



## Report for the June 2018 Quarter

As the financial year ended, Australian investors had reason to be optimistic despite ongoing global tensions. Our economy grew 1 per cent in the March quarter, lifting the annual growth rate from 2.4 to 3.1 per cent, marking 27 consecutive years of growth. Unemployment eased from 5.6 per cent to 5.4 per cent in May while inflation is a benign 1.9 per cent. The cash rate remains at a record low of 1.5 per cent, unchanged since August 2016 and no rate rise likely until mid next year. Global interest rates, particularly in the U.S. have been on the rise, which of course negatively impacts the \$AUD.

The Australian dollar fell below US74c at the end of June, down from its January high of US81c. Commodity prices were broadly higher for the year, with oil at 3 year high of US\$77 a barrel and iron ore firming 8 per cent to US\$67 a tonne. It is no wonder the ASX finished the financial year at 10 year highs. We note, the ASX is still yet to again reach the all-time high of 6873 points, last seen in October 2007.

Despite modest annual wage growth of 2.1 per cent, rising petrol prices and falling home prices, consumers remain positive. The ANZ/Roy Morgan consumer confidence rating was up 6 per cent over the year to late June. The CoreLogic Home Value Index however fell 1.1 per cent in the year to June. The emerging consensus is residential property will continue to drift for at least 18 months. Below is a snapshot of the index figures for the 2017-18 Financial Year:

- All Ordinaries: 6,289 ; up 9.11%,
- Listed Property Accum. Index: 48,604; up 12.5%,
- 90 Day Bank Bills: 2.05%; up 0.34%,
- FTSE 100: 7,636; up 4.42%,
- S & P 500: 2,718; up 12.10%,
- Dow Jones: 24,271; up 13.68%, and;
- AUD vs. U.S. Dollar: 0.7372; down 3.20 cents

### Guardian Investments

52A Old Cleveland Road  
Stones Corner Qld 4120

**P** 07 3394 3755

**F** 07 3394 3360

**E** [info@guardianinvestments.com.au](mailto:info@guardianinvestments.com.au)

**W** [www.guardianinvestments.com.au](http://www.guardianinvestments.com.au)

**Facebook** [guardianinvestments](https://www.facebook.com/guardianinvestments)

# HAVE OIL PRICES PEAKED?

Australian motorists are not the only ones hoping that global oil prices have peaked after reaching four-year highs in 2018. Not only do high oil prices flow through to the price of petrol at your local service station, but they also increase the cost of doing business for everyone from farmers to airlines and push up the cost of living for households.

On June 22 the Organisation of Petroleum Exporting Countries (OPEC) plus Russia agreed to increase output by one million barrels a day, or about 1 per cent of world supplies, to relieve global shortages and lower oil prices. Even so, the price of Brent Crude rose to US\$75.60 a barrel immediately after the announcement amid concerns the target may not be met. As at June 29, the oil price had surged 64 per cent in 12 months, but if OPEC and Russia succeed in lifting supply prices should begin to fall.

There are several international oil prices quoted in the media, but the price of Brent Crude is considered the major global benchmark.

## What's going on?

OPEC's latest turnaround follows four years of determined efforts to limit oil production and boost prices. The price of Brent Crude crashed from US\$115 to US\$30 a barrel in 2014 as cash-strapped producers including Russia and Venezuela increased supply. At the same time, the US expanded production from fracking.

Then early this year the freezing northern hemisphere winter pushed up the price of oil as demand spiralled. Brent Crude was trading at a sustained high of around US\$80 a barrel until May,

when US President Donald Trump withdrew from the Iran nuclear deal.

Under the 2015 deal, nations including the US, France, Britain, Russia, Germany and China agreed to lift international sanctions on Iran's oil exports in return for OPEC's third largest producer winding back its nuclear capability.

The first sign that oil prices may have peaked came on news that Saudi Arabia and Russia were discussing a possible increase in oil production. In late May the price of Brent crude eased back to levels around US\$76 a barrel before settling at US\$77 after the June 22 meeting sealed the deal.

## Who's affected?

Holidaymakers may feel the pinch after Qantas chief executive, Alan Joyce warned airfares could rise in response to this year's oil price hikes. Jet fuel costs have climbed 50 per cent in the past 12 months which will eat into airline profits, depending on how much of the cost they are prepared to absorb before lifting fares.<sup>i</sup>

Rising oil prices also erode profits of transport companies and businesses that rely on the movement of goods or the use of heavy machinery. Australian farmers face the double-whammy of rising fuel costs on top of the effects of drought.

Consumers ultimately pay for higher oil prices as they flow through to the cost of food and other goods.

There are some winners from constrained oil exports though. Australian gas producers stand to gain from increasing demand and high prices as they ramp up production and exports.

## Relief ahead for motorists

Rising oil prices have inevitably been passed on to local motorists, although there is relief in sight. The national average price of unleaded petrol rose by 14.7 per cent in the three months to June to a four-year high of 153.3c a litre. Prices edged lower towards the end of June in response to the downward trend in crude oil prices.<sup>ii</sup>

Rising oil prices have been exacerbated by the weaker Aussie dollar which has fallen from US81c earlier this year to recent levels below US74c.

Petrol prices vary enormously between regions, cities and even within suburbs. Australian Competition and Consumer Commission chairman, Rod Sims has urged motorists to use fuel price websites and apps to shop around (you could try *MotorMouth* or *Compare the Market*).<sup>iii</sup>

*If you would like to discuss this article in light of your investment strategy, give us a call.*

i IATA, <http://www.iata.org/publications/economics/fuel-monitor/Pages/index.aspx>

ii Australian Institute of Petroleum as at June 24, 2018, <https://aip.com.au/pricing/pump-prices>

iii 'Petrol prices stable to March but now hitting four year highs', ACCC, 5 June 2018, <https://www.accc.gov.au/media-release/petrol-prices-stable-to-march-but-now-hitting-four-year-highs>





# Super & inheritance:

*making your wishes known*

People often think their superannuation will be treated as part of their estate when they die and distributed according to their Will, but that's not the case. Unless you have nominated your beneficiaries, the decision as to who receives your super is in the hands of the trustees of your fund.

When that happens, the trustees normally direct all funds to your dependants – your spouse, your children, financial dependents and people with whom you had an ‘interdependency relationship’ such as living together.

But wouldn't it be better to nominate exactly who you want to inherit your super death benefits? (Death benefits is the term for all of the money in your super account plus any life insurance.) You can generally nominate beneficiaries with either a binding or a non-binding nomination, although some super funds only provide a member with the ability to make non-binding nominations.

## **Make your wishes binding**

For binding nominations, the trustees have to carry out your wishes, provided you have nominated eligible recipients. If a nomination is non-binding, it tells the trustee how you would like your benefits distributed, but leaves the ultimate discretion with the trustee, taking into consideration your circumstance and relationships at the date of death.

Under super law, death benefits can only be left to a dependent or your personal legal representative (the executor of your Will), in which case it will pass into your estate for distribution according to the terms of your Will.

It's important to note that a binding nomination generally only has a limited life. Every three years you need to advise your super fund in writing of your nominated beneficiaries or it becomes invalid.

If you have not nominated a beneficiary and have not yet organised a Will, then your super will be distributed according to a state-based formula which may not reflect your intentions.

## **Consider taxation**

It's also important to take tax into account when nominating beneficiaries. If your spouse is alive then it is likely your death benefits will go to your partner as a lump sum and/or an income stream referred to as a reversionary pension. There is no tax liability if it's paid as a lump sum unless both you and your spouse are aged under 60 when you die. Also, the maximum your spouse can have in their pension account is \$1.6 million. So there are considerations if the death benefit pension causes your spouse to exceed this income.

If your spouse predeceases you then the benefit will be divided between other dependants. Be aware though that there's a difference in the definition of dependants under super and tax law.

Under super law, a child of any age may receive your death benefit, but under

tax law if they are aged over 18 and not financially dependent on you, they will be subject to 17 per cent taxation on the taxable component of the sum they receive. For this reason, your adult children may be better off receiving the money through your estate as they will only pay 15 per cent tax, saving the 2 per cent Medicare levy.

Non-dependent adult children cannot receive a reversionary pension; instead they must take a lump sum.

If you are legally divorced, then your ex-spouse is no longer deemed a dependant under super law. However, if you still want to leave your super to your ex-spouse it must go to your estate and be paid from there. Interestingly, your ex-spouse will receive the money tax free.

## **Self-managed funds**

For those with a self-managed super fund, you can use a clause in the fund's trust deed to either nominate a valid dependent who will receive the benefit or else have the money paid to your legal representative who will pay the money into the estate.

Making sure your hard-earned money is distributed according to your wishes is not an onerous task, but it is an important one. Not nominating a beneficiary, or nominating someone who is not eligible to receive your super, can lead to lengthy delays and emotional upset at what is already a difficult time for your family.

Seeking professional and legal advice can help to ensure that your death super benefits are considered as part of your overall estate planning and that your wishes are carried out.



# Home & away with super

Australians buying their first home or downsizing in retirement are about to receive a helping hand thanks to new superannuation rules which come into effect on July 1. From that date, first home buyers will be able to contribute up to \$30,000 into their super fund towards a home deposit while downsizers can put up to \$300,000 of the proceeds of selling the family home into super.

This new measure has been devised to assist first home buyers, many of whom have struggled to save a deposit as rising prices put even entry level properties out of reach.

At the other end of the scale, the change is envisaged to help older homeowners who frequently find themselves in large houses while trying to survive on a modest super balance or the aged pension.

Here's how the Federal Government hopes to improve the situation at both ends of the property market.

## Buying a home

Under the new First Home Super Saver (FHSS) scheme, individuals can arrange for up to \$30,000 to be deducted from their pre-tax income and put in their super account.<sup>i</sup> They can then withdraw 85 per cent of that money (\$25,500), plus any interest they've earned on it, to use for a home deposit. In the case of a couple, both partners can save \$30,000, meaning a deposit of \$51,000 (i.e. 85 per cent of \$60,000) plus interest can be accumulated.

### So what's the catch? It's complicated.

For starters, individuals can only contribute \$15,000 into their FHSS account in any one year. What's more, the compulsory 9.5 per cent super contributions made by employers can't

be accessed; additional voluntary contributions need to be made. The annual contributions cap of \$25,000 cannot be exceeded; this includes all voluntary contributions plus employer's Super Guarantee contributions.

When the money is withdrawn, it is taxed at the individual's marginal tax rate minus a 30 per cent tax offset. Effectively, that means most people will pay little or no tax although higher-income earners on high marginal rates will still pay some tax.

## Selling a home

Under the Downsizer Super Contribution Scheme (DSC), homeowners who are 65 or older can put up to \$300,000 of their home sale proceeds into their super provided it's their place of residence and they've owned it for at least 10 years.<sup>ii</sup> In the case of a couple, both partners can deposit \$300,000 (collectively \$600,000) into super.

### What's the catch?

Unless you're a wealthy retiree looking for a tax break there doesn't appear to be one.

For those who already have more than \$1.3 million in super, adding a \$300,000 downsizer contribution will breach the \$1.6 million balance transfer cap which is the maximum balance that can be held in a tax-free super pension account. Given the current generation

of Australians have been retiring with average super balances of well under \$300,000, that is unlikely to be an issue for most downsizers.

## What do you do now?

If you are looking to purchase your first home, you will need to check your super fund allows FHSS contributions and, more importantly, withdrawals. You'll then need to arrange for your employer to deduct voluntary contributions of up to \$15,000 a year. When you want to access your money, you will have to acquire a 'FHSS determination' (essentially a balance statement) from the Commissioner of Taxation before requesting your super fund to release the money.

Following approval of this request, your super fund deposits your FHSS money, minus any tax you've incurred, into your account. You then have 12 months to sign a contract to buy or build a home.

If you are looking to downsize your home, you will first need to check your super fund accepts downsizer contributions. If it does, you can deposit up to \$300,000 within 90 days of receiving the proceeds of the sale. You'll have to fill in and send your super fund a 'downsizer contribution form' before, or when transferring the money into your account.

*If you're hoping to either buy your first home or downsize, call us to discuss how the changes to super can save you money.*

<sup>i</sup> <https://www.ato.gov.au/Individuals/Super/Super-housing-measures/First-Home-Super-Saver-Scheme/#Howyoucansaveinsuper>

<sup>ii</sup> <https://www.ato.gov.au/Individuals/Super/Super-housing-measures/Downsizing-contributions-into-superannuation/#Eligibilityformakingadownsizercontribution>