PortfolioWatch

Quarterly newsletter – Autumn 2017

Australia
Recession ahead?

Who can challenge
your Will?

Finished work?
What next?

Apps
for your body and brain

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Trump victory propels share markets

Donald Trump's victory in the US presidential elections surprised both investors and political commentators alike. Share markets in the US rose strongly in the weeks following his victory as investors became more optimistic about the prospects for certain sectors of the US economy. President Trump has indicated he will aim to reduce banking regulations and increase infrastructure spending. Presuming that these aims are achieved, this could boost the prospects of some US companies.

US interest rates begin to rise

At the outset of 2016, it was expected that the US Federal Reserve, commonly referred to as the Fed, would increase interest rates four times during the year. However, as 2016 drew to a close, December saw the Fed's only rate rise of 0.25 per cent. Being widely anticipated, and effectively already priced into the share market, investor reaction was limited and economic data was supportive – job growth continued and unemployment fell to 4.7 per cent. The low level of inflation has been one of the factors preventing a rate rise but, since September, the increasing inflation rate (as measured by the consumer price index) has allowed the Fed to raise rates. The recent economic data, together with communications from the Fed, indicates rates are expected to rise two or three times in 2017. By the end of the year, it's expected that the US interest rate will be between 1.25 and 1.50 per cent.

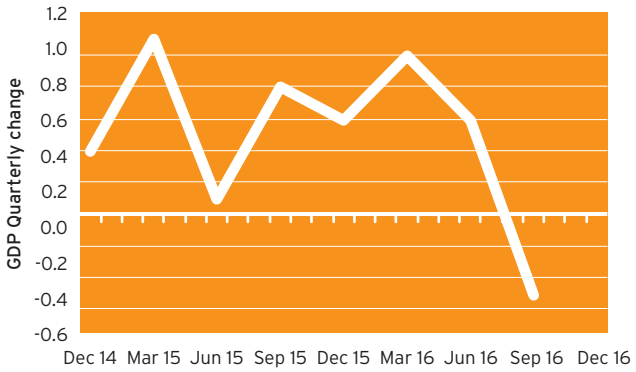
European banks in focus

European banks have been in the limelight. One of Italy's largest banks, which is also the world's oldest surviving bank, Banca Monte dei Paschi di Siena, failed to raise €5 billion from investors to shore up its finances. This lack of interest from investors seems to stem from losses on non-performing loans as well as the level of investor caution surrounding political risks in Italy. This was highlighted recently when the Prime Minister, Matteo Renzi, resigned after a referendum he proposed was defeated. The referendum aimed to make it easier to pass laws and sustain a stable government. In late December, the Italian parliament approved a €20 billion bail-out fund for Monte Paschi and other Italian lenders. However, investors remained concerned and bought less risky German government bonds. In 2017, general elections in France, the Netherlands and Germany, mean there are more political risks on the horizon for Europe which will increase the potential for volatility and significant market movements in the year ahead.

Australia could have a technical recession

Up until December, the Australian economy appeared to be growing at a rate that was in-line with the expectations of the Reserve Bank of Australia (RBA). In December, however, data indicating relatively weak Gross Domestic Product (GDP) was released showing that Australia's GDP actually shrank by half a per cent in the September quarter – the first time it has fallen since March 2011. If GDP continues to decline over the next quarter, then Australia will have entered a recession, with the widely accepted technical definition of a recession being two consecutive quarters of declining GDP.

The significant drivers of the decline in GDP were reduced government consumption and reduced public capital expenditure. According to the Federal Government's budget, this reduction is unlikely to be reversed quickly. While the RBA forecasts 2016 GDP growth to be between 2.5 and 3.5 per cent, the weak result experienced in the September quarter will likely push GDP growth to the bottom end of that range. Despite some investors' concerns about Australia entering a technical recession, in March we expect the release of GDP growth data to show a rebound in the December quarter, when GDP, combined with a gradual rise in inflation, will likely see the RBA leave interest rates on hold during 2017.



Can your Will be challenged?

Yes it can, but only in certain situations. While most people try hard to strike a fair balance when they write their Will, sometimes there may be people who are unhappy with how the estate has been divided and decide to challenge it.

There are two main types of 'challenges' in relation to a Will: challenging the validity of the Will itself and claiming for 'family provision'. A claim for family provision occurs when a challenger believes they should have received money or assets to provide for their ongoing welfare. They can claim at court that a provision should have been made for them. This is the most common type of challenge.

Challenging the validity of a Will

This can occur when:

- the strict legal requirements for the creation of a valid Will have not been followed
- the Willmaker did not have 'testamentary capacity', meaning they didn't have the mental capacity to understand the effect of making a Will, the extent of their assets and an appreciation of who could be possible beneficiaries
- the Willmaker was subject to 'undue influence', but this is very hard to prove.

Challenging the lack of family provision

Separate legislation in each State and Territory allows certain family members or eligible persons to make a claim for provision out of your estate.

Can you prevent challenges to your Will?

Not entirely. However, you can certainly take steps to minimise the likelihood of claims being made but to do this you need to use a qualified legal professional.

Some of the ways to reduce the likelihood of your Will being challenged are to:

- ensure your Will complies with the formal requirements of the law, including the correct signing of the Will
- ensure any suggested lack of testamentary capacity is dealt with when the Will is made so there is evidence available, if necessary, that supports your 'capacity'
- ensure you are freely making your Will, without any undue influence
- consider any possible claim under the family provision legislation and minimise not only the chances of a claim being made, but also the chances of a claim being successful.

If you would like more information about your Will, please contact your **financial planner**.

Source: Australian Executor Trustees Limited

Apps and gadgets for boosting your brain and body

We all know staying physically and mentally active is good for us but as you move into retirement the amount of regular exercise you get simply by going to work can shrink. Thankfully, smartphone technology means there are now great ways you can stay fit and even learn at the same time. No matter what types of hobbies or sports you're interested in, it's very likely there is a useful app that will boost your enjoyment or knowledge.

Walking tour apps

Before you head off on your next holiday, you may find it useful to investigate whether there are any apps associated with the region you're visiting. As an example, the City of Sydney offers an app that is the ideal companion for your very own walking tour. The app has more than 400 historical and public art points included. You can discover new neighbourhoods, learn about Sydney's Modernist architecture and unearth stories behind the city's most loved public artworks. The councils of Melbourne and Adelaide also have walking tour apps available to help you learn and discover more when you are on holiday.

Go to your app store and search for walking tour apps for the region you're next visiting. You may be surprised at the variety of apps you can find. These apps are often free or only cost a couple of dollars and can really enhance your travel experience.

Fitness tracking apps

There are a huge range of these types of apps, some will have recommended routines while others let you record the distance and time you have walked or run. You can also buy special wristbands that track your pulse, calories burned as well as distance. Some apps allow you to see how your friends are performing so you can add some competition into your fitness routine.

Waterproof music

Take your music with your everywhere you go, even in the water! Waterproof digital music players can now be accompanied with waterproof headphones. You can listen to podcasts, audio books or music. Several waterproof headphones provide different attachments so it's easy to find a fit that's right for the shape of your ear canal and provides a good seal against water. These handy gadgets are a great way to make those morning laps of the pool pass a little more quickly.

Heart rate monitor cap

Most heart rate monitor chest straps can be uncomfortable and awkward to wear, often needing adjustment mid-workout. But a heart rate monitor cap is as simple as it sounds – a comfy cap that gives you an accurate heart rate reading. It may also keep an eye on your temperature, movement, and total calories burned while you're on the go.

UV wristband

If you're constantly on the move and enjoying a range of outdoor activities, keeping track of how much sun you've been exposed to can be tough. That's where a UV wristband can eliminate the guesswork, simply changing colour when you need to apply more sunscreen or when you need to avoid the sun entirely. Most of these bands are waterproof as well so they're great for the beach.

Yoga apps

Need help winding down at the end of the day, but still want to work those muscles? Downloading a yoga app could be the solution for you. Many off these apps feature a library of yoga and meditation classes that range in timeframes and ability. You can focus on strength, flexibility, relaxation, balance, or a combination. Some of these apps even allow you to create your own classes using the app's library of poses.

Staying active can sometimes feel difficult but an app or a gadget can really boost the enjoyment you get from exercise or learning. You will get the best out of retirement if you stay healthy and happy so explore some of the amazing types of apps available and challenge yourself to achieve new physical and mental goals.

Investment market review Quarter ended 31 December 2016

Australian shares

Australian shares rose 4.9% in the December quarter

The strongest performing sector was financials, with a gain of 10.8%, followed by utilities with an increase of 7.8%, the energy sector climbed 7.4% and materials increased by 7.2%. The financials sector led the market higher as investors moved into cyclical sectors following a rise in bond yields and commodity prices. Iron ore and West Texas Intermediate crude oil prices appreciated 41% and 11% respectively, helping the materials and energy sectors post strong results. Sectors that performed poorly included health care, declining by 8.8%, telecommunications which fell 4.3% and the consumer discretionary sector which lost 2.9%. One major reason for the poor performance of the health care sector was a large decline of 55.9% in Sirtex Medical Ltd after they announced weaker than expected sales growth.

	1 year (%)	5 year (% pa)	10 year (% pa)
Australian shares	11.8	11.6	4.4

Listed property trusts

The A-REIT sector declined 0.7% during the December quarter.

The sector once again underperformed the general market as global bond yields continued to move higher. This was partly due to expectations of increased government spending and lower taxes in the United States following the election of President Trump. Property shares generally suffer from increasing rates because of the drag on earnings, but A-REITs often have inflation-linked leases, thereby delivering a degree of protection in terms of the rents they receive. Despite the recent pullback, the sector still appears expensive on an historic, relative and absolute basis.

	1 year (%)	5 year (% pa)	10 year (% pa)
Listed property trusts	13.2	18.5	0.3

International shares

International shares performed strongly during the December quarter despite another period dominated by political events – the most notable being the US Presidential election.

Financial market investors revised their expectations for government spending and tax policy in the US following the election and this was an important factor driving share valuations, the increase in government bond yields and the appreciation of the US dollar. The S&P 500 gained 3.3%, the FTSE 100 rose 3.5%, the German DAX 30 was up 9.2% and the Nikkei 225 climbed 16.2%. The MSCI World Index in Australian dollar terms increased by 8.3% in the December quarter.

The European Central Bank left the deposit rate unchanged at negative 0.40% but decided to continue the current level of monthly asset purchases of €80 billion until the end of March 2017, after which there will be a reduction to €60 billion per month until the end of December 2017. The US Federal Reserve increased the federal funds rate by 25 basis points to a target range of 0.50 – 0.75% at its December meeting. The decision was widely anticipated because data had been increasingly supportive of an interest rate increase.

	1 year (%)	5 year (% pa)	10 year (% pa)
International shares	9.3	19.1	5.4

Fixed interest

In the US and Australia, long term interest rates rose more than short term rates, causing the yield curve to steepen.

The US 10-year bond yield rose 85 basis points and the Australian 10-year bond yield rose 86 basis points. In the US, government bond yields moved higher as a result of the interest rate increase and because of expectations Donald Trump's policies will include a significant amount of spending on infrastructure as well as tax cuts, thereby boosting economic growth and inflation. Australian bond yields were not immune and quickly followed the United States lead due to the high correlation between the two countries' government bond yields.

	1 year (%)	5 year (% pa)	10 year (% pa)
Fixed interest	2.9	5.0	6.2

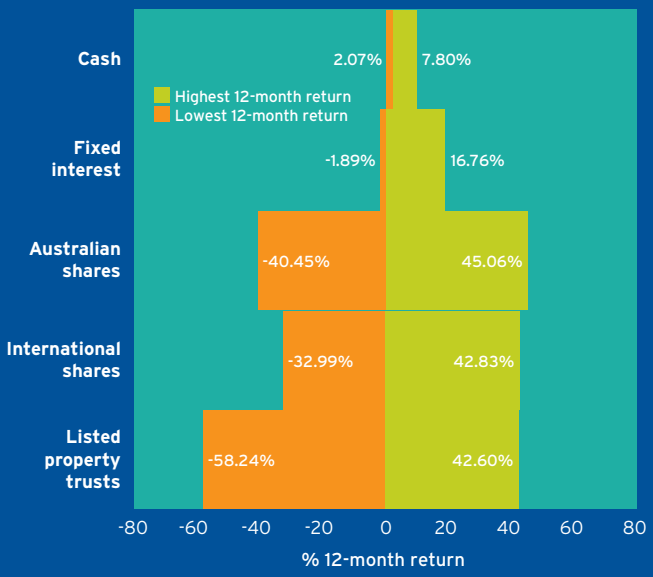
Cash

The RBA left the cash rate unchanged at 1.50% during the December quarter.

This was despite uncertainty regarding the strength of the labour market, concerns that inflation would remain low for some time and the weaker than forecast GDP growth in the September quarter. Rising oil prices and downside pressure on the Australian dollar as a result of the US Federal Reserve's intention of raising rates two or three times in 2017 will likely cause the RBA to leave rates on hold during 2017.

	1 year (%)	5 year (% pa)	10 year (% pa)
Cash	2.1	2.8	4.1

The long view



This chart displays the highest and lowest 12-month returns of the major asset classes since December 1996.* As you can see, cash provides stability and security, having never generated a negative return over a 12-month period. The trade-off for this stability and lower risk is that cash will be unlikely to match the higher returns generated by other asset classes.

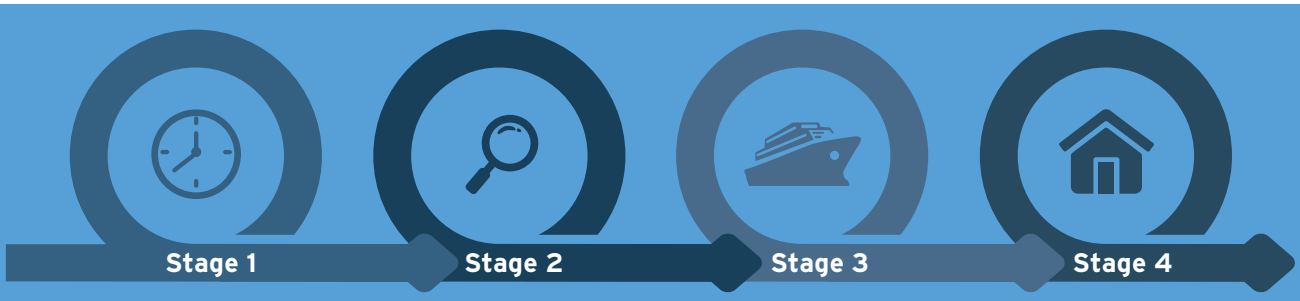
Source: Morningstar. Indices used are: Cash – AusBond Bank Bill; Fixed Interest – AusBond Composite 0+ year; Australian shares – S&P/ASX 300 Accumulation; International shares – MSCI World Accumulation Index (AUD); Listed property trusts – S&P/ASX 300 A-REIT Accumulation.

* The listed property index is only available from June 2001 and the international shares index is only available from January 1999.

The retirement journey

Where are you now?

For some people, retirement is marked by a single momentous event: the day one stops working. But retirement is a longer journey and what you want will tend to change as you grow older. A recent study by Merrill Lynch[1] looked at the typical retirement journey and split retirement into four distinct stages, as shown below:



Stage 1

Winding down and gearing up

Pre-retirees can feel overwhelmed with work and are stressed because work keeps them very busy.

They are looking forward to travelling to escape work and recharge their batteries.

Stage 2

Liberation and self-discovery

The recently retired enjoy their free time.

It can be difficult to adjust from having a work-centred identity to one defined by other interests.

They seek personal growth, adventure, and enjoy trips that involve education and meeting new people.

Stage 3

Greater freedom and new choices

Enjoyment of leisure improves and deepens.

It is now easier to embrace their new non-working identity.

Spending more on travel but activity levels decrease so more interest in cruises, international sightseeing and short luxury trips.

Stage 4

Contentment and accommodation

Focused on maintaining good health.

Familiar activities are preferred rather than seeking new experiences.

Spending on travel dips and now tends to be with children or grandchildren.

You will have plenty of spare time during your retirement but how you use that time will change depending on your stage of retirement. The stages we've described are not rigid but it can be helpful to think in advance about what retirement could look like for you.

While ensuring you have enough money saved for retirement is an important part of the retirement preparation process, you also need to think ahead about your spending. You should identify your retirement goals in terms of what you want to achieve in the different stages – don't just concentrate on the days and weeks after you stop working.

Your spending in retirement will change as you reach different stages. To help you clarify how your spending will be affected by your short-term and long-term retirement goals, speak to your financial planner.

1 Merrill Lynch & Age Wave. (2016). Leisure in retirement: beyond the bucket list. Retrieved from: http://agewave.com/wp-content/uploads/2016/05/2016-Leisure-in-Retirement_Beyond-the-Bucket-List.pdf

Sydney
Level 28, 31 Market Street, Sydney NSW 2000
t 02 8262 4000 **f** 02 9283 6331
e sydney@aptwealth.com.au

Melbourne
Level 5, 411 Collins Street, Melbourne VIC 3000
t 03 8779 5254 **f** 03 8779 5262
e melbourne@aptwealth.com.au

Geelong
24 Moorabool Street, Geelong VIC 3220
t 03 5221 7557 **f** 03 5222 5037
e geelong@aptwealth.com.au

WMA-21362