Aptitude

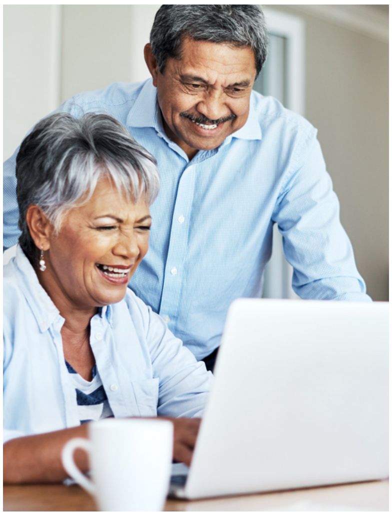
Apt Wealth Partners - Quarterly News September | 2022

Live for today, plan for tomorrow

Apt.

WEALTH PARTNERS

Aptitude



CONTENTS

The factors **shaping** **investment** markets

Since the beginning of the COVID pandemic, global markets have experienced volatility. And while we saw some recovery in late 2021, the continuing impacts of COVID, combined with changing economic cycles and geopolitical tensions, have once again affected markets. Here, we talk to Apt's Chief Investment Officer, Sarah Gonzales, about the factors shaping our markets today and over the next 12 months.

Most investors will remember the moment in March 2020 when markets responded to the news that the COVID-19 virus was indeed a global pandemic.

"We have never seen markets respond so strongly to an infectious disease outbreak, which was certainly reflective of the broader global uncertainty," says Sarah. But despite the dark days predicted by many, markets recovered faster than expected.

"In the first half of the 2021/22 financial year, the markets were in full swing. Despite ongoing border closures and lockdowns in Australia, optimism was high amongst investors as global economies recovered, and vaccination rates rose," Sarah says.

The market peaked in November/ December 2021, and Sarah says this was when we started to see things coming to a halt.

"Pandemic-driven supply chain disruptions continued to plague companies, and we started to see this impacting investor confidence by the end of 2021."

By February 2022, when, as anticipated, Russia invaded Ukraine, energy prices began to soar across Europe.

Inflation drives interest rate rises, slows economic growth

"These issues combined to drive sharp inflation rises across the developed world, including Australia However, these rises were initially thought to be transitory, and Central Banks were slow to respond. As a result, interest rates were increased faster and earlier than anticipated to curb it," Sarah explains.

"In turn, these interest rates slowed global economic growth."

Sarah points out that while China did not experience the same inflation rises as most other major economies, its economic growth followed a similar trajectory, driven by its strict 'Zero-COVID' policy.

While markets have not experienced the same level of volatility as at the height of the pandemic, Sarah says we will continue to see elevated volatility due to these events.

She also says continued interest rate rises are anticipated until at least the end of the 2023 calendar year to bring inflation back to targets.

"In the US, the Federal Funds rate is expected to reach 3.75–4%, the Deposit Rate in the Eurozone is expected to move out of negative territory to reach 1%, and in Australia, we anticipate that Cash Rate will reach 3.1%," she says.

Global recessions are anticipated, but Australia may avoid it

"As a result of the slow response to inflation, many major economies are moving towards a recession, and it's particularly evident in the US," Sarah says.

She adds that this has led to the World Bank cutting growth estimates for 2022.

"As a result of slowing growth, recession fears have increased. However, continued interest rate rises in the near term is expected to bring inflation under control, and as a result, it's forecast that Central Banks will begin cutting interest rates again in 2024 to curb recession."

Sarah says that while Australia is not immune from global economic trends, and a slowdown in GDP growth is anticipated, the probability of recession is much lower than for other developed economies.

"We will likely see Australia return to the long-term trends in GDP growth, settling down around the 2% mark."

Sarah adds that while global recession concerns are valid, they are almost impossible to time. She says it's important also to note that recessions are usually short-lived.

"If we look at the data, we see that they don't last long, and equity markets tend to bounce back strongly once they recede. And it's also important to remember that markets are forward-looking, so in some instances, the rebound occurs before the recession officially ends."

So, what should you be considering in your portfolio?

Sarah highlights six key areas for investors to consider, pointing out that this is Apt's approach, so clients can rest assured that these steps are being taken.

#1 Stick to the plan

Stay the course, despite how uncomfortable things may get in the near term. As Sarah says, it will likely prove the right course when looking back in five years' time.

#2 Maintain a safety buffer

Holding a buffer of cash and term deposits is essential to cushion the impact of market downturns and protect capital. Sarah points out that this should always be a key part of your strategy, regardless of market conditions, to ensure you don't need to sell assets to fund unexpected purchases or emergencies.

#3 Take advantage of weaknesses

Periods of downturn present opportunities to buy long-term quality investments at a lower price point. However, Sarah highlights that quality is the keyword here, and any purchases should fit your usual strategy.

#4 Focus on quality investments

Continuing to invest only in companies that generate stable cashflows remains a must. Sarah adds that when interest rates are rising, it's essential to look for those that aren't too highly leveraged.

#5 Diversify

Diversification is always important, but it is crucial during global uncertainties. Ensure you maintain a balance of asset classes, industry sectors and geographies to gain exposure to different points of the economic cycle.

#6 Rebalance

It is essential to regularly rebalance your portfolio and maintain alignment with your risk profile to minimise overexposure and lock in profits.

An experienced team in your corner

Sarah Gonzales is Apt's Chief Investment Officer and heads up our experienced investment team. If you are an Apt client, you can rest assured that you have this experience in your corner. Our investment team ensures your portfolio adheres to our stringent investment frameworks and keeps your adviser informed with all the latest in-house and market research to ensure you are making the right moves.

Are you making the most of your government entitlements?

Today, government payments are available to Australians in a broad range of circumstances, but navigating your eligibility can be complex. However, with the rising cost of living, it's critical that you make use of any entitlements.

Here, we talk to Apt's Head of Compliance, Rhett Pudney, and Compliance Manager, Tammy Tan, about your options.

"There are government payments available for individuals, families, older Australians, people with disabilities, carers, young Australians, students, jobseekers and farmers. The government also provides one-off payments, special benefits, and a range of supplementary payments and concession cards," Rhett explains.

"Given there are so many entitlements with differing requirements, working out what you may be entitled to can be challenging, and becomes even more complex for self-funded retirees."

A self-funded retiree is a person who supports their own retirement without the assistance of the government pension.

"Since superannuation has been mandated for the last 40 years, most retirees will likely be self-funding at least some of their retirement as they may not immediately qualify for the Age Pension," Tammy says.

However, she adds that this doesn't mean no government entitlements are available. One potential she highlights is the Commonwealth Seniors Health Card.

Commonwealth Seniors Health Card

The Commonwealth Seniors Health Card (CSHC) entitles holders to access a range of medical services at a concession rate, including more affordable medications under the PBS scheme, increased access to bulk-billed GP services and higher rebates under the Extended Medical Safety Net (EMSN) program.

"The CSHC may be available to self-funded retirees who don't satisfy the means test for the Age Pension, and it can help considerably with medical costs," Rhett says.

He also highlights that a bill was recently introduced to Parliament that will increase the card's income thresholds, making it available to an estimated 50,000 more retirees.

"It's worth looking into right now as the bill is widely expected to pass the Houses of Parliament and receive Royal Assent, ready to commence on 20 September 2022. It will see income thresholds for singles rise from $57,761 to $90,000 and couples from $92,416 to $144,000."

Retirement strategies

For retirees, several strategies and government incentives may be worth exploring.

Tammy explains that these can reduce assessable assets/income and increase Age Pension entitlement, either now or in the future.

"The most crucial time in retirement planning is the years immediately leading up to retirement. Structuring your superannuation appropriately can assist in accessing and optimising government entitlements," she says.

She highlights that this is particularly the case where one member of a couple is below Age Pension age, as funds held in the accumulation phase are not assessable under the Assets and Income test if the person is not at the prescribed age.

Rhett and Tammy highlight some key strategies that may be available to those nearing or already in retirement to increase Age Pension eligibility.

Lifetime income streams (purchased on or after 1 July 2019)

"A lifetime income stream provides retired clients with the dual benefits of income for life and a reduction in their assessable assets. Up until age 84 (based on the current life expectancy tables for a 65-year-old male) or a minimum of five years, 60% of the purchase amount of a lifetime income stream will be assessed as an asset.

"For example, Sophie purchases her lifetime pension for $200,000 aged 83. Generally, only $120,000 (60% of purchase price) is assessable until age 84. However, as she has almost reached this age, there is a requirement that 60% is assessable for at least five years. For Sophie, this means it will be assessable at 60% until she is 88.

After this time, this reduces to 30% of the purchase amount," Tammy says.

"Once payments commence, 60% of the annual income payments will be assessable under the Income Test."

Gifting assets to children

Gifting assets to children within the thresholds may help to improve Age Pension entitlements.

Rhett highlights that two limits apply concurrently: up to $10,000 in a financial year and up to $30,000 over a rolling period of five financial years.

"Any gifts made above these limits will be considered as deprived assets and counted towards the Assets and Income Tests for five years from the date of the gift," he says.

Funeral bonds

Funeral bonds with a value of up to a certain threshold (currently $13,500) are exempt from both the Assets and Income Tests. Any subsequent growth on the funeral bonds is also exempt from the means test.

However, Tammy points out that it is essential to make sure the initial investment amount is within the threshold, otherwise, the entire investment amount, along with any future capital growth, will be assessable.

Seniors and Pensioners Tax Offset

The Seniors and Pensioners Tax Offset (SAPTO) is a tax offset available to eligible senior Australians of current Age Pension or Service Pension age to reduce tax liability.

A rebate income threshold test applies to determine whether someone is entitled to a full or partial tax offset.

"Where eligible, SAPTO, combined with the low-income tax offset, ensures that single senior Australians can have an annual income of up to $33,098, and a couple a combined annual income of up to $59,568 without paying tax," Tammy says.

Work Bonus Scheme

Rhett highlights the Work Bonus Scheme as a potential entitlement for people over Age Pension age who continue to work or look for different working arrangements, such as reduced hours or a new job.

The Work Bonus Scheme applies to senior Australians of Age Pension age to encourage people to remain in the workforce by reducing the amount of employment income assessed under the Income Test. Currently, the first $300 of fortnightly income from work is not counted towards the Income Test. The amount that can be accumulated in the Work Bonus income bank is $7,800.

Seniors Energy Rebate

The Seniors Energy Rebate is a NSW initiative available to self-funded retirees with a Commonwealth Seniors Health Card to help with rising electricity costs.

With the recent bill to increase access to the card, more NSW residents will be able to access this subsidy, which contributes $200 per household to energy bills each financial year.

While this is not available in Victoria, Tammy highlights that there is an entitlement available to everyone.

"In Victoria, every household can receive a one-off $250 payment to help with energy bills. This can be claimed on the Victorian Energy Compare website from 1 July 2022," she explains.

Speak to your adviser

It can be complex navigating such a wide range of subsidies and incentives with differing requirements, thresholds and tests. Your Apt Adviser can help, exploring eligibility and strategies to make the most of your government entitlements.

The **dos** and **don'ts** of estate planning

Estate planning can be confronting as it involves thinking about our mortality. However, ensuring your loved ones understand and can execute your wishes to leave the legacy you want is essential. Here, we talk to Senior Financial Adviser and intergenerational wealth transfer specialist Preston Foster about the dos and don'ts of estate planning.

Do ensure you have an updated will

According to ASIC, 50% of Australians don't have a will, and while a will is only part of your estate plan, it is a vital piece of the puzzle. If you don't have a will, typically, your assets will be divided between your spouse and children and won't include any extended family members.

"Leaving it to the law to decide how to distribute your estate can impact your legacy. It can also elongate the time it takes for your family to receive their inheritances and add additional stress, so ensuring you have a clear plan in place is a must," Preston says.

Don't rely on DIY options

He also highlights that working with an estate planning legal specialist is essential when making your estate plans.

"There are some products out there, such as will kits, that appear to offer cost-effective do-it-yourself options. But estate planning can be complex. It's important to leave the legacy you want and minimise the likelihood of your plans being contested, which can put additional strain on your loved ones at an already difficult time."

Do speak to a specialist about the right structure for your circumstances

Preston says that how you structure your estate plans can emotionally and financially impact your loved ones.

"For example, if you have children aged under 18, a testamentary trust may be appropriate as children will be taxed as adults on the income.

"A testamentary trust means the money doesn't simply go to your co-parent to execute but is managed by your appointed trustee, which can help ensure your children derive the maximum benefit."

With a rise in the number of parents helping adult children with property deposits today, Preston says this is another area to consider.

"If you have given a child a property deposit or other significant financial support, it's worth considering a formal loan structure so that the money you have contributed remains part of your estate.

"This will ensure it doesn't become part of their marital assets for division if they divorce, and avoid conflict over inheritance in situations when one child has received this support and not the other/s."

In addition, Preston says a family business can add more complexity.

"When a family business is involved, there are several additional considerations that a legal specialist can help you navigate.

"For example, if you have some children who work in the business and others who don't, you can look at ways to split your estate so that the business goes to those who are engaged in it, and those outside it get a bigger portion of your personal estate to reduce conflict, the chances of a forced sale or the need for children to buy each other out."

Don't forget to update life insurance policy nominations

According to Preston, updating life insurance policy nominations can often be overlooked, and it's not uncommon to see them left in the name of an ex-partner long after the relationship has dissolved.

"Out-of-date policy nominations can lead to significant issues for your loved ones, so it's critical to update and keep these in line with your will," he says.

Do get Enduring Power of Attorney

According to government figures, only 11 per cent of Australians have a valid Enduring Power of Attorney (EPOA), a statistic Preston says is concerning.

"It's often something we only think about for elderly family members or those who are already unwell. However, the reality is that accidents and injuries can and do happen to people of all ages and health statuses. If, for example, you are in an accident that renders you unable to communicate, EPOA ensures your nominated loved one can make decisions on your behalf."

He highlights the sale of assets as a common example.

"Imagine that your spouse needs to sell the family home or investment portfolio to pay for your treatment or move closer to the services you need. To do so, they would need your signature, which may not be possible if your decision-making ability is impaired. Without EPOA, there will be a lot of red tape, time and expense to get things done."

Do consider having transparent conversations with loved ones

While it can be a difficult conversation, it's important that your loved ones understand your wishes in advance, particularly if some may be considered controversial.

"If you are including individuals, charities or other groups outside the family, for example, it can avoid upset or even legal challenge if those you love understand why this is important to you," says Preston.

He adds that it can be critical in blended family situations where dynamics may be trickier to navigate.

"When you pass away, your family will face a difficult period, so it's important to ensure shock at your wishes isn't an added weight. These are your decisions, but transparency can go a long way to alleviating additional pain, giving loved ones time to process and understand your decisions."

Do speak to your financial adviser

While setting your estate plans is best done with specialist legal advice, your Apt adviser can help. Your adviser can put you in touch with an estate planning legal specialist or work closely with your nominated solicitor to ensure your estate plans align with your finances and your life and financial goals.

Don't delay

While we all hope our estate plans won't be executed for many years to come, the reality is that we don't have any idea of the timeline, so it's essential to act swiftly.

"If you don't have an estate plan or yours need updating, the best time to act is right now. You'll be ensuring you leave the legacy you want and saving your loved ones from additional heartache and worry at the same time," Preston concludes.

Tips to **boost your savings**

Saving is simply about cash flow, ensuring you spend less than you have coming in and using the difference meaningfully. While it becomes more challenging as costs rise, many of us can still uncover ways to boost our savings.

According to Apt Wealth Senior Financial Adviser Tracey Pace, the answer lies in going back to basics.

"There is no denying the cost of living is increasing rapidly, and this is a critical time to revisit your household spending. And while the amounts might differ as costs increase, the basic tenets remain the same."

1 Know where your money is going

Tracey recommends starting by ensuring you know where your money is going at a granular level.

"You can't make a plan to increase savings without knowing how much and where you are spending.

"Ask yourself what your weekly or monthly outgoings are, and then delve into it to see how accurate you were. When we do this exercise with our clients, we often find they underestimate how much they spend."

Tracey highlights that this exercise can often uncover areas where cutting back won't really impact your life.

"A good example is subscription services you aren't using regularly but are paying for. Each subscription may seem small at under $20 a month, but this quickly adds up when you are paying for multiple. And if you aren't using them, you won't miss them."

2 Delve into the ‘why’, not just the ‘what’

According to Tracey, budgeting is often considered an exercise in frugality and going without, but it doesn’t have to be.

“When it comes to setting a budget, it’s really about making sure you are spending your money in the right ways, adding value to your life today while contributing to the future you want.”

Tracey says the key is ensuring your spending aligns with what’s most important to you. It’s about delving into the ‘why’, not just the ‘what’.

“For example, if you spend more than you’d like at expensive restaurants, is it because you enjoy fine dining? Or do you like the company of good friends? If it’s the latter, you can still achieve it at cheaper venues or by holding dinner parties at each other’s homes.

“You won’t miss the part you don’t value.”

To help uncover what’s most important and align your spending, Apt has created a handy values roadmap, *More Than Money*. Ask your adviser for a copy today.

3 Ask your providers for a better deal

With rising interest rates, inflation and global tensions, we are all feeling the impact on our bills, but Tracey says better deals may still be possible.

“If you have a mortgage, pick up the phone and ring your home loan provider to ask for a better deal and you just might find that you get one.

“This applies to your insurance, utilities, internet and basically every regular bill. Making these phone calls could save you thousands each year, and all it will cost you is a little time (and maybe some sanity waiting on hold!). At the end of the day, if you don’t ask, you definitely won’t get,” she says.

Tracey also highlights that in Victoria, simply comparing electricity prices will earn you $250 under the state government’s Power Savings Bonus initiative.

“The bonus is available to all Victorian households, and all you need to apply is a recent residential electricity bill in your name. By comparing your electricity prices through the Victorian Energy Compare website, you’ll be eligible for the bonus and may find some ongoing savings.”

For more information, visit compare.energy.vic.gov.au.

4 Plan ahead to keep on top of food expenses

Australians waste billions of dollars' worth of food each year. If we are honest, most of us could attest to throwing out a fair amount of food whenever we clean the fridge.

"Planning your meals ahead and buying only the amount of food you need is better for the environment and can save you thousands of dollars a year. It may sound simple, but this approach can save significant amounts of money at the checkout and reduce your spending on takeaway and delivery services."

Tracey also points out that using online delivery services, while convenient, may add significant costs.

"If you are getting takeaway, consider local options that you can pick up or that offer an in-house delivery service. You'll be supporting a local business and will likely save some money."

5 Keep the car for a little longer

While Tracey acknowledges that the 'new car feeling' is a good one, it doesn't last long. However, the financial impact can.

"While a new car is an exciting purchase, it's often a 'want', not a 'need.' If your current car is roadworthy and still suits your lifestyle, keeping it just a little longer can save you a considerable amount over time.

"There are many arguments about reducing ongoing maintenance costs and fuel efficiencies. However, the reality is that a new car is rarely a good idea financially," she says.

"Of course, your primary concern here must be safety, so if your car is no longer meeting your safety requirements, it's fair to say that you do 'need' a new one.

"The bottom line is that most of us can find a little extra to put away if we are prepared to invest a little time and see how small savings can accumulate quickly."

If you haven't revisited your household spending recently, now is the time. Your Apt Adviser can help you with budgeting templates and advice, so reach out if you would like support.

Aptitude

Disclaimer

This publication was prepared by Apt Wealth Partners Pty Ltd (ABN 49 159 583 847 AFSL and ACL 436121).

The content was prepared with freely available market information.

This publication is intended as general information only and has been prepared without taking into account your particular objectives, financial situation and needs. Before making an investment decision based on the information contained in this research update, you should assess your own circumstance or consult your financial planner.

Apt Wealth Partners, its directors, employees and associates are not liable for any loss or damage arising from reliance placed on the contents of this publication. To the extent permitted by law, all such liability is excluded.

Apt.

WEALTH PARTNERS

PROFESSIONAL PRACTICE
FINANCIAL PLANNING ASSOCIATION of AUSTRALIA

1800 801 277
Sydney • Melbourne
Geelong • Northern Beaches
aptwealth.com.au
info@aptwealth.com.au