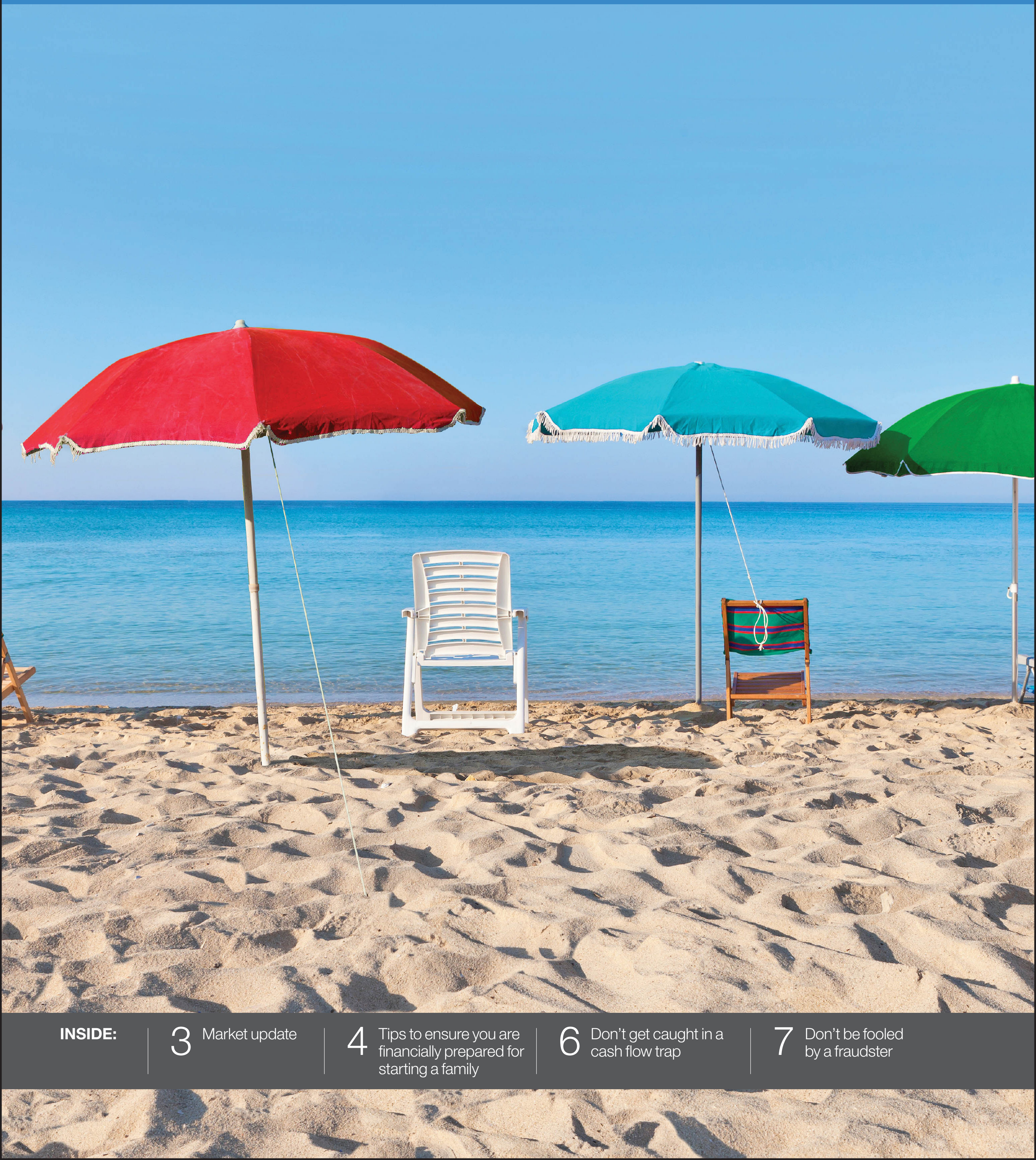
Insights

SUMMER 2014



INSIDE:

Welcome

Insights

Summer 2014

In this edition we look at some hints and tips that can help your business manage cash flow better in 2015 and beyond.

We also look at ways to ensure you are financially prepared when starting a family.

Our regular feature from Piers Bolger, Head of Research & Strategy at BT Financial Group, delves into investment sentiment in markets from around the world for the past quarter.

And finally as the year draws to a close we discuss ways to ensure you don't fall victim to fraudsters this holiday season.

From our team, we wish you and your family a safe and happy holiday.

Until next time – happy reading.

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Market update

Financial markets have come under pressure in recent periods as some of the recent geopolitical and macro-economic data has resulted in a period of heightened investor caution. A situation we believe will continue as we head into the back end of the year.

While none of these issues in of themselves are 'new', the culmination of each has the potential to drag financial markets lower. Additionally recent reports from both the International Monetary Fund (IMF) and World Bank reflect a more subdued global growth outlook.

US

Nevertheless, we continue to view that the US economy is strengthening and remains the 'belle-weather' global economy. The US has maintained a steady positive trajectory that has allowed the US Fed to end QE (October 2014). With improving manufacturing and industrial activity the unemployment rate has fallen to 5.9%, its lowest level since 3rd Quarter 2008, which has resulted in consumer confidence reaching a six year high in October. The other important aspect has been the recent strength of the $US, against nearly all major currencies; a trend we feel that the $US is set to continue to rally further against many of the major currencies through the back end of 2014 into 2015. While the strength of the $US may restrict its export market, it does make imports cheaper and has the ability to dampen wage (and other) inflationary pressures, which will afford the US Fed increased flexibility in its decision around official cash rates, further supporting US businesses and consumers.

Europe

However, while the outlook for the US (including that of the UK remains sound), the same cannot be said for continental Europe and Japan, while the outlook for China remains within our 'target' range. Firstly growth in Europe has disappointed on the downside. After a period of improvement and what looked like to be a broadening of the drivers of economic activity away from the region's largest economy in Germany the reverse has occurred. German industrial production has fallen quite sharply in recent periods with business conditions in manufacturing now in decline. As the 'engine of growth' for Europe, the slowdown in Germany has a material effect for Europe's growth outlook given the existing slack in both France and Italy, the region's other two main economies.

Additionally, the European Central Banks (ECB's) approach to increasing the inflation rate (to 2.0%) has stalled, with CPI only 0.3% year on year (to end of September). Inflation has steadily fallen through 2014 despite the ECB cutting rates to an all-time low (negative for its main deposit facility), while the introduction of a number of other stimulus programs (i.e. ABS, covered bond purchases, TLTRO) has resulted in little economic benefit to date. Furthermore the geopolitical and conflict issues in Eastern Europe continue to simmer. While they may have taken a back seat to what is occurring in the Middle East due to the military activity of the US and other collation partners, the ramifications for an unstable Europe will continue to hamper a broad based economic recovery.

Asia

Across Asia the slowdown principally China and Japan is continuing. In China there remains two key aspects that are inhibiting the growth outlook. Firstly the slowdown in the property market. While property prices have risen to an unsustainable level, the recent decline in the property market has now flowed through to the 'real' economy with both retail sales and consumer confidence weaker. Secondly, industrial production continues to moderate, falling nearly 4.0% annually over the last 12 month period (to end of September).

In Japan the situation is more acute. The Abe Government's 'Three Arrows' program has had mixed success. While headline inflation has increased, the economy has stalled with GDP falling -7.1% in the 2Q14, while private demand has declined to its lowest level since mid-2009. Industrial production has also moved lower while inventory levels have steadily increased, which has led to a decline in both export and import volumes as consumer confidence has waned, with the weaker yen pushing up prices for consumers. This is all occurring in the midst of a significant QE program undertaken by the Bank of Japan where the monetary base has grown four-fold over the last 2 years. So while the performance of the Japanese equity market has been stellar, we feel this continues to mask a number of structural issues facing the economy.

At home

In Australia the RBA has maintained a steady cash rate policy (at 2.50%). We don't see this changing any time soon. While the Board has reiterated its view that growth continues at a moderate pace (assisted by the continued positive real estate market), in recent months the RBA has become increasingly frustrated with the lack of 'animal spirits' across the economy. The one benefit for the domestic economy has been the depreciation of the $A. However, while the $A is down against the $US, and a broader mix of our major trading partner currencies, the benefit has been more muted with the $A down only -3.9% on a trade weighted basis. While the unemployment remains relatively steady at 6.1%, actual new jobs growth remains weak. This is impacting on both business as well as consumer confidence. Accordingly, we remain of the view that the domestic economy will continue to moderate further with near term fortunes linked to the broader global macro backdrop.

Tips to ensure you are financially prepared for starting a family

Having a baby is one of the most exciting and scary times in your life. Getting on top of your finances can help alleviate some of the pressure, so that you can enjoy your time with your newborn.

On average, if you are an expectant mum, you will be aged 30.7 years. If you are an expectant dad, you will be aged 33.* You are roughly twice more likely to be married than not and you will likely end up with more than one child.**

The National Centre for Social and Economic Modelling (NATSEM) has calculated the cost of raising two children between the ages of 0 and 4, for middle income families to be $133 per week (or $6,916 per year). This cost rises as your children grow older. NATSEM estimates the cost for middle income earners of raising two children rises to $228 for children between the age of 10 and 14 and $678 per week for children between 18 and 24^.

Where does all the money go? The cost of raising two children for a middle income family

The table below illustrates the cost of two children, from birth until they finish their education, in 2011-12 dollars.

Item	Total Cost	%
Transport	$158,955	20%
Food	$143,148	18%
Recreation	$100,982	12%
Housing	$77,996	10%
Other	$55,700	7%
Childcare	$53,656	7%
Furnishings & equipment	$50,425	6%
Clothing	$45,604	6%
Education	$44,644	5%
Health	$45,560	6%
Services & operations	$18,960	2%
Fuel & power	$17,413	2%
Total	$812,043	100%

Source: National Centre for Social and Economic Modelling (NATSEM); The cost of raising children in Australia. May 2013.

*Australian Bureau of Statistics "Births, Australia, 2012".
**Australian Bureau of Statistics "Family Characteristics Survey 2009-10".
^ National Centre for Social and Economic Modelling (NATSEM) "The cost of raising children in Australia" AMP. NATSEM Income and Wealth Report, May 2013. Please note this statistic refers to the average cost of raising a child for a middle income two child family at December 2012. Middle income families are defined as the middle three-fifths of all couples with children, ranked by their gross income.

*NATSEM estimates the cost for middle income earners of raising two children rises to $228 for children between the age of 10 and 14 and $678 per week for children between 18 and 24^*

Of course, these figures are illustrative and your family is bound to be different. However, there are some common financial issues you will share with the other 300,000 families expecting a baby over the coming year and some ideas on how to manage these are outlined below.

1. Reduced income, increased expenses

Money will be tight for the first few years as you adjust to one of you not working and taking on extra expenses such as nappies, baby food, and childcare. Prepare a budget, listing all your income and expenses and use this to prioritise "nice to have" items such as a bigger car or a family holiday. Do a cost/benefit analysis including childcare costs and potential government benefits of one parent being a full-time carer vs both of you working full-time vs one of you working part-time. Before your family income reduces, you may wish to consider re-financing your mortgage to alleviate any cashflow stresses.

2. Save early and save consistently

Set yourself realistic savings goals (for example a $5,000 baby nursery fund, a $10,000 education fund) or percentage of salary to save (e.g. 20% of after tax salary). Generally, the earlier you start to save, especially while you are still working, the better the financial outcome.

3. Make the most of government assistance

Find out as much as you can about various government benefits and entitlements such as the Newborn Supplement, Family Tax Benefit Parts A and B, Child Care Benefit, Child Care Rebate and Paid Parental leave. You may be eligible for more than one of the payments.

4. Invest smart

Parenting can have its financial advantages. Talk to your financial adviser about investing in assets in the non-working parent's name and spouse super contributions to attract any tax offsets that may be available to you.

5. Protect your family against the worst

Set your mind at ease by reviewing your life insurance, health insurance and estate plan before the baby arrives to make sure they incorporate your life changes. At the very least check that life insurance cover through your super continues if/when your employer contributions cease and that you have a valid Will (including guardians) in place.

6. Seek financial advice

Having a child can be an exciting but also financially stressful time. To ensure you are financially prepared and have the right plans in place for the arrival of your baby, please speak to your financial adviser.

Don't get caught in a cash flow trap

If you run a business, or you're thinking of starting one, one of the first lessons as a business owner is that cash is king. It's the lifeblood of every business. Without it, it's impossible to meet the obligations of the business, plan for the future or gain a real picture of the health of the enterprise.

But getting a handle on the real cash position of your business can be tricky. Because even if you have revenue coming in, it's easy to fall into a cash flow bind, with a sizeable gap between the time you need to pay for outgoings and the time cash comes into the business. But with a little planning and forethought, you can easily avoid a cash flow trap. Here are our tips for avoiding a cash flow death spiral.

Make sure your business is viable

One of the biggest traps for start-ups is knowing whether the business idea is viable. So get feedback on your idea and start off small before you spend thousands of dollars on an expensive website and branding.

Use free resources to reduce your administration costs

There's a range of free resources that cater specifically for new business start-ups or an established business. For instance, you can visit www.business.gov.au for free business plan templates or you can visit the Australian Bureau of Statistics' website to get data and insights on current trends in your industry. There are also cost-effective technology resources available to you, like free web mail from Gmail and low-cost data storage with providers such as Dropbox – all designed to help keep your costs down.

Make sure your price is right

It can be tempting to undercut the market by pricing products or services at low levels. But this can reduce your margins and mean you end up in a situation where your costs are higher than your earnings. So price your products/services appropriately so you're covering your overheads, earning a profit while also ensuring that your price is within the range of what your customers expect.

Raising an invoice doesn't equal a sale

Sending out an invoice doesn't mean you've made any money. You haven't made the sale until you have banked the money. Right from the start, put in place great debtor management systems to ensure cash comes into the business as fast as possible.

Don't spend your taxes

Never forget you need to put money aside to pay your goods and services tax (GST), pay-as-you-go (PAYG) withholding tax and superannuation. It's also essential to set up robust financial systems that give you a clear and timely picture about your financial position. Don't wait until the end of the tax year to do your accounts – do them at least quarterly, if not monthly, so you know how much you have coming in and going out and whether you're making a profit.

Don't be shy to ask for help

Make sure you work with talented, experienced financial experts to help plan and manage your business finances. It's also worthwhile to connect with other successful business owners you know to help sharpen your business acumen.

In fact, networking is a great way to learn from others who have been in your position. For that reason, you should identify business groups you can become part of to meet other people who are in a similar position to your own. This is also a great way of developing potential sales leads.

Sound financial and banking advice is essential whether you're a new business start-up or an established business. So contact your financial adviser today to find out more about how we can help you ensure your cash management and long-term financial position is the best it can be.

Don't be fooled by a fraudster

Fraud is a serious problem in Australia. According to the Australian Bureau of Statistics' latest figures, 1.2 million Australians were the victims of fraud in the year to 2010/2011, or 6.7 per cent of the population. Across the period, $1.4 billion was lost by Australians as a result of fraud, with $2,000 being the average amount lost for three out of five people who had experienced a fraud.

This research shows just how important it is for Australians to know how to identify a fraudster, and follow steps to protect themselves from scammers. So here are our top four tips to reduce the risk of being scammed.

1. Do your research

It's essential to do thorough due diligence before entering into any commercial agreement with another party. There is a lot of information that are publically available information you can use to check if the counterparty to any transaction is bona fide. For instance, you can go to the Australian Securities and Investments Commission's website to search for company names, and also find out if financial professionals have been banned from operating in their industry.

2. Don't respond to pressure

Hear alarm bells ringing if you are receiving pressure to sign a contract, agree to a sale or hand over money. No legitimate business will pressure you into buying their products or services. It's an idea to consult a professional such as your financial adviser or solicitor before signing any contract.

3. Know your rights

In many cases a cooling off period applies when it comes to buying financial products or large purchases such as property. This means you can back out of the transaction within a certain period after signing a contract. These are state-based laws and the length of the cooling off period differs depending on what you're buying and where you live. Go to the web site of the body responsible for consumer affairs in your state for information about the length of the cooling off period that applies to your purchase.

So even if you are pressured to make a purchase or sign a contract by a scammer, in most cases it's possible to back out of the arrangement within a certain time frame.

Also remember that fraud is a criminal offence. If you are the victim of fraud, or find you have been scammed, it's important to immediately report your experience to the police.

4. Know a scammer when you see one

- Scam

A scam is any attempt to unlawfully make you pay money or hand over your personal details. One of the more common scams are emails from Nigeria, asking you to provide your bank account details so the sender can purportedly send you a large sum of money. They are always fraudulent. If something looks too good to be true, it almost always is.

- Phishing

Phishing is when you receive an email from your bank or another organisation with which you do business, asking for you to provide your password or other personal details. Your bank, your telco and your energy provider will never ask you to email this information to them. Any email that appears like it's from your bank and asks for personal details is a scam.

- Shopping and auction fraud

It's essential to only buy goods and services from reputable businesses over the internet. Make sure when you are buying online you transact with businesses that have a secure payment gateway. An option is also to pay with PayPal, which means you don't have to hand over your credit card details. Look for the Verisafe Mobile Security icon, which is a sign the business is reputable.

If you think you are the victim of fraud, it's essential to notify the police immediately. It's also important to work with your financial adviser on an ongoing basis to ensure your wealth and investments have the highest protection possible.

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http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/65767D57E11FC149CA2579E40012057F?opendocument
http://www.asic.gov.au/online-services/search-asics-registers/

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