



Christmas Newsletter 2017

It's December and the countdown to Christmas and the summer holidays has begun. But before we tuck into our Christmas turkey (or prawns), switch on the cricket and head for the beach, there is always work to complete and loose ends to tie up.

Please note: The Guardian office will be shut from lunchtime on Friday 22 December 2017 and will reopen on Monday 8 January 2018.

The Australian economy sent mixed messages in November. The Reserve Bank's statement of monetary policy early in the month forecast economic growth will gradually pick up from the current annual rate of around 1.8 per cent to 3.5 per cent by the end of 2019. Inflation, currently 1.8 per cent, is expected to remain low and while the next movement in interest rates is likely to be up, the Reserve is in no hurry to act.

The improving economic outlook is reflected in business profits, with the NAB business conditions and profitability indices at record highs in October, at 21.1 points and 26.2 points respectively. The jobless rate also continues to fall, from 5.5 per cent to 5.4 per cent in October, the lowest since February 2013. Wage growth, however, still lags at 2.0 per cent in the year to September, only just ahead of inflation at 1.8 per cent. Consumer confidence hit a four-month high in November before easing back slightly; the ANZ/Roy Morgan consumer confidence index finished the month at 115.0 points, above its long-term average. This has yet to translate into retail sales which were up just 0.1 per cent in the September quarter while retail prices fell 0.4 per cent. The Australian dollar finished the month around US76c, up almost 6 per cent so far this year.

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Separating needs from wants

Even those of us who have been paragons of responsibility for 51 weeks of the year can be tempted to take a budgeting holiday when Christmas and the summer vacation roll around. Unlike overindulging at the Christmas lunch, this has more than short-term consequences.

Last December, Australians spent \$25.6 billion in retail stores. A survey conducted at the time by peer-to-peer lender SocietyOne found shoppers planned to put over half the cost of the presents they bought on credit or store cards. SocietyOne's research also found that while shoppers believed they'd pay off their festive splurge by April, most actually wouldn't.

If you don't want to stagger into the New Year with a painful debt hangover, it's worth taking a moment to sort your needs from your wants. Separating wants from needs can be one of the toughest aspects of budgeting, particularly around the festive season.

Needs are not the same as wants

The line between needs and wants can be a little blurry but a good rule is to ask yourself 'Do I absolutely need to have this?' If the answer is no you've probably identified a want.

You may want to serve French Champagne at your Christmas lunch but you don't need to. Nobody's suggesting you shouldn't splash out at this special time of year. But your lunch guests are likely to be more than satisfied with a sparkling wine. You don't need

to spend money you don't have on extravagant gifts and entertaining to express your love for, or try to impress, friends and family.

This is no time to take a budgeting holiday

Your wants are very much driven by emotion. We all want to shower the people we love with gifts, an abundance of festive food and other treats. However this can lead to impulse spending we did not originally plan for. Focus on the essentials and plan how much you're going to spend before you head to the shopping mall then stick to that budget once you get there.

Don't buy now, pay much more later

Just because you want something but don't need it doesn't mean you shouldn't buy it. Make sure you've got enough to cover your needs or basic day to day expenses, then with what's left over, prioritise your wants.

It's also important to consider how you are paying for the little luxuries. Watch out for the temptation to put them on credit. The average credit card balance is \$3,130 with interest being paid on \$1936 of that amount. The amount of interest varies, but at a time when interest rates are

at unprecedented lows, Australian credit card users typically pay 10-15 per cent interest. The interest rate for most store cards hovers around 20 per cent.

Credit cards are not even necessarily the most expensive form of retail debt. If you enter into one of those 'pay nothing for 6, 12, 18 or 36 months' deals you'll be looking at an interest rate of almost 30 per cent once the interest-free period ends.

A more recent market entrant called Afterpay – a type of reverse layby where you get the product now and pay it off afterward – has rapidly gained traction in Australia. A big part of Afterpay's appeal is that no interest is charged on the amount owed. But fees are levied if repayments aren't made so it's possible to end up paying \$68 in fees on a \$100 purchase.

Avoiding debt

The simplest way to avoid pricey debt is to avoid spending money you don't have. Wherever possible, limit yourself to using lay-by, cash or a debit card to cover Christmas expenses.

With a bit of planning you can manage to take care of your day to day needs and still afford some luxuries of the festive season – without copping the credit card hangover in January.

Opportunities in the cooling property market



Things are looking up for first home buyers for the first time in years as house price growth begins to slow across the country. While prices have been on the slide for some areas in the West and the North since the end of the mining boom, the housing market in Sydney and Melbourne also appears to be losing steam.

At a national level, house prices were unchanged in October and up just 0.3 per cent over the quarter according to the latest figures from property research group CoreLogic. Significantly, the over-heated Sydney market fell 0.6 per cent over the three months to October, joining Perth and Darwin which have been falling since 2014.ⁱ

Hobart is the top performing market, fuelled by mainlanders searching for more affordable housing. Prices for Hobart dwellings rose 12.7 per cent over the past year, although price growth slowed to 0.09 per cent in October. It's easy to see why people are flocking to the Apple Isle; the median dwelling value of \$396,393 in Hobart is less than half what you can expect to pay in Sydney (\$905,917) where prices are up 74 per cent since the boom began in early 2012.

Melbourne is the second most expensive city, with an average dwelling price of \$710,420. And while the Melbourne market isn't falling, it also shows signs of cooling with growth of 1.9 per cent in the three months to October and annual growth of 11 per cent. Other capital cities show little change with Brisbane up 0.6 per cent over the quarter while prices in Adelaide rose just 0.1 per cent.

Tighter lending begins to bite

The Australian housing market is a tale of many markets, each with their own supply and demand issues. But there are some common factors at play. At a national level, concerns about rapidly rising prices, risky lending practices and worsening housing affordability prompted regulators to act.

In late 2014, the Australian Prudential Regulatory Authority (APRA) announced that lenders were to limit housing finance to investors to 10 per cent of their total home lending. Then in March 2017 APRA announced a 30 per cent limit on new, interest-only home loans to dampen risks in the housing market.

In April the Australian Securities and Investments Commission (ASIC) signalled a crackdown on lenders and mortgage brokers recommending more expensive, interest-only loans to customers who were often unaware of the risks.

Investors paying more for credit

Lenders responded to the regulators' concerns by lifting interest rates on interest-only and investor loans. According to comparison site Canstar, the average standard variable rate for investors has grown to around 0.5 per cent higher than the equivalent rate for owner occupiers.

And it seems these measures are working. The number of investor home loan approvals dropped sharply in 2015 and again in 2017, while owner occupier loans have shown a significant uptick in 2017.ⁱⁱ

While tighter lending policies have undoubtedly taken some of the heat out of the housing market, other forces may also be playing a role.

Understanding supply and demand

So far there is little sign of a housing bust in Australia, with significant unmet demand from first home buyers, high levels of migration and land shortages in major urban areas. But when house prices rise as far and as fast as they have in markets like Sydney and Melbourne, it's natural to expect periodic corrections.

Commentators have been warning of an oversupply of apartments in Melbourne as well as in Brisbane. The Brisbane market has been cooling for some time, and now property values in Melbourne are rising at their slowest quarterly pace since 2016.

Despite the slowdown in price growth, Australian housing is still far from cheap. But with tighter controls on investor lending and continuing low interest rates for owner occupiers, the tables may be finally turning in favour of first home buyers.

If you would like to discuss your property strategy, give us a call.

ⁱ All price data from CoreLogic, 1 November 2017, <https://www.corelogic.com.au/news/growth-conditions-remain-flat-national-basis-while-sydney-values-fall#.WgEZ3uQUnIU>

ⁱⁱ ABS; RBA



Would Christmas be the same for you without the smooth croon of Crosby and Sinatra around the BBQ? Or carols along the most decorative boulevards of your neighbourhood? Or perhaps you are more likely to wince every time 'All I Want for Christmas Is You' comes on for the third time only to remind you how long you've been trawling David Jones for giftable socks. No matter which camp you belong to, it's undeniable the emotional impact of music seems all the more potent around Christmas time.

We know we find music pleasurable, but the science behind music's effect on people reveals more long-term benefits to health and wellbeing than you may think. Advances in neuroscience can now reveal that, when examining the brain of a subject exposed to music, you are able to see multiple areas light up immediately. This stimulation in turn releases hits of dopamine, engaging the same cerebral 'reward system' that you would experience with a delicious meal, or upon receiving some terrific news.

Music to put your mind at ease

Often this positive experience when listening to music comes via a sense of ease and relaxation, which has further beneficial effects on the human body. Several recent studies have found music to be effective at moderating your heart rate and blood pressureⁱ, the two biggest indicators of stress, while another study has found it may improve your sleeping patternsⁱⁱ.

But if you are organising your bedtime playlist, be wise with your selections. Just as you can be lulled by dulcet tones, your fight-or-flight mechanisms can kick into overdrive in response to the ominous rumble of bass or

the stomach-churning screech of strings in horror films. Why? Well these dramatics shifts in tone, known as 'non-linear' sounds, emulate the sounds of animals in duress – triggering biological responses of panic and pumping adrenaline into your bloodstream.

...and to put your mind to work

Just as music can help you wind down, the right selections can also improve your attention and focus. This stems from the days where elevator music – muzak – dominated office floors in the 50's and 60's, with crescendos, tempo shifts and blocks of silence designed to stimulate productivity. Fortunately, science can now offer some insights into which kinds of music, and which properties in music, can best aid your focus.

In a nutshell, the best playlist would have the following qualities: it would be up-tempo, sit at a moderate volume (both too loud and too soft can prove distracting), and, most importantly, it would be lyric-less.

Sounds of nature have also been found to have a positive effect. And not just on employee output; the ambling randomness of things like tranquil

streams, birdsongs and the sound of rain have also been found to improve overall worker satisfaction.ⁱⁱⁱ

Keep in mind though, these studies typically concern the connection between music and the performance of repetitive tasks. So, if you're attempting to crack nuclear fusion you might be better off with silence (and the odd stray colleague's recap of the Bachelor) as your soundtrack.

You may have been burned by some failed attempts to couple music with work in the past, but it's not necessarily a round peg in the square hole. Cater your song curation to context and you may just feel the stress melting away, or your state of flow making the hours disappear.

And remember, if listening to music works for you, it might work for your loved ones come Christmas time. They'll certainly appreciate it more than socks.

ⁱ Nilsson U. 'The effect of music intervention in stress response to cardiac surgery in a randomized clinical trial' <https://www.ncbi.nlm.nih.gov/pubmed/19486788>

ⁱⁱ Jespersen KV, Koenig J, Jennum P, Vuusy P. 'Music for Insomnia in adults' <https://www.ncbi.nlm.nih.gov/pubmed/26270746>

ⁱⁱⁱ De Loach AG. 'Tuning the cognitive environment: Sound masking with "natural sounds in open-plan offices"' <http://asa.scitation.org/doi/abs/10.1121/1.4920363>