

PortfolioWatch

Quarterly newsletter – Winter 2018

Market outlook for
the next financial year

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– highest and lowest
performing asset classes

Elder abuse
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The finer side of
festivals

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Market outlook for the next financial year

The global economy looks strong for the next year but different risk factors may affect consumer and business confidence.

One source of uncertainty are elections, including the outcome of our own upcoming federal election, which could impact investments.

Generally, for Australia, it is expected that interest rates will remain steady and wage growth will remain weak, albeit strengthening slightly. Property prices will continue their correction, but without crashing and unemployment will remain low.

Geopolitical outlook

US mid-term elections

Many state political races will be happening in the United States in November 2018. This represents a national vote on the policies of President Trump and an indicator of US policy in 2019 and beyond. Should the US Democrats gain a substantial mandate we could see more political gridlock in Washington.

Australian elections

Prime Minister Turnbull is expected to call the next federal election between early August 2018 and May 2019. The Coalition has been battered by scandals over the past year, such as the Barnaby Joyce saga, leading to the party losing its 30th consecutive Newspoll to Labor.

Brexit negotiations

The UK's exit from the European Union (EU) continues and a final deal is expected by November 2018. This could be a source of market volatility over the next year as the UK Government works to resolve various issues including customs arrangements with the EU.

Global economic outlook

Global economic growth looks set to continue, with both business and consumer confidence holding up, despite volatility at the start of the year. One risk is whether the Trump Administration, through new sanctions or threats on trade, upsets investor confidence. This occurred earlier this year in the tit-for-tat imposition of tariffs on imports between the US and China. Another risk is the prospect of the Federal Reserve hiking interest rates too quickly. In the past, rising US rates have led to issues for over-gearred parts of the economy.



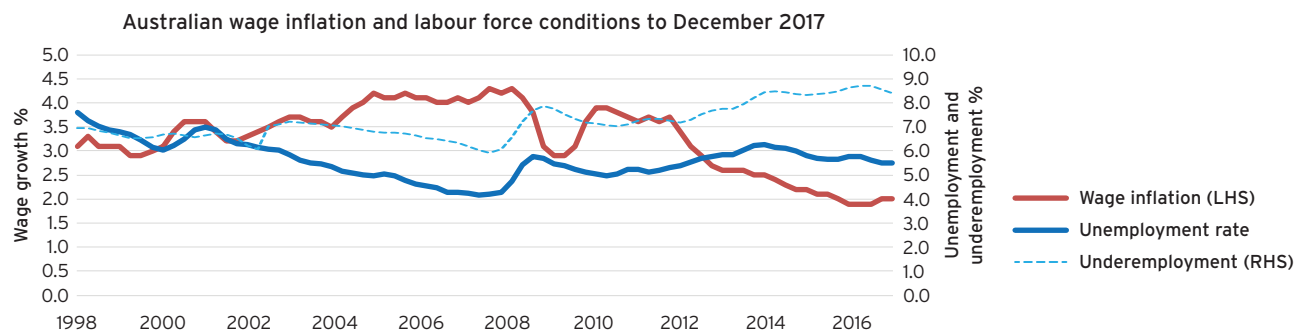
Australian economic outlook

Economic growth

The Reserve Bank of Australia (RBA) has forecast that the economy will grow more this year than in 2017. Upside surprises include a surge in commodity prices if China grows faster than expected. This is less likely given China's efforts to curb excessive investment and construction. However, disruptions to global growth, where our commodities such as steel and coal are key components, could see our economy struggle.

Wage growth

Wage growth is likely to remain weak. The RBA has signalled that wage-growth pressure is building in the labour market with the unemployment rate at a low 5.5 per cent. However, the underemployment rate remains high indicating there are many people who would work more hours if they could. Until that starts to drop more, wage growth is likely to remain weak.



Inflation

It's likely that inflation will remain at or below the lower end of the RBA target rate given the likelihood of limited wage growth. This was further confirmed with annual inflation, to March 2018, tracking at 1.9 per cent – below the RBA target of 2-3 per cent.

Interest rates

Not only is wage inflation weak but households are heavily geared. Until the RBA sees wage growth helping to erode this debt we are unlikely to see interest rates move higher.

Unemployment

We should expect to see the unemployment rate fall, given the positive outlook for economic growth. However, this must be balanced against the weak level of consumer demand. Consumers are making up for low wage growth by drawing down their savings or taking on additional debt to finance their spending which cannot continue indefinitely.

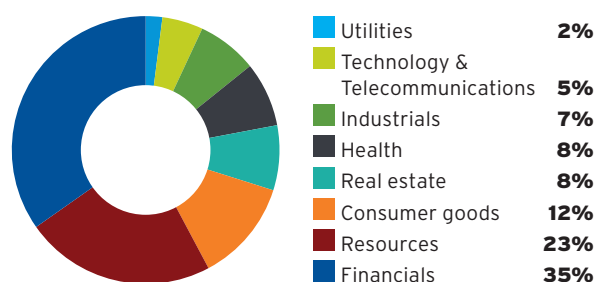
Property market

Unit construction has recently surged in Sydney and Melbourne and, to a lesser extent, in Brisbane. This new supply still needs to be absorbed by the market. In addition, regulatory restrictions on investment lending appear to be biting with weaker growth in Melbourne and price declines in Sydney in recent months.

This is continuing to play out but an outright crash is unlikely for two reasons. The first is the ongoing immigration intake, approximately 200,000 people last year, which supports housing demand. Secondly, policymakers are incentivised to prevent declining prices given how much Australian household wealth and bank lending is concentrated in property.

Outlook for Australian shares

The Australian market is positioned to perform well, but will likely underperform international shares. Bank stocks account for a large portion of the Australian share market and given the risk of additional regulations this could hamper profits. High household debt also restricts the ability of banks to grow revenue and hence profits. Natural resources (metals, oil and gas) account for almost a third of the Australian market. While commodity prices have risen thanks to rising global economic growth, they are unlikely to boom.



Taken together it's likely to be a positive year overall but not an especially strong one.

The finer side of festivals

When you think of festivals, images of heaving crowds adorned in gumboots and glow sticks probably come to mind. That's understandable, as it's certainly accurate for some of the big gigs out there, but isn't always the case. Discover the finer side of festivals with these top selections from Australia, New Zealand and Asia.

A recent survey conducted by Eventbrite, the world's largest event ticketing and technology platform, revealed that Australians are enjoying more live experiences than ever before. Ninety-three per cent of respondents had attended some form of live event in the past 12 months, and 67 per cent said that "experiencing new things is an essential element to living a fulfilled life" – compared to money (34 per cent) and owning nice things (20 per cent)¹.

In an age fuelled by social media and being 'connected' 24/7 thanks to tablets and smartphones, the act of stepping outside and experiencing something real can be extremely refreshing.

So if you're planning to experience something new this year, consider soaking up the atmosphere at one of these festivals.



Garma Festival of Traditional Culture

Arnhem Land, Northern Territory

The Garma Festival of Traditional Culture is one of the most significant events in the Australian cultural festival calendar. The event is a celebration of the cultural inheritance of the indigenous Yolngu people and has an emphasis on the practice, preservation and maintenance of traditional dance, storytelling, songs, art and ceremony.

Held every August and spanning four days, the festival also features a key forum where you can join talks with Indigenous people, Garma cultural workshops, musical performances, exhibition stalls and visits to the local community and schools.



Derwent Valley Autumn Festival

Tasmania

Originally devised by two Derwent Valley Councillors to build greater social capital for the local community, the Derwent Valley Autumn Festival is now in its eighteenth year and is the largest event the valley has ever seen. Held in mid-April, the festival celebrates all that is good about the region with a day full of entertainment, fine food, local wines, beers and music for all tastes on the banks of the beautiful Derwent River – about half an hour drive from Hobart. A selection of stalls also offer visitors a vast array of arts, crafts and produce to take home at the end of the fun-filled day.



Taiwan Lantern Festival, Taiwan

Held on the first full moon night of the lunar year, usually in February-March, the Taiwan Lantern Festival is one of the most stunning events you'll come across throughout all of Asia. A vast range of cultural activities are carried out across Taiwan, including the Tainan Yanshui Fireworks Display at the Wumiao Temple – said to ward off evil and disease – and the sky lanterns display released in the mountainous Pingxi District, originally a message to let others know the town was safe.

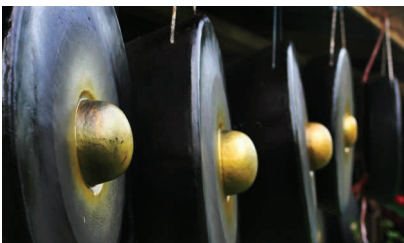
Join the locals in the celebration of lantern making, before adorning them with the wishes and dreams of each owner then releasing them simultaneously along with thousands of others. The moment is both magical and memorable.



Winter Light Festival, Japan

Come November each year, a trip to Kuwana City's Nabana No Sato – a botanical theme park – offers visitors so much more than its usual landscaped gardens and cherry blossom trees. With the help of seven million solar LED lights, the gardens light up to create one of Japan's most impressive illuminations. The fragrance of flowers floats in the crisp winter air as visitors arrive to soak up the very unique atmosphere created by this elegant light show. Just two bits of advice – be sure you don't miss the famous Tunnel of Lights and wrap up warmly!

“experiencing new things
is an essential element to
living a fulfilled life.”



Rainforest World Music Festival, Kuching – Borneo, Malaysia

Set on the beautiful island of Borneo, the Rainforest World Music Festival is unlike any other. Created to celebrate Malaysia's music, nature and culture, the event draws renowned musicians from the world over to come and perform alongside Indigenous artists. You'll find the main stage set up deep within the lush greenery in the heart of the Borneo Jungle, surrounded by food and drink stalls offering a taste of local and regional Malaysian and Asian dishes, crafts and festival memorabilia.

The three-day festival is jam-packed with informative workshops, ethno-musical lectures, mini concerts and intimate jam sessions.



Hawke's Bay Food and Wine Classic, New Zealand

Recognised the world over for its fine wine and fresh produce, Hawke's Bay is a gastronome's dream destination. With that in mind, it's only common sense that a festival should be created to celebrate and share the delights the region has to offer. The Hawke's Bay Food and Wine Classic is your one-stop culinary festival, filled with 'out of the box' food and wine experiences held in both winter and summer. In June you'll find yourself sitting by a roaring fire, sampling the local red, then come summer you'll be taking in the region's breathtaking views

while enjoying some alfresco dining at one of the local wineries – all to the soundtrack of stunning live music.

Make sure your finances are ready for you to enjoy the finer side of life.
Contact us.

Investment market review Quarter ended 31 March 2018



Australian shares

The S&P/ASX 300 Accumulation Index underperformed most global markets in the March 2018 quarter.

The index was down 3.8% driven by weakness in financial and telecommunications stocks, which outweighed a mixed but overall positive reporting season. Seven of the ten major sectors that make up the ASX saw upgrades on earnings expectations. The best performers were healthcare (up 6.1%), information technology (up 0.7%) and consumer staples (down only 1.3%). The worst performing sectors were telecommunications down 12.8%, utilities (down 8.3%) and energy (down 7.7%).



	1 year (%)	5 year (% pa)	10 year (% pa)
Australian shares	2.9	7.6	5.2



Listed property trusts

The Australian Real Estate Investment Trust (A-REIT) sector fell 6.2% in the March 2018 quarter, as the upward trend of bond yields weighed negatively on the asset class.

A-REITs are viewed as a proxy for bonds so poor performance in fixed income, in this case because of the prospect of higher interest rates, can result in poor performance for this asset class. Retail A-REITs continue to struggle relative to other types, such as, residential and office A-REITs, given the ongoing concern over the weakness of their tenants.



	1 year (%)	5 year (% pa)	10 year (% pa)
Listed property trusts	-0.1	10.8	3.3



International shares

Global markets had a strong quarter in relative terms with the MSCI World Index gaining 0.3% for the quarter.

This can be attributed to improving corporate earnings, economic fundamentals and forward-looking indicators. This strong backdrop continues to provide support for risk assets across the globe. However, it has faded somewhat in recent months with leading indicators of business activity in both the manufacturing and services sectors not accelerating at the pace shown in January.

The share market has been led globally by the technology sector in recent years but the privacy scandal embroiling Facebook's handling of user data weighed on the sector overall, helping to drive equity returns lower than during the previous quarter. In addition, fears of a series of interest rate hikes by the Federal Reserve saw a sudden increase in volatility in early February. The prospect of a trade war between the US and China, as a result of increasingly aggressive rhetoric between the two following the implementation of tariffs on steel and aluminium imports by President Trump, contributed to this volatility. As a result the S&P 500 fell 1.2%, the FTSE 100 declined 8.2%, the German market lost 6.4% and the Japanese market shed 7.1% during the quarter. US technology stocks (up 2.3%) and emerging markets (up 0.9%) were a few notable shelters from this broad decline. The performance of companies such as Microsoft and Google in January offset the damage caused by the Facebook saga and general market weakness.



	1 year (%)	5 year (% pa)	10 year (% pa)
International shares	13.0	16.6	7.7



Fixed interest

The Australian three-year bond yield was 7 basis points (bps) lower at 2.05% and the ten-year bond yield fell by 3bps to 2.6% during the March 2018 quarter.

The US yield curve rose with the three-year bond yield climbing 39bps to 2.28% and the ten-year up 33bps to 2.8%. At the start of the year, yields rose due to investor optimism surrounding accelerating global growth and the tax reforms introduced by President Trump coming into effect. Rate increases by the Federal Reserve helped drive yields higher as did more hawkish forecasts by the Federal Reserve on the future outlook of interest rates. These factors were countered by increased demand for safe-haven assets, particularly in March, as global trade war fears led to some investors fleeing equity markets which caused yields to fall during March in both Australia and the US.

	1 year (%)	5 year (% pa)	10 year (% pa)
Fixed interest	2.9	4.1	6.1



Cash

The Reserve Bank of Australia (RBA) left the cash rate unchanged at a historical low of 1.5% in the March quarter.

The RBA maintained their concern over low wage growth and high levels of household debt. The RBA's April minutes from the monetary policy meeting also highlighted that while leading indicators should see wage growth rise, the economic growth picture is less rosy. The RBA implicitly downgraded their growth forecast from 3% for 2018 to 'growth higher than last year'. The calendar year 2017 generated Gross Domestic Product growth of 2.3%.

	1 year (%)	5 year (% pa)	10 year (% pa)
Cash	1.7%	2.3%	3.5%

Winners and losers

Ranks the highest and lowest performing asset classes since 2010 and their overall rank for the last 10 years.

	2010	2011	2012	2013	2014	2015	2016	2017	10 year return (pa)
1	5.97%	12.14%	32.99%	42.83%	27.04%	14.32%	13.16%	14.53%	Bonds 6.45%
2	4.66%	5.00%	19.74%	19.68%	13.88%	9.35%	11.79%	11.94%	International shares 5.86%
3	1.90%	-1.48%	14.70%	7.11%	10.52%	2.80%	8.96%	5.72%	Australian shares 4.00%
4	-0.41%	-7.56%	7.89%	2.87%	5.30%	2.72%	2.90%	3.74%	Cash 3.63%
5	-1.13%	-10.98%	3.97%	1.87%	2.69%	2.33%	2.07%	1.75%	Property 1.89%

Source: Bloomberg

Elder abuse – are you protected?

There has been little statistical analysis of elder abuse in Australia. However, the United Nations estimates that five per cent of, or 175,000, older Australians will experience elder abuse during their lifetime¹.

Financial abuse is the most common form of elder abuse, followed by psychological or emotional abuse. Sadly, elder abuse is likely to rise with the ageing population and the increasing number of dementia cases among older Australians. This makes it extremely important to protect yourself or your older relatives from elder abuse in the future.

Financial elder abuse – common scenarios



Using powers of attorney to manage an older person's finances inappropriately.



Coercing and applying pressure on an older person to change their Will or to give away assets unfairly in favour of one individual over others.



Unethically persuading an older person to sell their house and, for example, contribute some or all of the proceeds to allow their child to purchase a house in exchange for a 'granny flat' where the arrangement benefits the child and not the parent or the siblings.

What is an enduring power of attorney?

An enduring power of attorney is a legal document which allows you to nominate someone you trust to make financial and property decisions on your behalf if you, for instance, have an accident, fall ill or lose capacity. The benefit of an enduring power of attorney is that unlike an ordinary power of attorney, it will continue to operate even if you lose full legal mental capacity.

Who are the perpetrators?

Senior Rights Victoria statistics show that two thirds of elder abuse is perpetrated by a son or daughter and 90 per cent of abusers are family members or a person trusted by the older person. Because of this level of trust, those guilty of elder abuse can often hold an enduring power of attorney (EPOA).

Who is vulnerable?

The most vulnerable people are those who have a cognitive impairment, are single, isolated and have adult children or grandchildren who collude to remove assets from the older person due to their need or greed, or to safeguard their 'inheritance'².

An EPOA only works when you have honest people looking after your interests, or concerned and honest relatives who are vigilant regarding your overall circumstances.

How to avoid financial elder abuse

An estate planning lawyer can help you avoid elder abuse by assisting with EPOA preparation, incorporating safeguard provisions for two or more attorneys to be appointed, who are potentially bound to act only in accordance with defined terms and arrangements such as barring the transfer or sale of a property while they are still living.

If you need help with your estate plan including the preparation of an enduring power of attorney **please contact us.**

Source: Australian Executor Trustees

1 Senior Rights Service, World Elder Abuse Awareness Day 2017, 15 June 2017.

2 Government of Western Australia, Department of Justice, Inquiry into elder abuse, 13 November 2017.

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