PortfolioWatch

Quarterly newsletter – Autumn 2016

Markets meet tough **challenges**

Going overseas? Don't forget to tell **Centrelink**

Choosing a top drop

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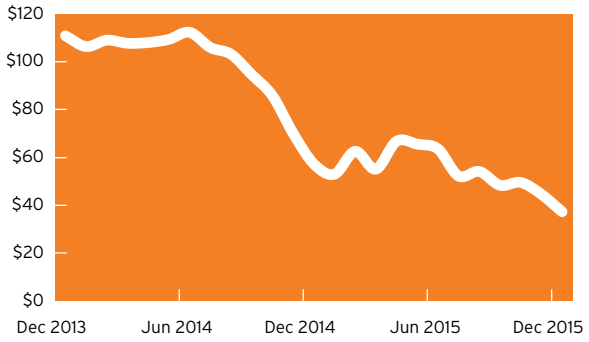
Markets meet tough challenges

Geopolitics and social issues overshadow fundamentals

Geopolitical issues dominated global news headlines as the year drew to a close, overshadowing macro and micro fundamentals. The battle against Islamic extremists in the Middle East, terrorist attacks in Paris and the ongoing refugee crisis in Europe all contributed to political and social unrest, raising levels of anxiety and weighing on market sentiment. While devastating from a humanitarian and social context, we do not expect these ongoing issues to have a major impact on the fundamentals that drive global markets.

The price of oil continued to plummet as OPEC nations increased production levels despite the global oversupply of oil. While there is sharp focus on how the decline in the oil price affects oil-exporting nations, such as Russia and Canada, the Reserve Bank of Australia (RBA) expects the overall impact on global Gross Domestic Product (GDP) growth to be positive. Australia and its major trading partners, as net importers of energy, would expect to benefit from a prolonged period of lower oil prices.

Oil price falls

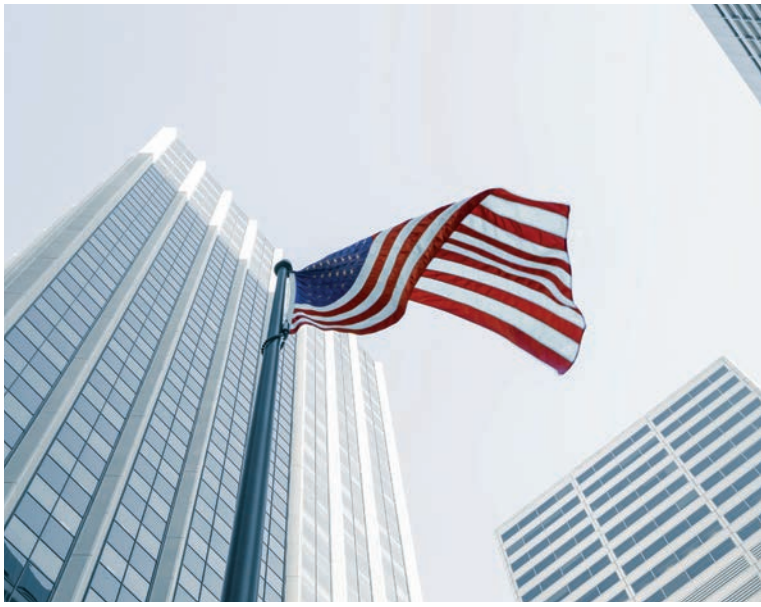


US rates lift off while Europe continues with easy money

As widely anticipated, in December the US Federal Reserve; often referred to as the Fed, announced an increase in the federal funds rate by 0.25 per cent to a range of 0.25 per cent – 0.50 per cent. This was the first rate increase in almost a decade and signalled the end of an extraordinary period of US monetary policy following the Global Financial Crisis. The impact of the interest rate increase on share markets was slightly positive as investors were provided with some clarity after months of speculation regarding the timing of the Fed "lift off" and it also confirmed the Fed's confidence in the improving fundamentals of the US economy. Economic data released during the quarter confirmed the continued strengthening of the world's largest economy.

The Fed's statement accompanying the rate rise implied that further increases to interest rates will be gradual and dependent on continuing evidence of US economic recovery. We believe that further interest rate increases are necessary in order to avoid deflation, reduce upwards pressure on asset prices (which could make conditions ripe for crash-type scenarios) and to enable the Fed to have sufficient fire power to stimulate the economy should the need arise. We envisage that US interest rates will be increased in a slow and measured manner and remain below 'normal' levels for some time to come.

The European Central Bank (ECB) continued its implementation of expansionary monetary policy in the quarter announcing a six-month extension to its quantitative easing program and cutting the deposit interest rate by a further 10bps to negative 0.30 per cent.



Australian residential property comes off the boil

Concerns over the overheated east coast property market began to ease as 2015 drew to a close, and macro prudential policy moves made by the banking regulator through the year continuing to take effect. The auction clearance rate in Sydney tumbled from 76.30 per cent at the start of the quarter to 59.80 per cent by the end of December.

The RBA kept the cash rate on hold at a record low 2.00 per cent through the quarter as economic data released was broadly positive. Consumer confidence and retail sales data was strong and reports from retailers point to strong sales over the crucial pre-Christmas and Boxing Day sales period. The unemployment rate in Australia fell to 5.80 per cent and labour force data released in the quarter was well ahead of market expectations. Business confidence and business conditions figures were also strong.

Despite the largely positive macro indicators, sentiment over the Australian economy remains lacklustre. Australia continues to transition from a commodity-driven economy towards a greater focus on service industries. Many of these industries, including education and tourism, are beginning to reap the benefits of the decline in the Australian dollar over the past few years.

Recent trade data indicates that services exports now contribute more to domestic GDP growth than iron ore exports, for the first time in six years.

Slowing Chinese demand for resources will certainly impact Australian exports, however, other sectors benefiting from the changing economic landscape will increase their contribution to GDP growth and help to offset this.

Estate planning tips

The most important tip is to have a Will, keep it up to date when circumstances require a change and make sure your family knows where it is kept.

Marriage/Divorce

If you get married, any pre-existing Will is revoked unless it is made in contemplation of marriage. Divorce does not revoke a Will but generally any benefit you have provided to a spouse will be revoked.

Children

To ensure your children are looked after financially if the worst happened, then establishing testamentary trusts within your Wills for their benefit can be a good idea. A testamentary trust will allow your children or their guardians to access money you have left, to help with their needs as they grow.

Burial wishes

'What would they have wanted?' This is a common question from family after a loved one dies. By stating what your burial preferences are in your Will you remove any confusion your family may face. You can be as detailed or as basic as you like, it doesn't just have to be about burial or cremation, some people will say what flowers they like or what songs they want played at their funeral.

Review

It's a good idea to review your Will every five years or so but clear catalysts are marriage, divorce, children and a change in relationships. Your Will should always reflect your current circumstances and wishes.

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

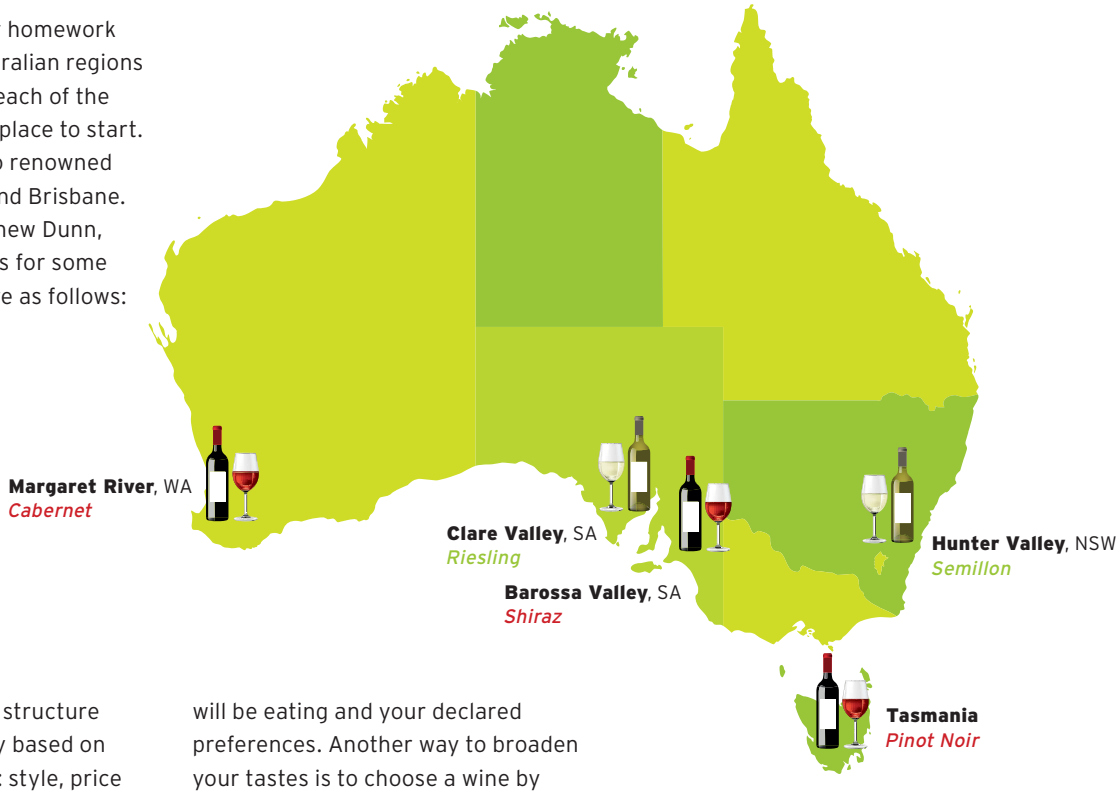
Source: Australian Executor Trustees Limited

Choosing a wine like a professional

Top tips to stand you in good stead when you next go to a restaurant or are buying wine in a bottle shop.

Choosing a good drop from a restaurant's wine list can be a battlefield if you don't know your stuff. More often than not, your decision can end up being based on price alone and, thanks to the significant mark-up on restaurant wines, this tactic can leave you with a sour taste in your mouth.

So, it can pay to do your homework and knowing which Australian regions are most renowned for each of the wine varieties is a good place to start. ARIA Group operate two renowned restaurants in Sydney and Brisbane. ARIA's Sommelier, Matthew Dunn, believes the best regions for some of the major varieties are as follows:



How to choose

Dunne explains that the structure of a wine list is generally based on three important factors: style, price and region. Decide what type of wine you are interested in based on your mood and what type of food you will eat. Then choose a price bracket you are comfortable with and stick to it. If you are still feeling uncertain, then the best option is to ask the waiter or the sommelier, if the restaurant has one, what they think. A good sommelier will take into account your budget, the food you will be eating and your declared preferences. Another way to broaden your tastes is to choose a wine by the glass. These are becoming an increasingly popular option and allow those who don't want a whole bottle to access excellent wines.

"When the time comes to make a choice – be daring, be open and try something new," Dunne says

What to look for

Balance and length on the palate are the qualities you should keep an eye out for when choosing a wine, according to Dunne.

"The sign of any great wine is when you can still taste it 30 seconds after you've tried it."

Food pairing

The main consideration is that the flavours of the food should not overpower the taste of the wine, ideally they should complement each other. Foods with a powerful flavour go well with wines that have a stronger taste. The opposite also applies.

For red meat, think Shiraz or Cabernet Sauvignon.

For fish, a lighter tasting wine like Sauvignon Blanc is a good choice.

Grilled foods go well with Pinot.

For salads and other light foods, try Rosé.

Of course, this is just a starting point so you can then begin to map out and explore your own preferences. Ultimately, it should come down to what you enjoy drinking.

Other tips

We've all been there – lured to purchase something based on the label. But when it comes to wine, the picture on the bottle isn't always a good plan. Another trap for the unwary is the bargain bin at the bottle shop – there is probably a reason the wine is being sold cheaply and it is unlikely to be because it is terrific. A more modern way to help you choose is to use one of the many mobile apps available that can read wine labels and offer ratings and reviews. Another tip is to buy a case rather than a single bottle as you can save a significant amount of money and bring previously unaffordable wines into your price bracket. Finally, if you are very enthusiastic to learn more about wine, then joining a local wine club or society is a great idea as you'll be able to meet like-minded people and get an opportunity to try a wide variety of wines. When it comes to wine, as with many interests, you never stop learning.

A bottle shop's best

Here are the wines that Matthew Dunne thinks are some of the best in the bottle shop. They are priced in the $20 – $30 range.

2015 Briar Ridge Fiano
Hunter Valley
"An aromatic white with great acidity and dry palate – a good alternative to Pinot Grigio and great for summer."

2014 Dominique Portet Fontaine Rosé
Yarra Valley
"Juice for the summer season."

2015 Eldridge Estate PTG
(Passetoutgrains – this is a blend of 50 per cent Pinot Noir and 50 per cent Gamay)
Mornington Peninsula
"Bursting with bright red fruits, lots of spice, light on its feet and very refreshing."

2014 Hentley Farm 'The Stray Mongrel'
(Blend of Zinfandel, Grenache and Shiraz)
Barossa Valley
"Medium bodied with lots of spice and dark red fruits."

Something different

If you want something made in small quantities direct from the cellar door, Dunne also recommends **Harkham Wines** in the Hunter Valley. They're organic and preservative free – look out for the Chardonnay and the Shiraz!

Investment market review Quarter ended 31 December 2015

Australian shares

The S&P/ASX 300 Accumulation Index delivered a 6.5 per cent gain in the December quarter.

The better performing sectors were consumer discretionary, up 13.0 per cent, health care, which rose by 12.4 per cent and financials, which improved by 10.6 per cent. The materials sector was the worst performer, with a decline of 7.4 per cent, as commodities prices came under further downwards pressure.

	1 year (%)	5 year (% pa)	10 year (% pa)
Australian shares	2.80	6.67	5.52

Listed property trusts

The REIT sector generated a positive return of 6.0 per cent for the December quarter.

Low bond yields remain a supportive driver for the sector as most A-REITs re-affirmed earnings forecasts for the current financial year.

	1 year (%)	5 year (% pa)	10 year (% pa)
Listed property trusts	14.38	15.25	1.96

International shares

International shares delivered positive returns for the December quarter. The S&P 500 gained 7.0 per cent, the German DAX 30 soared 11.2 per cent and the Nikkei 225 was up 9.6 per cent. The MSCI World Index, in Australian dollar terms, produced a gain of 1.8 per cent.

Global markets recovered from the sharp correction in the September quarter as China's central bank announced further monetary policy easing. In the Eurozone, the continuation of the European Central Bank's quantitative easing programme led to improved investor sentiment. US economic data was generally positive with the unemployment rate falling to a seven year low of 5.0 per cent combined with the emergence of increased wages growth.

	1 year (%)	5 year (% pa)	10 year (% pa)
International shares	11.03	15.14	5.05

Fixed interest

Global bond yields moved higher over the quarter. The benchmark 10 year Government bond rate in the US and Australia rose by 23 and 28 basis points to stand at 2.27 per cent and 2.89 per cent respectively.

Domestically, rising yields over the quarter reflected an increase in market expectations of an interest rate rise by the US Federal Reserve, which then happened at the Federal Reserve's December meeting.

	1 year (%)	5 year (% pa)	10 year (% pa)
Fixed interest	2.59	6.62	6.19

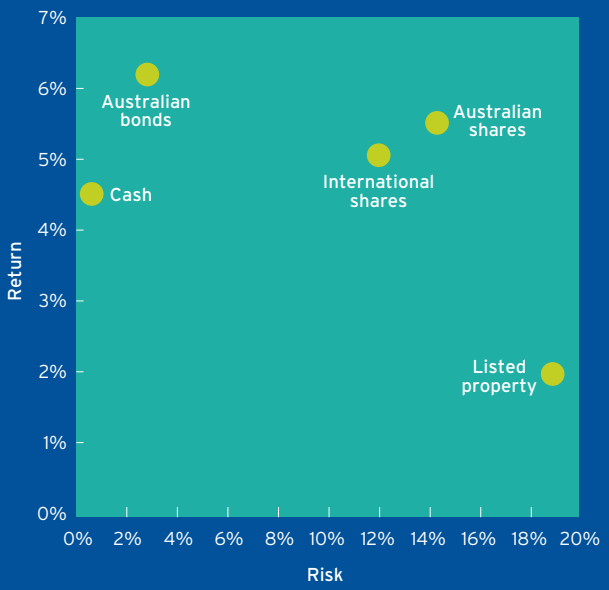
Cash

The RBA left the cash rate unchanged during the December quarter at 2.0 per cent.

Stronger than expected employment data reduced the probability of another interest rate cut in the near term.

	1 year (%)	5 year (% pa)	10 year (% pa)
Cash	2.33	3.37	4.52

The long view



This chart shows the risk and return of major asset classes during the last ten years. Risk is a measure of how much the performance of an asset varies over time. In other words, an asset which has a highly variable return is higher risk. The chart shown includes the impact of the GFC, during which listed property suffered a particularly steep decline. Showing a longer time period is not possible because the listed property sector index only started in 2002. Investing for the long term is not about picking the top performer over the next day, month or year – it's about selecting a blend of assets, with different risk and return characteristics, that will, over time, generate sufficient returns to help meet your lifestyle goals. Your tolerance for risk will differ from other people's, so it's important to select a level of risk that you are comfortable with.

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 Daily TR Net World AUD; Listed property trusts – S&P/ASX 300 A-REIT Accumulation.

Going overseas?

Don't forget to tell Centrelink

Many people look forward to the opportunity to enjoy their retirement by travelling overseas. For some, it means they plan to live overseas on a permanent basis so they can take advantage of lower living costs while for others it may mean reuniting with relatives who live overseas.

Whatever your plans are, it helps to know that travelling overseas beyond a certain length of time can have a negative impact on your Centrelink entitlements. As the rules can be complex, it's important to be aware of them so you can plan your cash flow needs and avoid unpleasant surprises that may spoil your time away.

The table below shows how your Centrelink entitlements may be affected by temporary overseas travel.

Pension	Pension+		CSHC+
Age pension After six weeks, maximum payment rate is reduced to: › Single – $20,498.40 per year › Member of a couple – $15,451.80 per year After 26 weeks, your age pension may be reduced by more if the time you have lived in Australia between age 16 and age pension age is less than 35 years.	**Pension supplement** After six weeks, your age pension supplement will also be reduced. If you did receive the full rate of age pension then you will receive the following amounts (based on rates current as at 20 September 2015): › Single – $585 per year › Member of couple – $967.20 per year.	**Energy supplement** **Pensioner concession card** **Low income health care card** After six weeks, you will no longer qualify for these benefits.	**Commonwealth Seniors Health Card** After 19 weeks, your card will be cancelled.

If you retire permanently abroad, any social security cards you are entitled to will be cancelled when you leave and your payment rate will be reduced from the date that you are considered to no longer be a resident of Australia for social security purposes.

If you receive social security payments under an international social security agreement, the above rules may not apply. This is because each agreement details how the payment rate is calculated, which may be different to the general rules.

Once you are away for more than 12 months, your payment cycle will change from every two weeks to every four weeks, so it's important to plan your cash flow accordingly.

If you are travelling abroad and need help to work out your cashflow, please speak to your **financial planner.**

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