PortfolioWatch

Quarterly newsletter – Winter 2017

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Australia avoids a recession

Australia avoided a recession at the end of last year by recording Gross Domestic Product (GDP) growth of 1.1 per cent in the December quarter after recording a very weak -0.5 per cent in the September quarter.

The main reasons for the rebound were increased exports, helped by stronger commodity prices, household consumption and public investment. Despite this, GDP growth is likely to remain subdued in 2017 because there are a number of risks that could negatively affect the economy including a softening in commodity prices, a decrease in debt leveraging in China and potential adverse impacts from world political events.

It's not all smooth sailing for the RBA

The Reserve Bank of Australia (RBA) believes that the rise in commodity prices over the past year has significantly helped increase Australia's value of exports relative to the value of its imports. This could have a bigger flow through to the economy than first thought.

On the flipside, the RBA appears concerned about the spare capacity in the labour market which is hindering wage growth.

The housing market is also a concern because investor borrowing and household debt continues to rise. In particular, Sydney and Melbourne continue to exhibit strong house price growth. The RBA noted that there has been a build-up of risks associated with the housing market and is likely to be reluctant to cut the cash rate to prevent fuelling the house market.

Trump hits first major stumbling block

In March, Trump hit a major stumbling block in his attempt to repeal and replace the Affordable Care Act (Obamacare). Trump was forced to withdraw his American Health Care Act due to the lack of support in Congress, even though the Republicans hold a majority in both houses, and even though Republicans heavily opposed the Obamacare bill passed in 2009. This setback has raised some doubts about the Trump administration's ability to push through legislation. As a result, Trump has set health care aside to focus on tax and regulatory reform. This will also likely prove difficult given there hasn't been major tax reform since 1986 and many Democrats are unwilling to work with Trump. He is also having trouble drawing support from within his own party. Although this has raised doubts about the ability of the Trump administration to push through legislation, it appears that markets are still being too complacent.

Europe is powering along despite geopolitical events

Despite the political noise ringing out of Britain, the Netherlands and France over the quarter, many European share markets hit, or came close to hitting historic highs.

For instance, following some parliamentary ping pong, the Brexit bill was approved. This gives the British Prime Minister, Theresa May, the power to officially begin the process of leaving the European Union (EU). This was a non-event for financial markets with many share markets continuing to trade at or around historical highs.

In response, the President of the European Council, Donald Tusk, announced that he has a strong mandate to protect the interests of the 27 member states, EU citizens and businesses. This is a reminder that uncertainty persists in the region and the post-exit relationship will have an important economic impact.

Meanwhile, in the Netherlands, Geert Wilders, the anti-Islam and anti-EU candidate, lost to incumbent Prime Minister Mark Rutte – providing right-wing populism with a setback.

The United Kingdom will also now hold a general election in June. The British Prime Minister, Theresa May, said that the election had been called because "Division in Westminster will risk our ability to make a success of Brexit, and it will cause damaging uncertainty and instability to the country".

Being an executor is not for the faint-hearted

When appointing an executor, you can choose a family member, friend or professional trustee company. But, one thing's for sure – it's not for the faint-hearted.

What does an executor do?

An executor is the person or organisation responsible for carrying out the wishes outlined in your Will. They are responsible for the administration of your entire estate following your death – from identifying and collecting all your assets, to paying your debts, to the ongoing protection and management of your assets – until the administration of your estate is complete.

What are the risks of getting it wrong?

The major risk is that the executor makes an error in the administration of the estate and exposes the estate to a loss. Also, a mistake can cause a delay in how quickly beneficiaries receive their inheritance.

Liability is extensive

An executor is personally liable if it can be shown that they were negligent in carrying out their duties. Unfortunately, relatives that may be unhappy with their treatment in the Will could accuse the executor of some perceived failing.

Locked in

Once a court has granted probate, it's not easy for an executor to resign from their position. The court will need a good reason for them to do it – simply finding the role too difficult is unlikely to be considered an adequate reason.

Who should you choose?

Deciding who to choose depends on a combination of the complexity of the estate and the ability and experience of the potential executor.

Selecting a professional trustee company to act as your executor, or to provide assistance to your chosen executor through an 'executor assistance service', could be a worthwhile choice. They can help you sidestep the potential losses your estate could face if the executor you selected doesn't have the required skills, and spare that person some potential stress and concern.

To find out more about how to choose the right executor, contact your **financial planner**.

Source: Australian Executor Trustees Limited

Create your own club

From book clubs to walking groups, having a special interest is an ideal way to boost your mind, body and soul in retirement — with the added benefit of growing your circle of friends.

Sporting groups such as golf, tennis and bowls can be found in most communities. But, if your particular interest lies elsewhere, it's a great opportunity to form your own group and connect with like-minded people.

Here are some tips if you're interested in growing your pastimes and friends.

1. Choose your special interest

Do you enjoy cooking up a storm with friends in the kitchen? Or long to review the latest films with a group of like-minded movie buffs? Remember, anything can be a special interest, so think about how you can make it a group activity and start a club.

2. Find a venue

If holding the group in your home is something you'd prefer not to do, you'll need to find a suitable location.

If photography is your thing, the local high school or gallery is a great place to meet. If it's a book club you're starting, seek out meeting rooms in your local library or community hall.

3. Put a call out

Thanks to a range of online platforms, establishing your club can be done in three easy steps:

1. Set up a group on your preferred platform (meetup.com is a popular choice).
2. Fill in a group name and a brief description. Make sure you clearly communicate exactly what your club is all about.
3. From there, create events and invite members of the platform who have similar interests to join.

Social media is another useful tool for spreading the word. Facebook allows you to set up groups and create events to share among your existing networks. And don't forget about community noticeboards and classifieds in your local paper.

4. Organise events

Think of a range of events associated with your group to get people talking and more members joining.

- A photography club could do photo shoots in different locations and visit photo exhibitions around town.
- A bushwalking group might enjoy a trek through a rainforest as well as learning orienteering.
- A dance group could hit the dance floor or attend the ballet.

Whatever your interests, having a variety of events booked in advance will be a huge drawcard for potential members – and is a great way to meet people and forge connections.

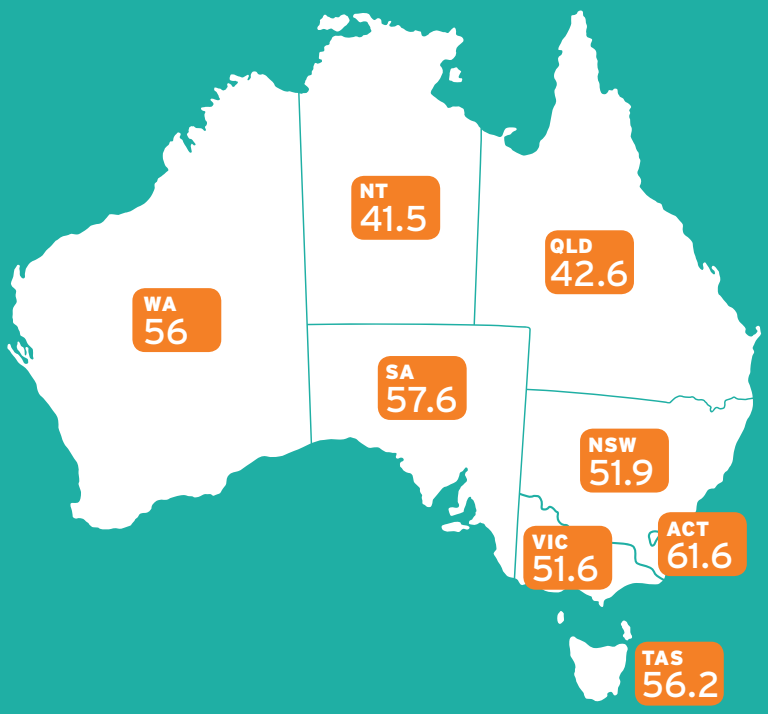
5. Keep communicating

Now that you're on a roll, it's important to maintain momentum. Assigning group members specific roles and delegating tasks is a great way to keep people involved. A useful tool for this is groupspaces.com – this website enables you to store membership information and communicate with each other.

In retirement you have the time to focus on things that have a special interest to you and connect with like-minded people. So get started today, make your own club and bring your community together.

Which Australian state has the fittest people 55 years and over?

The diagram below shows the percentage of people 55 years and older who participate in sport and physical recreation in each state.



Source: ABS.gov.au.4177 – Participation in Sport and Physical Recreation, Australia, 2013-14

Did you know – almost 20 per cent of Australians say they walk for exercise?

Top sports and recreations in Australia

Walking for exercise	**19.2 %**
Fitness/Gym	**17.4 %**
Jogging/Running	**7.4 %**
Swimming/Diving	**6.4 %**
Cycling	**6.2 %**
Golf	**4.0 %**
Tennis	**3.0 %**

Contact your **financial planner** to help bring your retirement plans to life.

Investment market review Quarter ended 31 March 2017

Australian shares

The S&P/ASX 300 Accumulation Index was up +4.7% in the March quarter.

On a sector level, the best performing sectors were health care up +13.8%, utilities up +9.6%, consumer staples up +8.7% and financials up +4.9%. There was some rotation into defensive and bond sensitive equities such as health care, infrastructure and utilities as investors found comfort in predictable cash flows as bond yields fell. The worst performing sectors were telecommunications down -7.3%, real estate down -0.5% and information technology down -0.1%.

	1 year (%)	5 year (% pa)	10 year (% pa)
Australian shares	20.2	10.8	4.2

Listed property trusts

The A-REIT sector generated a negative return of -0.03% for the March quarter.

The sector has been under pressure since global bond yields began to move higher in the second half of 2016 due to signs of higher inflation and the expectation of fiscal stimulus in the United States. REITs results were in line with expectations during reporting season but there was some impact from softer retail conditions. Additionally, the market is becoming overly pessimistic on the impact of Amazon on the retail sector and the retail REIT's.

	1 year (%)	5 year (% pa)	10 year (% pa)
Listed property trusts	6.4	16.8	0.6

International shares

Many major global equity markets hit, or came close to hitting historic highs over the March quarter.

This performance was despite the political risk in Britain, the Netherlands and the United States. The British Prime Minister, Theresa May, invoked article 50 of the Lisbon Treaty, officially beginning the exit from the European Union. In the U.S., the Republican Party's replacement of 'Obamacare' was withdrawn due to lack of support in Congress. This has raised some concerns that there is less scope for Trump to be able to push through major fiscal changes. The S&P 500 gained +5.5%, the FTSE 100 was up +2.5%, the German DAX 30 was up +7.3% and the Nikkei 225 was down -1.1%. The MSCI World Index in Australian dollar terms was up +0.5% in the March quarter.

The European Central Bank left monetary policy unchanged. As announced in December, the ECB will continue the QE program at a reduced amount of €60 billion worth of assets per month from April to December 2017. The U.S. Federal Reserve increased the federal funds rate by 25 basis points to a target range of 0.75 – 1.00 per cent at its March meeting. We continue to expect a gradual move towards policy normalisation, likely culminating in a maximum of three interest rate hikes this year. The U.S. Fed minutes also indicated that tightening of quantitative easing could be appropriate this year.

	1 year (%)	5 year (% pa)	10 year (% pa)
International shares	15.8	16.9	5.5

Fixed interest

U.S. and Australian yield curves were flatter over the quarter.

The Australian three-year bond yield fell -5bps and the ten-year fell -6bps. The U.S. three-year bond yield rose +4bps and the ten-year fell -6bps. Bond yields appear to have stabilised for now following the significant run up last quarter as a result of Donald Trump's proposed policies. Concerns have grown about the ability of the Trump administration to push through legislation and this has weighed on bond yields. We still however expect higher bond yields in the future given the path to monetary policy normalisation in the U.S. and rising inflation in many parts of the world.

	1 year (%)	5 year (% pa)	10 year (% pa)
Fixed interest	2.1	5.0	6.2

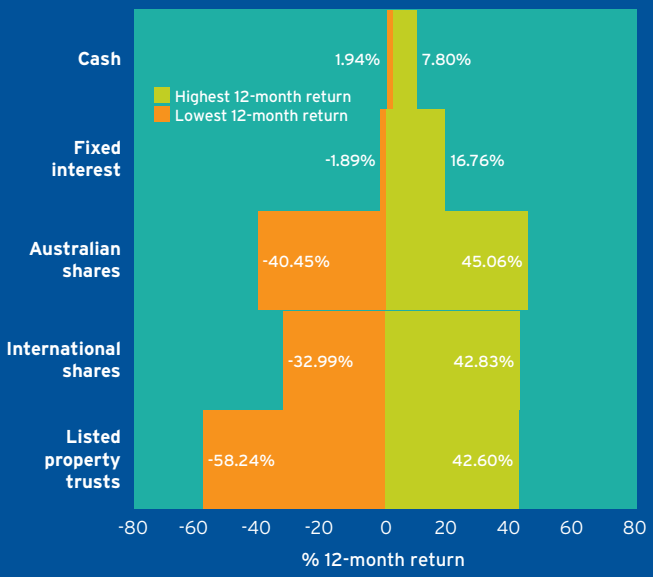
Cash

The RBA left the cash rate unchanged at 1.50 per cent in the March quarter.

The RBA noted that the rise in commodity prices over the past year could have a bigger flow through to the economy than forecast. On the flipside, the RBA appears concerned about the labour market, as well as the build-up of risks associated with the housing market. It's likely the RBA will leave the cash rate on hold in 2017, and will be very reluctant to cut the cash rate to prevent fuelling further price gains in the housing market.

	1 year (%)	5 year (% pa)	10 year (% pa)
Cash	1.9	2.7	4.0

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.

Home care – greater choice

Since February 2017, some welcome changes have been made to the home care system – giving greater choice to older Australians.

The number of people in government subsidised home care in 2014 was over **65,000*** across Australia.

In the years ahead, the ageing population means the number of people requiring home care is going to increase so it's important that as people age they have choice about the care they receive.

From February 2017, all home care packages are provided to individuals from a national pool rather than to home care providers under a funding allocation process.

This means that once your funding has been approved, based on your individual needs and situation, you can change providers – without having to reapply for funding. Also, any unused funds remain yours.

This change is expected to create a more competitive, customer-driven home care industry empowering people to shop around for providers that are better able to meet their needs.

Case study

Megan has been assessed and approved to receive a home care package. Let's see her options before and after the home care reforms.

Before

Under the old system, Megan doesn't have a choice of provider. The provider allocated to her:

- charged 10 per cent administration fee and 25 per cent case management fee. This left only 65 per cent of her funding for actual care costs.
- supplied a package that wasn't to her liking. Megan prefers to go to bed at 10pm but her provider insists on providing services that require her to go to bed at 8pm.
- offered 10 hours care per week when she preferred 14 hours.

Megan's family investigated changing her supplier but, in her area, it would be a 12 month wait.

After

After February 2017, there are more service providers that Megan can consider. One offered to:

- charge a 2.5 per cent administration fee and 10 per cent case management fee. This means that more of her home care package could be used for actual care costs. This would be 87.5 per cent compared with her current provider who allocates only 65 per cent to actual care.
- accommodate her specific needs around the timing of visits each day and the number of carer hours per week.

Megan proceeds to negotiate with a new provider.

If you, or a family member, are currently receiving a government subsidised home care package, you may wish to consider reviewing your service provider.

If you are considering your eligibility for home care services, further information on home care is available by visiting **www.myagedcare.gov.au**

* Source: 2014 Department of Heath Facts and Figures in Aged Care

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