stonehouse Newsletter

Spring 2023

Melbourne Cup Day celebrations

Investors are keeping a close eye on oil price movements over fears of an escalation of conflict in the Middle East. The World Bank has warned that, if the conflict widens to other countries, oil prices could rise by up to 75% in 2024. In the meantime, Brent crude fell slightly in October.

The Aussie dollar ended October close to its lowest levels in a year and far below its peak of almost 69 cents in July.

Inflation rose again in the September quarter, but growth was still lower than last year. CPI increased by 1.2% during the quarter and 5.4% annually. While prices for most goods and services went up – mostly petrol, rents, new homes and electricity – there were falls in childcare, vegetables and domestic holiday travel and accommodation.

Unemployment fell slightly in September to 3.6% although that was largely caused by a number of people leaving the labour market to retire or for other reasons.

A strong rise in retail trading in September, the largest since January, might be a good omen for Christmas sales although spending for the year has been historically low.

Meanwhile, business conditions have improved for eight of 13 industries studied by the Australian Bureau of Statistics. The manufacturing sector reported the largest monthly jump in turnover. China's economic stimulus and improved outlook saw the biggest jump iniron ore prices in a single month to around $122.

But the export price index fell for the September quarter by 3.1%, dragged down by prices for agricultural exports, which have fallen for three consecutive quarters.

Phoebe has completed a Masters of Financial Planning and is committed to providing her clients with the best possible advice using a holistic and strategic approach.

Outside of work, Phoebe enjoys running and spending time with family and friends.

Trusts and the new super tax RULES

Andrew Stewart
Founding Director

Ensuring you've structured your finances tax-effectively is always a concern, but with new tax rules for super on the horizon, many people with large balances are considering alternative vehicles to save for retirement.

Unsurprisingly, this has sparked a renewed interest in an old favourite – trusts.

Trusts have always been popular in Australia, with the government's Tax Avoidance Taskforce (Trusts) estimating more than one million were in place in 2022.[i]

Separating ownership using a trust

The popularity of trusts for business, investment and estate planning purposes is due to both their flexibility and inherent benefits, particularly when it comes to managing your tax affairs.

At their heart, trusts are simply a formal relationship where a legal entity holds property or assets on behalf of another legal entity.

This separation means the trustee legally owns the assets, but the beneficiaries of the trust (such as family members) receive the income flowing from the assets.

A common example of a trust structure is a self managed super fund (SMSF), where the fund trustee is the legal owner of the fund's assets, and the members receive investment returns earned on assets held within the SMSF trust.

Which trust is best?

There are many different types of trusts, with the appropriate structure depending on the financial goals you're trying to achieve.

For small businesses and families, the most common trust is a discretionary (or family) trust. These vehicles are very flexible and can be used with immediate and extended family members, family companies or even charities.

In a discretionary trust, the trustee has absolute discretion on how both the income and capital of the trust are distributed to various beneficiaries.

This gives the trustee a great deal of flexibility when it comes time to allocate income to family members paying different marginal tax rates.

Advantages of a trust structure

Discretionary trusts offer tax, asset protection, estate planning and property holding benefits.

They can also assist with the accumulation of assets for younger generations within your family and provide opportunities for the discounting of capital gains.

For small businesses and farming operations, a discretionary trust can be used to provide valuable asset protection. If your business goes bankrupt or a beneficiary is divorced, creditors will be unable to access assets or property held within the trust as it is the legal owner of the assets.

Building wealth outside super

With new tax rules for super fund balances over $3 million being introduced, trusts also provide a useful tool to consider for continued wealth accumulation.

Unlike super funds, trusts don't have annual contribution limits, restrictions on where you can invest or borrowing limits. Money can be added and removed from the trust as necessary, providing significant financial flexibility.

Discretionary trusts can also be used with vulnerable beneficiaries who may make unwise spending decisions. The trustee can decide to provide a spendthrift child or a family member with a gambling addiction regular income, but not large capital sums.

Holding ownership of assets within a trust is useful for estate management, as the assets will not be part of a deceased estate, avoiding the possibility of a Will being challenged.

Trusts aren't always the solution

Although trust structures provide many benefits, there are also tax issues that need to be considered. For example, any trust income not distributed to beneficiaries is taxed at the top marginal rate.

Distributions to minor children are taxed at higher rates and a trust is unable to allocate tax losses to beneficiaries, so they must remain within the trust and be carried forward.

Trusts can be expensive to set up, administer and dissolve when they are no longer needed and the trustee's actions are restricted by the terms of the trust deed.

If a family dispute arises, running a trust can become difficult and making changes once it is established isn't easy.

If you would like to find out more about trusts and whether one is appropriate for your business or family, call us today.

i https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/General-research/Current-issues-with-trusts-and-the-tax-system/

How do interest rates affect your investments?

David Peck
Senior Financial Adviser

Interest rates are an important financial lever for world economies. They affect the cost of borrowing and the return on savings, and it makes them an integral part of the return on many investments. It can also affect the value of the currency, which has a further trickle-down effect on other investments.

So, when rates are low they can influence more business investment because it is cheaper to borrow. When rates are high or rising, economic activity slows. As a result, interest rate movements are also a useful tool to control inflation.

Rising steadily

For the past few years, interest rates have been close to zero or even in negative territory in some countries, but that all started to change in the last year or so.

Australia lagged other world economies when it came to increasing rates but since the rises began here last year, the Reserve Bank of Australia (RBA) has introduced hikes on a fairly regular basis. Indeed, the base rate has risen 4.25 per cent since May last year.

The key reason for the rises is the need to dampen inflation. The RBA has long aimed to keep inflation between the 2 and 3 per cent mark. The consumer price index is now sitting at 5.4 per cent.

Winners and losers

There are two sides to rising interest rates. It hurts if you are a borrower, and it is generally welcomed if you are a saver.

But not all consequences of an interest rate rise are equal for investors and sometimes the extent of its impact may be more of a reflection of your approach to investment risk. If you are a conservative investor with cash making up a significant proportion of your portfolio, then rate rises may be welcome. On the other hand, if your portfolio is focussed on growth with most investments in say, shares and property, higher rates may start to erode the total value of your holdings.

Clearly this underlines the argument for diversity across your investments and an understanding of your goals in the short, medium, and long-term.

Shares take a hit

Higher interest rates tend to have a negative impact on sharemarkets. While it may take time for the effect of higher rates to filter through to the economy, the sharemarket often reacts instantly as investors downgrade their outlook for future company growth.

In addition, shares are viewed as a higher risk investment than more conservative fixed interest options. So, if low risk fixed interest investments are delivering better returns, investors may switch to bonds.

But that does not mean stock prices fall across the board. Traditionally, value stocks such as banks, insurance companies and resources have performed better than growth stocks in this environment.[i] Also investors prefer stocks earning money today rather than those with a promise of future earnings.

But there are a lot of jitters in the sharemarket particularly in the wake of the failure of a number of mid-tier US banks. As a result, the traditional better performers are also struggling.

Fixed interest options

Fixed interest investments include government and semi-government bonds and corporate bonds. If you are invested in long-term bonds, then the outlook is not so rosy because the recent interest rates increases mean your current investments have lost value.

At the moment, fixed interest is experiencing an inverted yield curve, which means long term rates are lower than short term. Such a situation reflects investor uncertainty about potential economic growth and can be a key predictor of recession and deflation. Of course, this is not the only measure to determine the possibility of a recession and many commentators in Australia believe we may avoid this scenario.[ii]

What about housing?

House prices have fallen from their peak in 2022, which is not surprising given the slackening demand as a result of higher mortgage rates.

Australian Bureau of Statistics data showed an annual 35 per cent drop in new investment loans earlier this year.[iii]

The changing times in Australia's economic fortunes can lead to concern about whether you have the right investment mix. If you are unsure about your portfolio, then give us a call to discuss.

i https://www.ig.com/au/trading-strategies/what-are-the-effects-of-interest-rates-on-the-stock-market-220705

ii https://www.macrobusiness.com.au/2023/02/inverted-yield-curve-predicts-australian-recession/#:~:text=Since%20the%20great%20bond%20yield,the%20shape%20of%20the%20curve.

iii https://www.abs.gov.au/statistics/economy/finance/lending-indicators/latest-release

INTERVIEW WITH VERA & CHARLES TAYLOR

Stonehouse clients for over 34 years

While attending a review meeting at the Brisbane CBD office, long time Stonehouse clients Charles & Vera Taylor sat down and chatted with Founding Director Andrew Stewart & Stonehouse Partner Michelle Poulsen about their financial journey over multiple decades.

***Michelle:* How were you first introduced to Stonehouse?**

Charles: Our son Lance played tennis with Andrew and he introduced us back in 1988. We were new to Australia arriving from South Africa and needed help with navigating our finances. In particular, our Superannuation & Insurance as we still had a young family at home and knew we needed to put a plan in place to secure our financial future. After meeting and speaking with Andrew, he helped us in getting a financial plan underway and over time Andrew became more of a trusted friend than just our Financial Adviser.

Andrew: For me, it felt like it became more of a trusted partnership over the years.

Vera: Yes, that's true. It makes me laugh when I think about how I would come to our appointments with my many written notes asking you (Andrew) about this & about that, and you would take your time listening patiently answering all my questions.

Andrew: Yes, I remember that, but I could see that you were interested and wanted to understand, it was good to be on the journey together.

***Andrew:* I see you have bought in some of the past Stonehouse newsletters, can you give us some background on that?**

Vera: I always enjoyed getting the Stonehouse newsletters over the years. I liked reading the articles & often found myself referring to an article for information purposes. It highlighted things I needed to know and would often go and do my own investigations after I had read an article. I was also responsible in my own workplace for putting together the regular newsletter, so I knew that it wasn't easy to produce. I started collecting them over the years, often re-reading the articles I enjoyed, particularly some of the more heart felt personal articles contributed by different advisers over the years.

***Michelle:* What advice would you give someone starting out on how to build wealth for their retirement?**

Vera: As we have now been retired for some time, it seems like long ago but I remember how when we first started out, we didn't have much money but knew it was important to save what we could in Super. Over time, through getting the right advice & setting aside funds, it allowed us to retire financially comfortable. On reflection, it's interesting as we never missed the money we contributed, learning to live life without it, and often only contributing what we could afford.

I explain this to my grandchildren, showing them my old bank passbook (for those that remember them), that it doesn't matter how small, even a few dollars here or there, you need to start now looking ahead to the future.

Andrew: What a great legacy you have passed on over the years, thank you for sharing a small part of your financial story.

Please join us in congratulating Stonehouse Partner Declan who recently married Anna. Wishing you both a lifetime of happiness together.

The Qualifying AFL Final between the Brisbane Lions and Port Adelaide took place at the GABBA in September. Kane Livingstone's son Jett represented the Coolum Breakers AFL Club during the half-time entertainment. A future AFL player in the making!

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