the call right and as a result the market reaction was muted.

The election result did surprise investors in one respect. That is, the election result followed the widespread occurrence over recent years of right wing parties gaining support thanks to regional voters and those who do not normally vote. Although Merkel won the election, it came at a cost because her campaign had poorly defined initiatives regarding social security, unemployment and economic welfare. While markets expected Merkel to win the election, they did not expect such strong support for the right wing party which highlights the fact that populist parties have gained supporters and the risk of protectionism has not disappeared.

Source: IOOF

**Speak with your financial adviser to discuss your investment opportunities.**

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# Busting the $1 million retirement myth

It's often said you'll need $1 million in superannuation to live a comfortable retirement. This is a daunting figure for most and has many Australians concerned about the retirement lifestyle they'll have.

In reality, most Australian workers have nothing like this but report being satisfied and fulfilled in retirement. The Association of Superannuation Funds of Australia (ASFA) say average super balances at retirement are $292,500 for men, $138,150 for women and $355,000 for households. Far less than $1 million.[1]

## So how much do you really need?

When thinking about retirement, we don't tend to think about our super balance. Instead, we think about a lifestyle we want in retirement and translate this into how much cash we will need to live this lifestyle. We also need to take into account our cash and investments outside of super.

As a guide, ASFA has taken into consideration potential living expenses, excluding rental costs and calculated two retirement categories of 'comfortable' and 'modest'. While your needs may differ considerably it helps to put into perspective the overly-alarming $1 million figure.

1. Superannuation account balances by age and gender, ASFA. December 2015.

Source: MLC

**Table 1: Savings needed to support a modest or comfortable retirement for retirees aged 65 – 85**

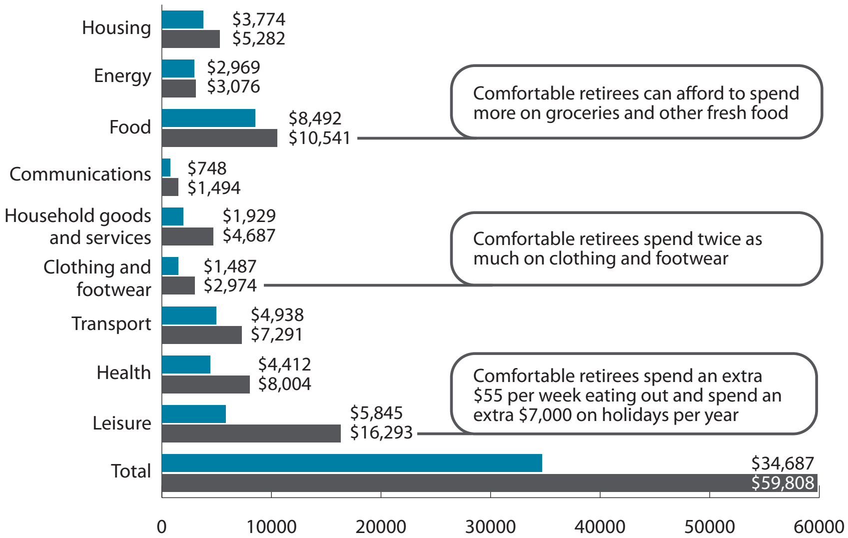
| | Savings needed at retirement | Annual spending in retirement |
|---|---|---|
| Comfortable lifestyle for a couple | $640,000 | $59,808 |
| Comfortable lifestyle for a single person | $545,000 | $43,538 |
| Modest lifestyle for a couple | $35,000 | $34,687 |
| Modest lifestyle for a single person | $50,000 | $24,108 |

Source: ASFA Retirement Standard – December 2016. All figures in today's dollars using 2.75% AWE as a deflator and an assumed investment earning rate of 6%. Based on the current means test for the Age Pension in effect from 1 January 2017.

## Don't forget the Age Pension

How can a couple retire with $35,000 in super and still spend the 'modest' $34,687 a year? Currently the age pension makes this possible and is sometimes overlooked when thinking about how much is needed to retire. This is why the lump sums needed for a modest lifestyle are relatively low as the age pension is sufficient to meet most expenditure needs. Currently the full annual Age Pension is approx. $22,700 for an individual and $34,250 for a couple.

**Table 2: What's the difference? Annual spending for a 'modest' verses 'comfortable' lifestyle**

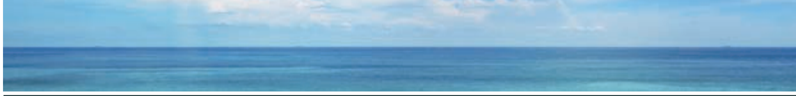



Source: ASFA Retirement Standard – Detailed Budget Breakdowns – December Quarter 2016.

## What can you do now?

While you don't necessarily need $1 million in retirement, your financial adviser can review your expectations and help build your retirement plan

Speak to your financial adviser to discuss your retirement plan.





# Self-employed? Don't leave your business at risk.

What would you do if you became sick or injured and were unable to keep your business running? It's not something that is often thought about, but it is important to take a moment to consider it.

Did you know that one in two Australian men and women will be diagnosed with cancer before the age of 85[1]? And that cardiovascular disease kills one Australian every 12 minutes[2]?



These alarming statistics may make you think twice about covering yourself, and your business, for the unexpected.

If you were unable to work for 12 months, would your business survive? A serious illness is debilitating and may require extended leave to recover. You may end up losing your livelihood that you've worked so hard to build. How would you begin to rebuild your business once you recovered? It's something that every business owner should consider.

Are you aware of the total cost of all your business expenses every month? How would you pay for these expenses if something were to happen to you?

Many life insurance companies offer business insurance solutions which are designed specifically for the self-employed or business owner. This type of insurance includes business expenses insurance which covers the fixed expenses of a business or practice that still need to be paid, even if the life insured cannot work due to injury or sickness.

Business expenses that you need to consider may include, but are not limited to:

- Accounting and auditing fees
- Regular advertising costs, postage, printing and stationery
- Electricity, heating, gas, water, telephone and cleaning costs
- Security costs
- Net costs of a locum
- Rent, property rates and taxes

With business insurances, f you become disabled, and depending on the type of policy you purchase, the benefit may be paid monthly over a period of 12 months. This period can be extended if at the end of the 12 months the life insured remains totally disabled.

The type of policy you choose and the amount of cover you'll need depends on you and your business needs.

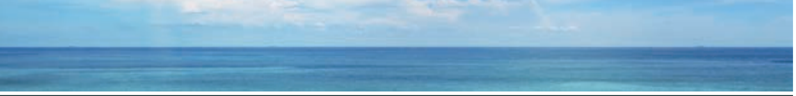
Some people think that their income protection insurance is enough to cover themselves and their business. The advantage of combining a business insurance policy with an income protection policy is that as well as receiving an income stream from your income protection policy, your net business expenses will also be paid. It's a small price to pay for peace of mind.

Speak to your financial adviser to discuss your business insurance options.

Source: AIA

1 www.cancer.org.au

2 https://www.heartfoundation.org.au/about-us/what-we-do/heart-disease-in-australia





# Top 10 New Year headlines

What will 2018 hold? Our natural curiosity about the future makes a ready-made market for media articles about events likely to drive financial markets next year.

But the assumption behind this seasonal coverage is that the mere turn in the calendar from one year to the next justifies overhauling your investment portfolio, generating significant turnover and unnecessary cost.

Against that background, here are 10 perennial New Year headlines to watch out for:

| | | |
|---|---|---|
| 1 | **New Year, new portfolio** | This trades off your desire for reinvention. The assumption is your investment strategy can be updated like your wardrobe. |
| 2 | **Different times, different strategies** | This assumes a changing world makes diversification and discipline redundant. Tempted? Look at last year's forecasts. |
| 3 | **Brace for uncertainty** | What's new? Brexit, Trump, North Korea: There are always headlines. If everything was certain, there'd be no risk (and no return). |
| 4 | **Interest rate fears mount** | A perennial media space filler. Market expectations are already incorporated into current prices, so why bother speculating? |
| 5 | **Ten stocks to count on** | Remember when ABC Learning Centres was being sold as a 'VIP' stock? Nice party game, but no basis for an investment strategy. |
| 6 | **The world has changed forever** | Actually, our world is always changing. Economies rise and fall. The rules for dealing with that haven't changed at all. |
| 7 | **The right moves to make right now** | This popular headline assumes there is a perfect time to invest, even though the evidence for market timing is negligible. |
| 8 | **Make your portfolio bulletproof** | The truth is no portfolio is bulletproof. Some parts will do well, some will do badly. That's why you diversify. |
| 9 | **Invest with the stars** | Stars rise and stars fall. While everyone loves a winning stock picker, how many of them repeat? Not a good basis for investing. |
| 10 | **Take charge of your wealth** | Do you really want to be playing the currency market from your spare room? Alternatively, hire an adviser and get your life back. |

What you do with your investments shouldn't change according to seasonal news, but according to your own needs, goals and risk appetite. In any case, these decisions are better made under the guidance of an adviser who understands your circumstances.

## That's a better foundation for a happy new year.

Source: Dimensional

Speak to your financial adviser to ensure you are meeting your investment strategy.



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