Newsletter

Summer 2019-2020

December is here, marking the official start to summer. Unfortunately, the bush fire season is already underway. We would like to take this opportunity to express our heartfelt thanks to the firefighters, emergency services personnel and community members who have been working tirelessly to save lives and property. If your home or business have been directly impacted by the fires, you may be eligible for a two month premium waiver on life insurance premiums. Please contact us if you require further information.

You may notice a slight change in the format of this Newsletter. We hope you enjoy it and your feedback is always welcome. Also note, many of our clients are now receiving this via email. Should you prefer a paper copy going forward, please let us know.

From all of the Stonehouse team, we would like to wish you a happy, safe and meaningful holiday period and we look forward to seeing you again in 2020!

BILLIE HAS ARRIVED!

In September, Senior Partner Michael Stewart and his wife Tash welcomed beautiful baby girl, Billie Sloane, into the world. Already 12 weeks old, she is certainly a smiley one and constantly eager to wriggle her way out of her cot, not surprising given her genetic disposition to being active and ready to go! Congratulations Michael & Tash.

Stonehouse Saving Hearts

In September Sydney Partners Jeremy Chiel and Declan Baker participated in a fun run to raise funds for Save a Child's Heart.

They provide free surgery for children in developing nations who have congenital heart disease and would otherwise not obtain treatment.

To date this amazing charity has saved 5000 children from 62 nations.

If you would like to support this amazing cause you can donate here – https://www.saveachildsheart.org/

Steering through choppy seas

Like it or not, we live in interesting times. More than a decade after the Global Financial Crisis, the global economy is facing fresh headwinds creating uncertainty for policy makers and investors alike.

This time around it's not a debt crisis, although debt levels are extremely high, but geopolitical instability.

The ongoing US-China trade war and Brexit confusion in Europe have increased market uncertainty and volatility and put a spoke in the wheel of global growth. The International Monetary Fund (IMF) forecasts global economic growth to ease to 3.0 per cent over 2019. It expects Australia to grow at 1.7 per cent.[i]

Against this backdrop, there has even been speculation that the Reserve Bank may need to resort to 'unconventional measures' such as negative interest rates and quantitative easing to boost growth. These measures have been widely used overseas but are foreign concepts to most Australians. So what are they?

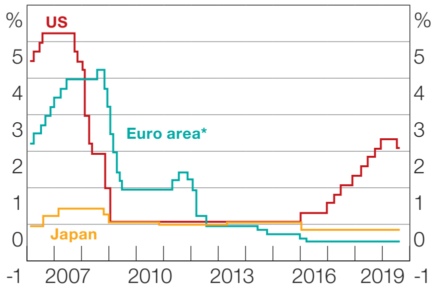
Why negative rates?

Negative interest rates have been a feature of the global financial landscape since the GFC, in Japan and in Europe. European central banks charged banks to hold their deposits, encouraging them to lend out cash instead to kick start economic activity.

So far, the Reserve Bank hasn't needed to wield the negative interest rate stick, but we are edging closer. The cash rate is at a record low of 0.75 per cent with further cuts expected.

The Reserve Bank has said it is unlikely to take rates below zero, especially now that the property market is showing signs of recovery and mortgage lending is on the rise. Taking interest rates too low could run the risk of igniting another property boom.

Policy interest rates



* Main refinancing rate until the introduction of 3-year LTROs in December 2011; deposit facility rate thereafter
Source: Central Banks

If negative rates are off the table, another way to bankroll economic growth is quantitative easing.

What is quantitative easing?

In the aftermath of the GFC, central banks in the US, Japan and Europe printed money to buy government bonds and other assets. By pumping cash into the system they hoped to boost economic activity.

There has been much debate about whether quantitative easing worked as intended. What it did do was reduce currency values and push investors into higher-risk assets such as shares and property in pursuit of better returns.

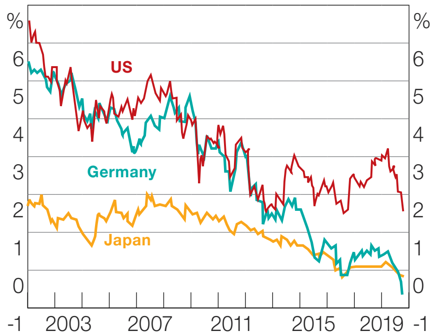
It has also increased global public and private debt to $200 trillion, or 225 per cent of global GDP. Until now, high debt levels have been supported by high asset prices. But when coupled with geopolitical and trade tensions, debt adds to the downward pressure on growth.[ii]

The slowdown in economic growth in Australia and elsewhere is reflected in falling bond rates.

Bonds sound a warning

In recent months, yields on Australian government 3-year and 10-year bonds have dipped below 1 per cent, an indication that the market expects growth to slow over the next decade.

10-year Government Bond Yields



Source: Refinitiv

Falling bond yields have fuelled speculation that the government could issue bonds and use the proceeds to fund infrastructure spending or direct payments to households. This would effectively combine quantitative easing with more conventional government stimulus.[iii]

What does this mean for me?

It seems more than likely that bank deposit rates will stay low, and probably go even lower, for some time. That means investors seeking yield will continue to look to property and shares with sustainable dividends.

While the hunt for yield should support asset prices, it may not be plain sailing.

Trade wars, Brexit, high asset prices and slowing economic growth are creating a great deal of uncertainty. Each new twist and turn in trade talks sends markets up in relief or down in disappointment.

After a decade of predominantly positive returns, investors may need to trim their expectations going forward.

Time to plan ahead

If retirement is still a long way off, you can afford to ride out short-term market fluctuations. Even so, it's important to make sure you are comfortable with the level of risk and investment mix in your portfolio.

If you are close to retirement or already there, you need to have enough cash or ready income to fund your pension needs without having to sell assets during a period of market weakness. For the balance of your portfolio, you need a mix of investments that will allow you to sleep at night but still provide growth for the decades ahead. When markets recover, you want to catch the upswing.

Successful investing requires patience but also adaptability. If you would like to discuss your overall portfolio in the light of market developments, please contact your Stonehouse Adviser.

i https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019

ii https://www.smh.com.au/politics/federal/200-trillion-in-global-debt-at-risk-if-trust-falters-oecd-20190909-p52pdr.html

iii https://www.ampcapital.com/content/dam/capital/04-articles/olivers-insights/2019/august/OI-280919.pdf

Closing the Superannuation Gap Between Men and Women

By Azaria Bell

Interesting new research from Rice Warner[i] has shown that women aged between 30 and 60 are retiring with 42% less superannuation then men of the same age.

One of the main reasons for this gap is the fact that women tend to take time out of the workforce to care for children. This can lead to large gaps in employment and fragmented work patterns, making a huge impact on retirement savings. Taking 5 years off work from age 29-34 to raise children is estimated to shave a whopping $100,000 off women's average retirement savings.

So how can this gap be closed?

There are several strategies for closing the gap currently being discussed at a government level. Namely, paying superannuation on parental leave, and ensuring that those who earn less than $450 a month also receive super payments. However, in the meantime, there are several options you can discuss with your financial adviser to ensure your superannuation balances are maximised even through a break from the workforce.

1. If you earn less than $52,697 in a financial year and make an after-tax contribution to your super, you may be eligible for a **government co-contribution** of up to $500[ii].
2. If you earn low or no income, your spouse may be able to claim a tax offset of up to $540 if they make contributions to your super fund. This is known as a **spouse contribution**. You may wish to make additional before-tax **(concessional)** or after-tax **(non-concessional) contributions** to your super or utilise a combination of both. Not only is this a great way to boost your super, but it can also save you money on tax. You may even wish to use a portion of your maternity leave payments as super contributions if you can comfortably live on one income.
3. If you receive an inheritance or windfall, you may wish to use a portion towards your retirement. If you intend to make a large tax-deductible contribution, you may be able to use previous years **unused concessional contribution caps** to make a tax-effective contribution to your super.
4. Log on to MyGov website to see if you have any **lost or unclaimed super** you are unaware of. Ensure you make your adviser aware of any forgotten funds you may discover and seek their advice on what to do with the funds.
5. At your next review with your adviser, take time to discuss if your asset allocation within super is in line with your goals in order to ensure growth of your retirement assets over the long term.
6. Always **speak to your adviser if your circumstances change**. Starting a family or taking a break from work is a great opportunity to review your financial situation and make plans for your future.

i Rice Warner (2019). Balance Super for Better. [online] Australia: Rice Warner. Available at: https://www.ricewarner.com/balance-super-for-better/

ii These figures are as of 2019 and are subject to change. Head to the Australian Taxation Office website for updated figures. Available at: https://www.ato.gov.au/Individuals/Super/In-detail/Growing-your-super/Super-co-contribution/

What our advisers are up to for the holidays

Andrew Stewart
– This year I'm spending Christmas at home with the family and my mum, the original 'Stonehouse'.

Mark Stewart
– After enjoying our recent wedding, Ebony & I are looking forward to some relaxation, yummy food and heading to the coast to visit family & friends.

Michael Stewart
– Christmas holidays will be spent with my family at our favourite beach (Casuarina) doing as much unwinding as possible from yet another big year.

Ben Hancock
– We look forward to spending the Christmas break with family, both in Brisbane and Northern NSW, as we make up for the lengthy periods between reunions. Here's hoping for plenty of sunshine but not too much humidity!

Kane Livingstone
– I am relaxing up here at Peregian Beach enjoying time off with friends and family.

Nick Webb
– I'm sticking around Brisbane with family this year and am looking forward to some rest & relaxation.

Jeremy Chiel
– This year I'll be enjoying the various beaches of Sydney and spending time with family.

Declan Baker
– I'm heading home to the Sunshine Coast for Christmas with family and friends.

Jon Papinczak
– For Christmas the family and I will be going to the Sunshine Coast to relax and enjoy our last year Christmas child free!

From all the team at Stonehouse, we wish you a Merry Christmas and a prosperous 2020!

Ric Baker
– We will be relaxing over the Christmas break with plenty of beach time!

Michael Chiel
– I'll be spending Christmas down in Melbourne with my girlfriend, Aunty and Uncle.

Rory Davis
– I'll be heading up to Golden Beach to spend some time with my family and my fiancée.

Brendon Wong
– I will be spending time with my wife and kids in the garden and at the beach.

Steven Putt
– Nothing much planned for Christmas itself except probably helping my eldest finish off the last few hours before she can get her "P" licence. I am heading to Sydney in January for the National Futsal titles to watch my 9-year-old son compete.

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