PortfolioWatch

Quarterly newsletter – Winter 2016

Australia's transition

Tax – don't get caught out

Cultivating a community

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How to cultivate a community

Fresh produce, new friends and exercise in the great outdoors – a community garden ticks all the boxes.

Community gardens not only offer valuable green space in urban pockets, they promote good health, social interaction and the opportunity to learn more about food.

A garden may become a social focal point of the community with people volunteering to help according to their available time and abilities. The social ties that develop by working together also helps to raise the overall levels of wellbeing in the community. In this article we look at some of the practical aspects to consider if you want to get a community garden started in your area.

Russ Grayson from the Australian City Farms and Community Gardens Network is a keen advocate of community gardens and says,

"They give individuals and families access to fresh, nutritious food, all the while promoting physical fitness and health."

Grayson then says,

"But what people really talk about is how it gives them the chance to meet their neighbours – it's that social aspect of getting together, learning new skills, and working as a team to produce something for the community that people really enjoy."

Many towns and cities across Australia now have community gardens. To find out if there is one near you, then your local council is the best place to start. Some councils, like City of Sydney and City of Melbourne, have gardens already up and running but they also have useful online information on how you can set one up.

Putting down roots

Once up and running, a community garden can really begin to put down roots by establishing broader social programs. Some may introduce playgroups among the fruit trees, others can offer a place to gather and provide food to the homeless.

1. Management matters

While finding an appropriate piece of land and designing the site seems to be the obvious first steps to establishing a community garden, the best place to begin is actually with the people who are going to be involved.

"One person is not a community. So once you have a group in place, the real starting point is dealing with the organisational side of the garden. It's relatively easy to grow fruit and vegetables, but it can be a great deal harder to grow the social relations and decision-making processes that underpin successful community gardening," says Russ.

A management team will generally include a president, a public officer and a treasurer, who will then establish a schedule for group meetings and an appropriate decision-making process. Big decisions like whether to go organic, managing drainage and runoff, sourcing materials, dealing with waste and allocating plots is usually put to a vote.

2. Lie of the land

From there, you need land. Convincing council to hand over a vacant plot is where the real challenges can begin, however, many are now developing processes to help community gardens start out on the right foot.

"They need to see a community garden group as being capable and credible before giving them land. Some may even ask for evidence of how the group makes decisions and deals with organisational matters – which makes that first step of establishing the management group all the more crucial," says Russ.

3. Design decisions

Council will also need a good understanding of what you intend to do with the space, so having some illustrations and photographs of other gardens and what they've done can help.

"Deciding what you want to plant depends on the type of land you're allocated and the quality of the soil. For instance, you might get spot contamination from lead paint on an old house nearby, so this can affect the type of garden you choose to establish".

You may want to consider above-ground planters for vegetable patches, as this will allow the feeder roots to grow above any spot contamination. If fruit trees are on the cards, different species have varying uptake rates with different chemicals, so again knowing the lie of the land will lead you towards the best garden design for your community.

Australia's transition

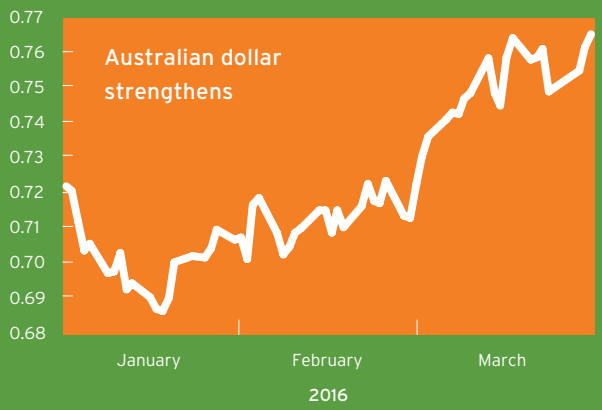
Australia's transition from mining to a service driven economy continues

The Australian economy is showing signs of responding to commodity price weakness by rebalancing to the services sector and to activities that are driven by domestic demand. The commodity price appreciation over the quarter has cushioned this transition, but we expect further commodity price weakness in 2016. If significant falls in coal and iron ore prices were to materialise we anticipate that there would be a further decrease in the ability to predict commodity company earnings.

It is vital that capital expenditure in the non-mining sectors that support activity and jobs counterbalances the sharp decline in mining investment. The latest capital expenditure survey highlighted mixed data, although total year-on-year new capital expenditure improved slightly to -16 per cent from -20 per cent, which indicates signs of stabilisation. Looking to the future, we expect an increase in capital expenditure during 2017 as business lending increases and the Australian dollar weakens.

Australian dollar strength remains a concern for the RBA

Australian companies reported their half-year financial results during the quarter, exceeding expectations despite global economic headwinds. Companies leveraged to housing and the consumer market fared best, reinforcing the moderating concerns associated with the property market and the view that share market weakness can be mainly attributed to global macro-economic concerns.



The Reserve Bank of Australia (RBA) kept the main interest rate unchanged throughout the quarter at a historical low of 2 per cent, but in early May, they reduced the rate to 1.75 per cent. The RBA's themes remain unchanged with a focus on the relatively strong Australian dollar, weak business investment and poor business conditions. The RBA noted that improved labour market conditions were as a result of the expansion in the non-mining parts of the economy, however, monetary policy would need to be accommodative to support the economy that was experiencing weaker growth.

The global economy continues to muddle through soft growth

Heightened concerns over emerging markets continued to weigh on share markets during the March quarter despite a recovery in oil and other commodity prices. The backdrop of slower global economic growth continued to hamper investor sentiment. Most notably, China continued its extraordinary monetary easing and expansionary fiscal policies to bolster growth. The improvement in market sentiment towards riskier assets is likely to be short-lived as recessionary pressures and macro-economic headwinds generate volatility in shares and bonds in China. Economic fundamentals are not helping reduce investor concerns because China's growth is continuing to slow while at the same time is over-reliant on credit. Standard and Poor's cut its credit rating outlook for China to negative in response to rising debt levels and its reliance on credit growth to meet economic targets.

Divergence between Federal Reserve and European Central Bank policy

The Federal Reserve is currently poised to continue increasing interest rates while in Europe further easing is generally expected. Janet Yellen, the Chairwoman of the Federal Reserve, signalled that the Federal Reserve would be cautious in raising interest rates owing to the headwinds facing the global economy. Expectations regarding the number of interest rate increases for the year dropped to two as Yellen said that the Federal Reserve's employment and inflation targets "...will likely require a somewhat lower path for the federal funds rate than was anticipated in December." The European Central Bank (ECB) increased monthly asset purchases by €20 billion to €80 billion and reduced the deposit rate by 10bps to -0.4 per cent. The aim is to boost growth and painfully low headline inflation which fell to -0.2 per cent in February against a backdrop of lower oil prices and the weaker economic outlook. We believe that monetary stimulus is justified whilst Europe faces the risk of deflation, deteriorating business and consumer confidence and uncertainty surrounding external conditions, particularly the spill-over effects from China and emerging markets.

Protect yourself and your family – more than just a Will

If you have an accident or fall ill, you may need someone to make decisions on your behalf. A power of attorney is a legal document that allows you to nominate someone you trust to make decisions on your behalf if you can't.

Many people simply assume that their partner will be able to make decisions for them and will manage their assets. However, unless a formal power of attorney has been granted, these decisions could be made by a government agency instead. So by planning for the worst and giving power of attorney to someone you trust means you can nominate the person you want to make decisions if you can't.

Depending on state and territory laws, as well as your circumstances, a power of attorney can operate in different ways. The three main types are:

1 A general power of attorney	2 An enduring power of attorney	3 Medical powers of attorney, enduring powers of guardianship and advance care directives
This allows someone to make financial decisions on your behalf but only for a limited time. This is often used if someone is going travelling and will be unable to manage their financial affairs while they are away.	This permits someone to make financial decisions on your behalf. Unlike a general power of attorney, it comes into force on a specific direction from you or when you lack mental capacity and remains in place following your loss of capacity.	Different states use different documents to deal with medical or lifestyle issues. They empower someone to make these decisions on your behalf if you are unable to.

To find out if you have the right plans in place, contact your **financial planner**.

Source: Australian Executor Trustees Limited

Investment market review Quarter ended 31 March 2016

Australian shares

The S&P/ASX 300 Accumulation Index fell 2.7% in the March quarter.

The financials sector was the worst performer, falling 7.2% as investors grew concerned over bad debt levels in the big banks due to their commodity-related exposures. The better performing sectors were industrials, rising 5.3%, materials, up 5.1% and utilities which rose 3.3%.

	1 year (%)	5 year (% pa)	10 year (% pa)
Australian shares	-9.27	5.45	4.32

Listed property trusts

The REIT sector generated a positive return of 6.4% for the March quarter.

The sector outperformed the broader market by providing stable earnings during a period of heightened volatility and weaker economic growth. Expectations that interest rates will remain lower for longer continued to support the sector.

	1 year (%)	5 year (% pa)	10 year (% pa)
Listed property trusts	11.40	15.83	2.41

International shares

The MSCI World Index in Australian dollar terms was down 5.2% in the March quarter.

International shares delivered weak performance for the March quarter as a result of headwinds facing global economies. The German DAX 30 was down 7.2% and the Nikkei 225 fell 12% but the S&P 500 posted a moderate gain of 0.8%.

China continued its extraordinary monetary easing in an attempt to boost growth. Economic fundamentals didn't help reduce market concerns as China's growth continued to slow while being over-reliant on credit. The economic recovery in Europe is progressing more slowly than expected and this forced the European Central Bank to increase monthly asset purchases to €80 billion and reduce the deposit rate to -0.4%. The US Federal Reserve maintained the US official cash rate within a range of 0.25-0.50%. This was partly due to weaker net exports and business investment and partly because of risks associated with global economic and financial developments.

	1 year (%)	5 year (% pa)	10 year (% pa)
International shares	-5.00	11.74	3.37

Fixed interest

International bond yields declined over the quarter.

The benchmark 10 year Government bond rate in the US and Australia fell by 50 and 39 basis points to close at 1.77% and 2.49% respectively. Yields fell on the Federal Reserve's outlook on interest rate increases, which it sees as not increasing as swiftly as previously. Yields were also pushed lower as a result of higher demand for safe haven assets because of concerns over emerging markets and macroeconomic headwinds.

	1 year (%)	5 year (% pa)	10 year (% pa)
Fixed interest	1.97	6.63	6.32

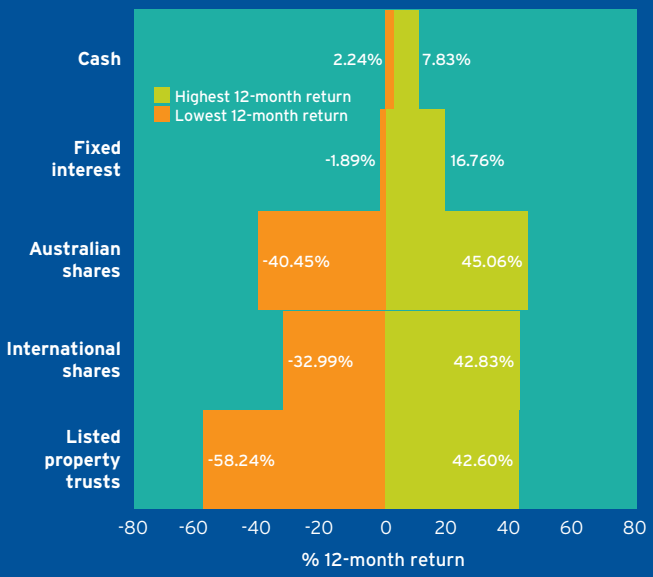
Cash

The Reserve Bank of Australia (RBA) left the main interest rate unchanged at 2.0% during the March quarter.

The RBA noted that the expansion in the non-mining parts of the economy had improved labour market conditions, however, monetary policy would need to be accommodative to help support weaker growth. Diminishing inflationary pressures and concerns over the recent strength of the Australian dollar may cause the RBA to reduce interest rates in the near future.

	1 year (%)	5 year (% pa)	10 year (% pa)
Cash	2.24	3.23	4.44

The long view



This chart displays the highest and lowest 12-month returns of the major asset classes since March 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 leap year can also cause your tax to leap

As this year is a leap year, some of you might receive an extra pay period. If you are paid weekly or fortnightly then the number of fortnightly pay periods could be 27, instead of the usual 26, and the number of weekly pays could be 53, instead of the usual 52. The extra pay period happens because 2016 is a leap year. But before you reflect positively on your good fortune you need to take steps to make sure you don't get caught out because you receive more income than you anticipated.

Are you affected?

If you are on a weekly or fortnightly pay cycle and you were paid on either Wednesday, 1 July 2015 or Thursday, 2 July 2015 then you are affected and you will receive one extra pay period.

Potential pitfalls: Take a look below to see how the extra pay period might affect various areas of your personal finances:

Superannuation

Impact: Extra super guarantee (SG) and salary sacrifice into your super may trigger excess concessional contributions. While excess contributions can be refunded, it's better to avoid such problems in the first place.

Practical tips: Ask your employer to defer salary payments and or super contribution payments due on 30 June by one day to 1 July 2016. However, some employers may want to pay on 30 June so they claim the tax deduction in the same financial year. You could consider suspending the salary sacrifice arrangement for one pay period to avoid excess contributions.

Taxation

Impact: If you are employed then your employer may not have withheld sufficient tax on your pay based on the ATO's Pay-As-You-Go (PAYG) tax withholding tables. These tables are based on an ordinary year with periods of 52 pay weeks or 26 pay fortnights. Marginal tax rates increase as taxable income increases and your employer may not withhold enough tax. That means instead of getting a refund, you may have to pay a small amount of tax when you lodge your 2015/2016 tax return.

Practical tips: If peace of mind is the most important thing for you, then you should ask your employer to vary your PAYG withholding to cover the tax shortfall.

Medicare levy surcharge

Impact: If your income is likely to go over the income threshold then you will have to pay the Medicare levy surcharge.

Practical tips: If you are affected then consider taking out appropriate private hospital cover as soon as possible. You will not avoid the surcharge for the whole year as it can only be avoided for the days that you were covered but it will reduce the Medicare levy surcharge and you may benefit from the insurance cover.

Centrelink entitlements/taxation and super concessions

Impact: Extra taxable income may impact various benefits, entitlements and tax offsets, such as family tax benefits, parental pay and super co-contributions.

Practical tips: In some cases, you can ask your employer to defer your salary payments to the next year (after 1 July 2016).

If you're concerned you might be affected by receiving extra pay this year, please speak to your **financial planner.**

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