

INSIGHTS

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Welcome

In this edition of Insights magazine, we take a look at strategies to help you make the most of the end of the financial year.

There are a range of ways to access income through your investments and we discuss some options that may be suitable for you.

BT Financial Group Chief Economist, Chris Caton, provides an update on the wellbeing of the Australian economy.

Finally, we share some signs you're in need of a career change and highlight 5 key steps to help you realise the move.

As always if you have any questions or queries in relation to any matter, please do not hesitate in contacting our office and we will be only too happy to assist.

Until next time – happy reading.



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Economic outlook

Less of the same in 2016.

Low growth, low inflation, flat sharemarkets and a falling Australian dollar are set to continue into 2016, according to forecasts from some of Australia's leading economists.

However, according to BT Financial Group Chief Economist Chris Caton, it will be a case of "less of the same" in 2016.

"Australia will continue to experience the drag on growth from the adjustment to falling mining capital expenditure and lower income from commodities but the rate of decrease will slow," he says.

"Where inflation last year was low and falling, this year it is likely to remain low but start rising. Growth will remain low but is likely to be higher than last year. The Australian dollar is likely to continue to fall against the US dollar but the rate of decrease will slow.

So the themes are similar but it is more akin to 'less of the same' rather than 'more of the same'."

Mr Caton is cautious about Australian shares in 2016, forecasting mid to high single digit returns, although more optimistic than many of his economist peers who on average predict a flat or falling sharemarket over the year, according to the recent BusinessDay Economic Survey of 26 leading Australian economists.

"Markets are not cheap by any measure but they are reasonably good value at current levels," Mr Caton says.

"Smarter heads than I calculate that the US sharemarket is currently factoring in a 60% chance of recession. If the chance is less than that, which I believe it is, equity markets are almost certainly good value."

Mr Caton also believes the Reserve Bank is likely to respond to improving

economic data by increasing interest rates twice in 2016 to finish the year at 2.5%. On the other hand, as you can see from the table below, most economists have tipped a cut to official interest rates in 2016, with the average of the 26 economists surveyed by BusinessDay forecasting a slight fall.

Mr Caton believes the unexpected strength in economic data is likely to stem from sectors such as tourism and education services which benefit from the weakening Australian dollar.

House prices in Sydney and Melbourne are also tipped to rise in 2016 by the panel of economists, albeit at a much slower rate than the 11% plus rises in 2015. Many point to the tightening of lending practices for investment properties and housing affordability as the major factors in the cooling off.

	Actual 2015	Forecasts for 2016				
		Chris Caton, BT Financial Group	Bill Evans, Westpac	Richard Robinson, BIS Shrapnel	Jakob Madsen, Monash University	Average of 26 leading economists
Australia GDP growth (annual)	2.50% ¹	2.80%	2.70%	2.80%	1.30%	2.50%
World GDP growth	2.40% ²	3.10%	3.50%	3.50%	3.30%	3.20%
Sydney home prices growth (annual)	11.50%	2.00%		2.00%	-5.00%	2.00%
Melbourne home prices growth (annual)	11.20%	4.00%		3.50%	0%	2.80%
Unemployment rate, 31 Dec	5.80%	5.60%	6.00%	6.00%	6.30%	5.90%
Consumer price index increase, 31 Dec (annual)	1.70%	2.60%	2.20%	2.70%	2.10%	2.10%
Reserve Bank cash rate, 31 Dec	2.00%	2.50%	2.00%	2.00%	1.75%	1.90%
USD/AUD, 31 Dec (\$USD)	0.73	0.68	0.67	0.70	0.77	0.69
S&P/ASX 200, 31 Dec	5296	5500			4700	5258
Iron ore spot price 31 Dec (US\$ per tonne)	41	46	42	37	39	40

Source: BusinessDay Economic Survey January 2016, RP Data, Yahoo Finance, Trading Economics, World Bank, Australian Bureau of Statistics.

1. Australian annual GDP Growth at 30 September 2015.

2. World Bank estimate of World GDP growth for 2015 (Jan 2016).



Never too early to be tax-ready

It's really important to consistently focus on how to improve your personal finances. But good intentions aside, there's nothing like a deadline and the end of the financial year (EOFY) is one of the key dates to aim for when it comes to tax planning.

June 30 is a really important deadline to keep in mind to ensure you are taking advantage of all incentives and initiatives available to get the most out of your super, to reduce the tax you pay and to structure your affairs in the best possible way for the new financial year.

It's worth understanding some of the important steps to take at this time of the year to enhance your financial situation.

Here are some key strategies to consider before 30 June.

Do you pass the test?

If you are aged between 65 and 75 it's critical to determine if you have passed the work test to make super contributions. Under this test, you will need to have worked 40 hours over 30 consecutive days to be able to make contributions to your super fund.

Stay within the rules

It's essential to understand the rules around making contributions to your super fund as we near the end of the financial year. There are two contribution categories and it's important to understand how they work.

The first category is concessional contributions. These are contributions you make to your super fund before you pay tax on your income, to help lower the amount you earn and the tax you pay on it. There are limits to how much you can contribute on a pre-tax basis, depending on your age.

You can contribute up to \$35,000 on a concessional basis annually into your super if you were 49 or older at 30 June 2015. Super investors younger than this can contribute up to \$30,000 a year into their super fund on a concessional basis.

At this time of year, it's really important to review any salary sacrificing arrangements you have in place to ensure you stay within the rules. If you do pay too much on a concessional basis into your super fund you may find you pay more tax than you expected to on this money.

Super and the self-employed

If you work for yourself, or if your income comes mainly from investments, pensions or from sources from overseas, you may be able to make personal contributions to your super fund and claim a tax deduction for them. But be aware these rules don't usually apply if you are mainly an employee.

If you are eligible to make a personal contribution to your super fund make sure you do so well before the financial year, to ensure the money lands in your super account before 30 June.

It's also essential to make a proper notice of intent to claim a deduction. Be aware there are strict rules around the format of this declaration and it's important to stay inside them. You can download a form from the Australian Taxation Office's web site to make this declaration.



"If you have a super pension make sure you have received at least the minimum pension payments required across the year."

After-tax contributions

Aside from the pre-tax contributions you can make, it's also possible to contribute to your super fund from after-tax earnings. There is an annual cap of \$180,000 on non-concessional super contributions. However, if you were aged 64 or under on 1 July 2015, you may be able to take advantage of the bring-forward rule and make contributions of up to \$540,000 in a single year to your fund.

Other housekeeping

As we near the end of the tax year, if you have a super pension make sure you have received at least the minimum pension payments required across the year.

Also, if you have made a capital gain during the year, review your portfolio to determine if there are any loss-making assets of which you wish to dispose. Any realised losses will reduce the fund's capital gains tax liability.

Small business benefits

There were a number of measures introduced in last year's federal budget aimed at small businesses. For instance, the tax rate has dropped from 30% to 28.5% for small businesses operating under a company structure. The federal government also temporarily increased the accelerated depreciation threshold to \$20,000. As such, any qualifying assets purchased for less than this amount and used in the business before the end of the current financial year can be used to reduce your assessable income for this year. This higher threshold will also be available next year and will return to \$1,000 from 1 July 2017.

While these are the more common strategies, there are many more that may apply to you depending on your circumstances. Starting the conversation with us sooner rather than later will give you the best chance of building your nest egg before the end of the financial year.

The colour of your money

Using your investments for income.

Whether you are retired, or perhaps in need of extra cash to support the kids, your investments can play a role in helping you with a regular source of income. There are a range of ways to access income, from directly in bonds or equities to using products like managed funds that invest on your behalf.

When planning to use your investments for income, there are many things to consider, they may include:

- What level of income you are seeking.
- Whether you still need to generate growth from your investments.
- The level of risk you can afford to take.

“With interest rates globally at historical lows, dividends may offer higher returns compared to fixed interest payments on bonds, although this will depend on the company.”

Here are 4 ways you could use your investments to earn income.

Cash accounts

The standard Australian bank account offers interest payments on your money, which you could use as an income. Many institutions also offer higher interest rate accounts when you invest for an agreed period of time (like a term deposit) or add to your balance by a certain amount each month. Whether this type of account would work for you as an income tool will be influenced by your balance and income needs.

Bonds

Many bonds provide regular yield payments, which can be based on a fixed interest rate or on a floating rate which periodically resets to market value until the bond matures at which time the original value of the bond is returned to you.

Bonds can be issued by governments or by corporations and can range in quality and risk. In a country like Australia where there is a strong regulatory environment and a reasonably stable economy, government bonds are generally viewed as being the highest quality and most secure. The quality and risk involved in using corporate bonds tends to reflect the quality of each company issuing them.

Shares

Investing in shares that offer a consistent dividend stream can offer a source of income for investors willing to take on more risk in their portfolio. With interest rates globally at historical lows, dividends may offer higher returns compared to fixed interest payments on bonds, although this will depend on the company. Not all company shares offer dividends as some may choose to reinvest their profit into continued development of their business instead. Dividends can also vary within the one company over time, depending on its performance and outlook.

REITs

Some REITs offer dividends and these tend to be like shares in terms of variation across the level of risk involved or the potential dividend payments that may be on offer. As with shares, there is still the potential for loss of capital so your individual needs will influence whether this is appropriate for you.

If investing directly is not for you, there are also products that can invest across any of these options on your behalf and target an income stream such as annuities, managed funds, managed accounts or managed portfolios.

Whatever your income needs there are a variety of ways to invest for income beyond those specifically covered in this article. Choosing the right option will depend on your individual circumstances so please don't hesitate to contact us first before diving into an income earning investment option.

The major signs you need a career change

A new career is one of the best ways to change your life for the better. The transition can be daunting – having to think deeply about who you are, what you're good at, and what you really want – but it can be done if you follow some simple steps.

In a Harvard Business Review article¹, talent management expert, Tomas Chamorro-Premuzic, CEO of Hogan Assessment Systems, says there are five signs you need a new career: you're not learning; you're underperforming; you feel undervalued; you are just doing it for the money; and you hate your boss.

5 key steps to forging a new career

1. Work out your ideal working situation

The first step is to work out what you really want. Are you looking for work which may be more fulfilling emotionally and spiritually without losing out financially?

A good exercise is to sit down and map out your ideal day. How do you want it to pan out? Does it, for example, mean spending more time helping people?

2. Do a strengths audit: what are you best suited to?

Another helpful exercise is to work out what you're really good at. Your current career might not be exploiting your full potential. You may be desk bound, but your love of interacting with people means you'd be better out in the field or selling.

Another option is to review your past life and reflect on where you have been successful and what skills and strengths you used to achieve that success.

3. Work out where the opportunities are

When it comes to careers, it's not just what we want, but what employers need: where are the demand and opportunities? Social commentator and demographer Bernard Salt says three key social trends – technology, outsourcing and an ageing population – will drive career opportunities.

Salt suggests choosing careers where technology increases productivity rather than replaces people and where jobs cannot be outsourced to other countries.

4. Upgrade your skills

Often a new career requires new skills. That could involve anything from undertaking a short course, self-directed study using the internet, or even a post-graduate degree.

Mr Salt notes that future careers require flexibility: the ability to train, up-skill and form relationships easily. "Flexibility, fluidity, agility and a positive, outgoing social demeanour – these to me are the skills of the worker of the future," he says.

5. Put out feelers

Once you know where you're headed, it's time to approach people. That could be making formal job applications or meeting recruitment companies. But one of the best ways to seek new opportunities is to tap into your existing network, including family and friends.



What's stopping you?

Shifting to a new career is a challenge. But if you break it down and focus on yourself, and also the marketplace, there is nothing stopping you moving into a new, more satisfying or financially rewarding career.



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