

PortfolioWatch

Quarterly newsletter – Spring 2017

Elections

Markets unmoved

EOFY

not just tax

Super opportunity

to save

21ST century
fitness

Apt.

WEALTH PARTNERS

French election boosts hopes for European unity

Emmanuel Macron and Marine Le Pen went head-to-head in the second round of the French presidential election that took place in May. The opinion polls managed to predict the result, unlike some recent notable failures.

Macron's win has eased concern over the impact of right-wing parties in Europe and the potential for a European Union collapse. Despite this election result it wasn't enough to convincingly move European markets into positive territory for the June quarter. Macron attained 66.1 per cent of votes in the second round, a decisive victory, but as it was predicted by pollsters the market reaction was relatively muted.



UK general election backfires on Theresa May

The UK Prime Minister, Theresa May, called an early election on 8 June in an attempt to gain a larger majority for her Conservative party in parliament. Prior to the election, the Conservatives held a majority of 17 seats in the House of Commons and it was in May's best interest to attempt to increase the majority and strengthen her position in the Brexit negotiations. However, May wasn't so fortunate. Her snap election backfired and the Conservative Party lost its majority in the House of Commons. May now finds herself forced to deal with the Northern Irish Democratic Unionist Party so she can form a minority government. Despite the shock result, financial markets reacted relatively calmly.



Rating agencies downgrade Australian banks

Moody's, the credit rating agency, lowered their rating on a number of Australian banks including the big four in June, citing increased economic risks due to the state of the property market and high-levels of household debt. The big four banks had their rating cut from Aa2 to Aa3 following a similar move by S&P Global Ratings in May. The housing market has received a lot of attention lately due to the risks associated with rising household debt and concerns over affordability, particularly in Sydney and Melbourne. While economic risks have increased, macro prudential actions should help unwind the imbalances and prevent a further build-up of risks.



China supports free trade

The price of iron ore surged following Chinese Premier Li Keqiang's commitment to support free trade during the World Economic Forum. But, it's difficult to see a sustained rebound in the metal given China's overcapacity in steel. Despite the short term surge, the price of iron ore fell over 35 per cent in the June quarter due to the persistent glut and high inventory levels at Chinese ports.

EOFY – not just about tax

The start of the new financial year isn't just about getting your tax return in. It's the perfect time to think about your circumstances and get your estate plan in order – especially if your situation has changed.

Estate planning is the process of planning ahead to make sure your affairs are in place when you pass away or become sick and can no longer manage them yourself. This checklist can help you work out if you need to review your estate plan.



Family

- Have you had children or grandchildren?
- If you have had children – do you need to nominate a guardian if something should happen to you?
- Have you married, remarried, entered into a relationship or divorced?



Beneficiaries

- Do you have any beneficiaries in your Will that you no longer wish to provide for or who have passed away?
- Do any of the beneficiaries in your Will have special needs?



Estate administration

- Is the executor nominated in your Will still appropriate? If you have a complex family structure such as a blended family, a self-managed super fund or a family trust it is important that they are independent and impartial.



Trusts and funds

- Do you want to make a gift to a charitable organisation?
- Do you want to provide an education fund for your children or grandchildren?
- Are you worried that anything you leave to your children may end up going to their spouse in the event of a relationship breakdown? There are ways you can protect your assets by establishing a testamentary trust in your Will.



Legal documents

- Do you have the correct legal documents in place to nominate someone you trust to look after your financial affairs, make lifestyle and medical decisions on your behalf if you're unable to?

If you're concerned about any of the points above, it's time to review your estate plan.

Your **financial planner** can tailor an estate plan to suit your individual circumstances.



Fitness for the 21st Century

There's no doubt that your financial wellbeing is important to ensure you have a comfortable retirement. But, to make the most of it, it's just as important to have a healthy mind and body.

Physical activity can add years to your life, not to mention life to your years. While exercise undoubtedly helps you maintain or lose weight, it also enhances mobility and flexibility, reduces the impact of illness, boosts your mood and self-confidence, and keeps your brain sharp – ultimately helping to ward off memory loss, dementia and Alzheimer's disease.

Renowned Australian aerobics pioneer, Wendi Carroll, knows this better than most and has recently created an on-demand fitness program called Zest. The program has been designed to cater for the unique physical activity and nutrition needs of baby boomers but can be accessed by anyone who's interested in boosting their fitness.

Wendi is a personal trainer with 30 years' experience under her belt – 17 of which were spent as a presenter on the international fitness TV show 'Aerobics Oz Style'!



Zest

Zest is an eight-week wellness and total transformation program, offering daily online workouts that support a variety of goals across health, strength, agility, weight-loss, mobility and fitness, as well as a comprehensive nutrition guide and meal plan specifically designed for those in their 50s, 60s or 70 plus. You can follow it from the comfort of your own home, or anywhere, as long as you have an internet-enabled device handy.

The online portal also includes a forum for participants to motivate each other, a workout calendar and a nutrition guide and meal plan designed by an accredited dietician.

As a baby boomer herself, Wendi understands how seniors can be prone to 'gymtimidation', making at home workouts all the more appealing and says that as long as you enjoy what gets you moving, you'll reap the rewards.

“It is entirely possible to develop a six-pack in your 60s!”

Wendi Carroll



Top five tips

Wendi knows her stuff when it comes to health and fitness. Here are her top five health and fitness tips.



1. Consult your doctor

It's really important you talk to your GP before starting any exercise program. They'll need to give you the all clear and can also recommend what areas you need to focus on.



2. Start slowly

Your head might still think you're 30 but your body will soon tell you otherwise! Don't get discouraged if you tire out quickly at the beginning – just get plenty of rest between sessions. You should look to do about 150 minutes of low impact, moderate intensity physical activity a week. This can be broken down into 10 or 15 minute increments two or three times a day.



3. Find something you enjoy

If you're having fun, you're more likely to keep doing it. There are so many different ways to exercise, whether it's an online program, Tai Chi, water aerobics or going for a stroll along the beach.



4. Exercise with friends

You'll be more motivated to continue if you're working out with friends. But if you can't find anyone to join you, sign up with your local gym, council run classes or an online program or forum.



5. Think of your food as medicine

Try eating healthy, colourful, seasonal, fresh food that you cook yourself so you really get the best fuel possible. Stay away from processed foods and sugary drinks.

Make healthy normal and get up and get moving, it's never too late to start.



Your ability to enjoy your hard earned money in retirement means keeping fit and healthy. For advice on how to be financially fit in retirement, talk to your **financial planner**.

Investment market review Quarter ended 30 June 2017



Australian shares

The S&P/ASX 300 Accumulation Index was down -1.6% in the June quarter as concerns over the property market, the Australian consumer and the big banks weighed on investors.

On a sector level, the best performers were industrials up +7.8%, health care up +7.0% and information technology up +5.7%. The worst performing sectors were telecommunications down -8.1%, energy down -6.0%, financials down -5.9% and consumer staples down -5.3%. Cyclical sectors fared worse on geopolitical concerns and a pause in the reflation trade. The big banks dragged the financials sector lower following the announcement of the bank levy and on general concerns regarding the property market.



	1 year (%)	5 year (% pa)	10 year (% pa)
Australian shares	13.8	11.6	3.4



Listed property trusts

The A-REIT sector generated a negative return of -2.99% for the June quarter.

The sector continued to be pressured by the expectation of higher bond yields going forward as well as the impact of Amazon and the challenging consumer outlook on the retail sector and the retail REIT's. The driver of retail spending is disposable income and the outlook for spending looks challenging given lower real wages, increased debt to income levels and rising interest rates.



	1 year (%)	5 year (% pa)	10 year (% pa)
Listed property trusts	-5.5	14.2	0.0



International shares

Global markets provided a mixed bag of returns for the second quarter of the year.

The MSCI World Index in Australian dollar terms was up +3.8% in the June quarter and markets in Asia and the US recorded solid gains despite volatile commodity prices and concerns over Donald Trump's agenda and calls for impeachment. Major European markets on the other hand finished the quarter flat despite investor relief as Emmanuel Macron defeated right wing candidate Marine Le Pen in the French presidential election. British Prime Minister Theresa May wasn't so fortunate with her snap election backfiring and her Conservative Party losing its majority in the House of Commons. The S&P 500 gained +2.6%, the FTSE 100 lost -0.1%, the German DAX 30 was up +0.1% and the Nikkei 225 was up +6.0%.

Markets bought the idea that we are in the midst of a global push by central bankers to coordinate a more hawkish message on monetary policy. This was the result of a shift in tone from banks including the European Central Bank, Bank of England and the Bank of Japan. The European Central Bank left monetary policy unchanged and the US Federal Reserve increased the federal funds rate by 25 basis points to a target range of 1.00-1.25% in its June meeting as widely expected. The Fed reiterated its expectation of implementing balance sheet normalisation this year.



	1 year (%)	5 year (% pa)	10 year (% pa)
International shares	15.3	18.6	5.7



Fixed interest

The US and Australian yield curves were flatter over the quarter.

The Australian 3 year bond yield was unchanged at 1.91% and the 10-year fell -10bps. The US 3 year bond yield rose +6bps and the 10 year fell -8bps. Long term bond yields fell modestly due to geopolitical concerns including increased tensions between the US and North Korea, as well as concerns over Donald Trump's ability to enact tax reform. Trump created more political uncertainty following reports that he asked former director of the FBI, James Comey, to stop his investigation into former National Security Adviser Michael Flynn. The possibility of impeachment, even though it is unlikely, is a dampener for long term bond yields.

	1 year (%)	5 year (% pa)	10 year (% pa)
Fixed interest	0.3	4.3	6.2



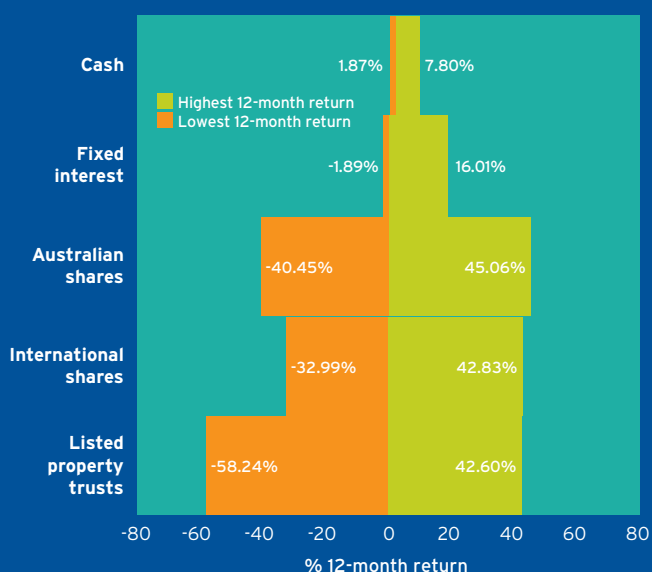
Cash

The RBA left the cash rate unchanged at a historical low of 1.50% in the June quarter but there was chatter in the market about the possibility of a rate cut this year due to the March quarter GDP result of 0.3%QoQ and 1.6%YoY.

Although the risk of a rate cut was indicated, the slowdown in GDP growth wasn't unexpected, and unlike markets, central banks do not react to single data readings.

	1 year (%)	5 year (% pa)	10 year (% pa)
Cash	1.8	2.5	3.9

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.

A super opportunity for you this year

While the contribution limits for super have gone down this year, there's still opportunities to take advantage of the generous tax environment super offers.

Make the most of your before-tax contributions

Concessional contributions are contributions you can make to super with your **before-tax** salary. For most people concessional contributions are taxed at just 15 per cent – not your marginal tax rate. That's a big tax cut and puts your money to work – in your super account.

This financial year, you're allowed to contribute, or 'salary sacrifice', \$25,000 of concessional contributions. Remember – your employer's 9.5 per cent compulsory contributions count towards your concessional contributions. And, from 1 July 2018 new rules let people with total super balances under \$500,000, 'carry forward' up to five years of the unused portion of their concessional contributions cap.

So, how much tax can you save?

If you earn \$90,000 and put \$10,000 into your super you can benefit by up to \$2,400 per year, as the table shows.

Depending on your salary, the benefit may be even greater.

Salary vs salary sacrifice



	Taken as salary	Salary sacrificed into super
Gross contribution	\$10,000	\$10,000
Tax rate (%)	39*	15
Tax payable	\$3,900	\$1,500
Net benefit	\$6,100	\$8,500

* Marginal tax rate on \$90,000 (including Medicare levy)

\$2,400
better off

For people on the highest marginal tax rate of **47 per cent**, salary sacrificing into super will save you

32 cents

in every dollar from going to the tax man.

For people who earn more than \$250,000 the concessional tax rate climbs to **30 per cent** but still saves

17 cents

in every dollar.

How do you get started?

Whether you'd like to make a one-off contribution or set up an ongoing arrangement, speak to your financial planner and contact your employer's payroll department.

If you're considering taking advantage of the tax benefits of making concessional contributions or want to understand more about the super opportunities on offer, please talk to your financial planner.

Sydney

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

Melbourne

Level 8, 360 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

Apt Wealth Partners Pty Ltd ABN | 49 159 583 847 | AFSL Number 436121

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