STRATEGIC PROSPERITY GROUP
FINANCIAL PLANNING SPECIALISTS

July 2016

July is here along with the start of a new financial year, but this is not the only new beginning investors are taking stock of. The surprise British exit – or Brexit – from the European Union capped off a month and a year characterised by volatility and uncertainty. We also don't have a clear winner after the weekend election, with less than 80 per cent of the votes counted so far. Counting - including postal and absentee votes resume Tuesday and we will need to wait some days, at the very least, before we know the outcome in every seat.

Global currency and equity markets tumbled in the aftermath of the Brexit vote on June 23 as investors flocked to safe haven assets. Australia was not immune, with the ASX 200 finishing the year down around 6 per cent and the Australian dollar down 3 per cent against the US dollar at around US74c. Prices of oil and iron ore bounced around but finished the year down about 20 per cent as global growth stalled. Money flowed into gold, which surged above US$1300 an ounce, and bonds. As a result, Australian government 10-year bond yields fell below 2 per cent.

It wasn't all bad news though. Australia grew at a solid 3.1 per cent, the cash rate is at a low 1.75 per cent, inflation and unemployment are low and residential property rose an average of 10 per cent across capital cities. Consumer confidence reached a two-and-a-half- year high before falling in the final week due to uncertainty surrounding a Brexit. The ANZ/Roy Morgan consumer confidence rating fell 1.7 per cent in the week to June 26 to 116.8.

Strategic Prosperity Group

Suite 8, 25 Walters Drive
Osborne Park
WA 6916

P 08 9445 9555
F 08 9444 6274
E admin@strategicprosperity.com.au
W www.strategicprosperity.com.au

Facebook strategicprosperity
Twitter vrzovski

SELF-WORTH = NET WORTH

How to build confidence and change your financial direction

At the start of the year, many people reassess their finances in preparation for the year ahead. This inevitably involves a review of income sources. For many people, this is a bit of a sore spot as it can cause doubt or regret about career choices.

The thing is that career potential isn't the only determinant of net worth. Neither is investment capital; we've all seen and read the stories of the wealthy self-starters.

A number of prominent thought leaders believe that personal thoughts and feelings have a direct positive impact on actions. In turn, and over time, this has powerful results.

U.S. personal finance guru Suze Orman espouses the potential of this approach. Suze is well known for one particular mantra: "self-worth equals net worth".

How self-worth = net worth (and not the other way around)

Suze's saying doesn't mean 'the more money you have, the better you feel about yourself'. What it means is that the higher self-worth you have, the more likely you are to have high net worth. In this context, self-worth means self-esteem, self-respect, and confidence.

There are two ways of looking at this. First, individuals who feel good about themselves don't splash cash on unnecessary items that aren't part of their main financial goal/s. Think stereotypes such as the middle aged man who buys a sports car, or the 20-something who goes deep in to debt for her Gucci.

Second, there's the idea that people with high self-worth are more likely to make the kind of decisions that lead to high net worth. For example, successful entrepreneurs. They're not wealthy just because they had a good idea once. They're wealthy because they took a series of calculated but brave risks. They believed they could take on individual challenges. They understood, and celebrated, the connection between their hard work and their every success.

Those entrepreneurs weren't born with this mindset either. There are a number of different ways you too can start developing your own self-worth.

3 Simple ways to boost your self-worth

1. Do it the hard way

Instead of avoiding tough tasks and challenges, meet them head on. Even if you're not 100% sure what the outcome will be. Remember the last time you learned a new skill, or beat a personal best at the gym? This is similar – broadly, it's called task-based learning.

This particular strategy can also have direct financial impacts. Learning new skills or getting the job done through perseverance is a great way to avoid having to pay someone else to do it for you.

2. Break down long term goals – and celebrate the milestones

Many life goals – including financial ones – can seem impossible at the outset. Many people feel down when they can't see the end in sight. That's why it's important to break long term goals down to smaller goals – and allow yourself to feel good about achieving those smaller goals.

For example, there's saving for an investment property. You could allocate portions of savings to elements of the asset. Mentally 'paid off' the land? Great! Saved enough for a reno? Fantastic! Put aside transaction costs? Brilliant!

Just remember – a big victory is made up of many smaller wins.

3. Learn to accept compliments

As children, we're taught to be modest and humble about our achievements. Unfortunately, as adults, this means some people are particularly bad at accepting compliments. They brush them off, or try to direct the attention elsewhere. Subconsciously though, this means they're not giving themselves due credit. Which is an important building block of self-worth.

Chances are you're already doing great things – you just haven't allowed yourself to acknowledge that.

Australian growth –

- resilient in tough times

'Resilient' is perhaps the best way to sum up Australia's economic performance over the past 12 months. That was the word used by Standard and Poor's director of sovereign ratings, Craig Michaels, when confirming Australia's AAA credit rating in mid-June.

Australia's strong performance is even more remarkable in a year characterised by onging uncertainty and volatility on global markets, culminating in the shock British exit – or Brexit- from the European Union. Locally, investment plans were on hold during the long federal election campaign which began shortly after the May budget and extended to July 2.

Economic growth

Australia's economy is growing faster than other developed economies, at an annualised rate of 3.1 per cent in the March quarter, as we continue the gradual transition away from mining to a services-led economy.

In the US, signs of a gradual economic recovery remain intact with annual growth of 2 per cent, allowing the US Federal Reserve to cautiously begin lifting official interest rates. But growth has remained stagnant across the Eurozone (1.7 per cent) and Japan (0.1 per cent), with renewed fears that a Brexit could push the UK and Eurozone into recession.

Part of the reason for the glacial rate of global economy recovery is the slowdown in China, where growth has slipped below 7 per cent to 6.7 per cent.

Sharemarkets

Sluggish global growth took its toll on global sharemarkets over the past 12 months, but concerns about a Brexit sparked a new wave of selling once the shock outcome was announced.

Australian shares didn't escape, down close to 6 per cent over the year. The US market fared better, up less than 1 per cent. Not so the UK (down 4 per cent), China (down 28 per cent) and Japan (down 23 per cent).

Commodities

One of the factors affecting the Australian sharemarket in particular was ongoing volatility in commodity markets. Brent crude oil fell from US$57 a barrel to US$26 before recovering to around US$50. Iron ore fell from near US$59 a tonne to US$37, before also recovering to around US$53. But overall oil is down 19 per cent over the year with iron ore down 10 per cent.

It's not all bad news though. The global flight to safety has pushed gold above US$1300 an ounce, up more than 12 per cent in a year.

Interest rates and inflation

Australian interest rates have fallen to record lows, but they still look extremely attractive compared to what's on offer globally.

The Reserve Bank cut interest rates just once this year – by 25 basis points to 1.75 per cent in May. This was in response to an unexpectedly large fall in inflation to 1.3 per cent, well below the Bank's target band of 2-3 per cent.

The dollar

Despite slipping 5 per cent against the US dollar over the past year, the Australian dollar remains higher than the Reserve Bank would like at around US74c.

Most economists predict the Aussie dollar will fall from its current levels to below US70c over the next 12 months.

Consumer confidence

Whatever else is going on in the world, Australian consumers remain cautiously upbeat. The Westpac Melbourne Institute Consumer Confidence Index rose 7.2 per cent to 102.2 in the year to June, thanks to low unemployment, low interest rates and inflation, a strong property market, stable dollar and solid economic performance.

Residential property

After several boom years, the residential property market remains strong although it is still a tale of many markets.

Dwelling prices across all capital cities rose 10 per cent in the year to May 31, led by Sydney and Melbourne with growth of over 13 per cent. Brisbane and Adelaide were up 7 per cent and 3.9 per cent respectively, while Perth dragged the chain with a fall of 4.2 per cent.

Looking ahead

Once the election is out of the way, local investors can begin to focus on market fundamentals. While the low interest rate, low growth environment remains a challenge for investors, Australia is well-placed to continue the transition from mining to a more diversified economy.

If you'd like to discuss the issues raised in this article or are concerned about the impact of the recent Brexit vote on your portfolio or financial situation please contact us.

Wealth transfer is a family matter

It's often said that it is better to give with a warm heart, but divesting assets while you are alive may not be the best way to pass on your accumulated wealth to your nearest and dearest.

Certainly giving when you are alive means you have more control over who gets what and you get to see them enjoy their inheritance. It also means your wishes are less likely to be contested after you are gone. But for many reasons this is not always practical or possible.

None of us knows how long we will live so there is little point giving everything away only to have insufficient funds to pay for, say, aged care in your later years.

The best way to ensure that you and your family are properly cared for is to have a comprehensive estate plan. Talking about death and money is never easy, but having a conversation with your family about your wishes can help prevent disputes and disappointment after you have gone.

Where there's a Will

The most important thing is to make sure you have an up-to-date Will that truly reflects your current situation and your wishes. And make sure your family knows where your Will is kept. It's good to get financial advice as there may be many hurdles and unforeseen consequences.

Most estate planning issues centre on bequeathing assets evenly among family members and understanding the different tax implications for each asset. For instance, if one child gets the family home and the other the holiday home then the holiday home beneficiary may be liable for capital gains tax. CGT can also be an issue when it comes to passing on shares.[i]

Asset protection is another area that requires careful planning. You may be worried about an adult child's inheritance being lost in a divorce settlement or through financial mismanagement, or you may have a disabled child who will need ongoing financial support. One way to protect your assets in such situations is to set up a family trust.

Conversely, you may decide that your adult children are already well established and don't need a large inheritance. With so many young people finding it hard to break into the housing market and repay student debt, you might consider bypassing your children and bequeathing your estate to your grandchildren.

A super strategy

Your Will is only part of the equation though. Many people don't realise that super is a non-estate asset unless you specifically direct it to your estate by nominating your legal personal representative as the beneficiary.[ii]

Super is one asset where giving with a warm heart can be a smart strategy in some circumstances, such as the diagnosis of a terminal illness, particularly if your beneficiaries are your adult children. This is because children aged 18 or more are treated as non-dependent under tax law unless they are financially dependent on you.[iii] So it is likely your adult children will be hit with a hefty tax bill on receipt of your super.

But if you're aged 60 or more, you can withdraw money from your super, even a day before you die, and you will not pay any tax as all withdrawals from that age are tax free. Then you can pass the money on tax-free to your non-tax dependent children.

Succession planning

If you have your own business or a farm, then you also need to consider succession planning. Do all or any of your children want to stay in the business? How will you compensate those who don't? Successful succession planning needs to start early so the next generation can plan their future with some certainty.

To make sure your wishes are carried out as intended, talk with your family and give us a call to discuss your estate planning needs.

i http://www.makdap.com.au/publications/cgt-consequences-will

ii http://www.schweizer.com.au/articles/Who_Gets_Your_Superannuation_When_You_Die_(SK00125438).pdf

iii ATO, https://www.ato.gov.au/individuals/super/super-and-tax/tax-on-benefits/#Taxondeathbenefits https://www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/tax-and-super