



September 2019

The first quarter of the 2020 financial year continued the ongoing theme - uncertainty on the global stage. The ongoing US-China trade dispute, political turmoil in the UK as the Brexit deadline looms and a drone strike on a Saudi Arabian oil processing plant all weighed on financial markets. Still, it was low interest rates globally proving to be the dominant force over the last 3 months– all markets finished a little better.

Locally, no changes in the RBA cash rate was recorded during the period. It held at 1%, although subsequently fell to an all time low of 0.75% on the 2nd Oct. Australia's budget deficit shrank to a mere \$148 million in the year to May; well below estimates at the time of the April Budget. Our trade surplus hit a record \$52.3 billion in the year to July, driven by Iron Ore and huge LNG export growth.

Business and consumers are showing increased caution around what these low rates really mean. The Westpac-Melbourne Institute survey of consumer sentiment fell 1.7 per cent in September. With interest rates at historic lows, the proportion of people saying they didn't know where to put savings was a record high of 8.7 per cent. The NAB business conditions index also fell to near 5-year lows. Unemployment edged up to 5.3 per cent in August, the highest level in 12 months, while job vacancies fell 1.9 per cent in the year to August, the biggest decline in over 5 years.

Low rates have punished savers and worryingly pushed savers up the risk curve in order to achieve an acceptable return on their assets. It is indeed an unusual time to be investing. Returns for the quarter are below:

All Ordinaries: 6800, up 101 points or 1.50%

Listed Property Accumulation Index: 1602; down 0.125%

90 Day Bank Bills: 0.87%, down 0.33%

UK FTSE 100: 7425.13; down 17 points or -0.22%

US S&P 500: 2977 points, up 1.1% and Dow Jones Industrial: 26917 points, up 1.1%

AUD vs U.S. Dollar: 0.67; down 3 cents or 4.3%

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BUILDING WEALTH IN DIVERSITY

What a difference a year makes. In recent months, Australian shares hit a record high, the Aussie dollar dipped to levels not seen since the GFC and interest rates were cut to historic lows.

Towards the end of 2018, shares were in the doldrums and while experts agreed the Aussie dollar would go lower most tipped the next move in interest rates would be up.

All of which goes to show that when it comes to predicting financial markets, the only sure thing is uncertainty. There's no avoiding market risk, but it does need to be managed if you want to build enough wealth to live comfortably in retirement and achieve other life goals along the way.

Thankfully, there is a way to reduce the impact of market volatility on your overall investment portfolio. Hint: it's not by putting all your money in the bank.

Mix it up

The best way to reduce the risk of one bad investment or a downturn in one market decimating your returns is to hold a mix of investments. This is what is referred to as diversification or not putting all your eggs in one basket.

To smooth your returns from year to year and avoid the risks of short-term market volatility, you need a mix of investments from different asset classes.

The difficulty of predicting the market in the short-term was certainly in evidence in the year to June 2019.

Investors who panicked at the end of 2018 and sold their shares would have missed out on the unexpected rebound in global shares.

A year of surprises

Australian shares returned 11 per cent in the year to June 30. Global shares returned 11.9 per cent while US shares returned 16.3 per cent, partly reflecting the fall in the Aussie dollar from US\$74c to US\$70c.ⁱ

The worst performing asset class in the year to 30 June was Australian residential property, down 6.9 per cent.ⁱⁱ But while the housing market downturn was constantly in the news, good news in other sectors of the property market went largely unnoticed.

The best performing asset class by far in the year to June was Australian listed property, up 19.3 per cent.

The gap in performance between direct residential property and listed property highlight another important aspect of diversification. You also need to diversify within asset classes.

Look beyond your backyard

Where property is concerned, that means investing across a range of property types and geographic locations. By diversifying your property investments, you reduce the risk of short-term price fluctuations in one location which can result in a big loss if you are forced to sell at the bottom of the market.

The same holds true for shares. Many Australians have a share portfolio dominated by the big banks and miners, attracted by their fully franked dividends.

The danger is that investors with a portfolio heavily weighted towards local stocks are not only exposed to a downturn in the bank and resources sectors but also the opportunity cost of not being invested in some of the world's most dynamic companies.

Time is your friend

Over the last 30 years the top performing asset class was US shares with an average annual return of 10.3 per cent. Australian shares (9.4 per cent) and listed property (9.2 per cent) were not far behind.ⁱⁱⁱ

And then there was cash. In a time of record low interest rates cash in the bank returned 2 per cent in the year to June 30, barely ahead of inflation of 1.6 per cent. The return was better over 30 years (5.6 per cent), but still well behind the pack.

While it's important to have enough cash on hand for daily living expenses and emergencies, it won't build long-term wealth.

There's no telling what the best performing investments will be in the next 12 months, as past performance is not an indicator of future performance. What we can be confident about is that a portfolio containing a mix of investments across and within asset classes will stand the test of time.

If you would like to discuss your overall investment strategy, please give us a call.

ⁱ https://static.vgcontent.info/crp/intl/auw/docs/resources/2019_index_chart.pdf?20190730%7C193023

ⁱⁱ <https://www.corelogic.com.au/sites/default/files/2019-07/CoreLogic%20home%20value%20index%20JULY%202019%20FINAL.pdf>

ⁱⁱⁱ <https://www.vanguardinvestments.com.au/au/portal/articles/insights/mediacentre/stay-the-course.jsp>



Caring for family *with a Will*

Few of us like to think about death, let alone plan for it. But far from being morbid, getting your affairs in order and drawing up a Will is one of the kindest and most caring things you can do for your loved ones.

Not only does a Will make your wishes clear but it ensures your family isn't wrestling with legal red tape at a difficult and emotional time.

Yet despite the advantages, it's estimated 45 per cent of Australians don't have a Will.¹

Who needs a Will?

The short answer is everyone over 18. Even young adults have assets such as super, personal possessions, possibly a vehicle and some savings.

Once you reach an age where you have a partner and children, along with a home and perhaps other investments, the need for a Will becomes even more pressing.

What can be included in a Will?

Generally you can and should set out where you want your physical assets (property, cars, jewellery, furniture and collectibles), financial investments (bonds, shares, bank savings) and sentimental possessions (family heirlooms) to go.

Generally, assets you jointly own, such as a house bought with your partner, pass automatically to your co-owner. But if you own property under what is called a 'tenancy in common' you can distribute your share according to your Will.

Because superannuation is held in trust, it's treated differently to other assets. The trustee of your super fund has the

final say on where your money, formally referred to as a 'death benefit', ends up unless it is paid to your estate.

If you wish to be certain your death benefit goes to the person you want it to, you should fill out a 'Binding Death Benefit Nomination' form and lodge it with your super fund. You can nominate your estate as the beneficiary and your death benefits, including any life insurance, will be distributed according to your Will.

Individual life insurance payouts don't automatically go through the policyholder's Will, but if that's what you would like you can nominate your estate as the beneficiary.

How watertight are Wills?

If you invest the necessary time, effort and expense into producing a well-drafted Will, you can be more confident your wishes will be respected.

The exception to this rule occurs when it can be argued a Will treats a dependant unfairly. Classic examples are a parent leaving more to one child than another or leaving everything to a new partner and excluding children from a previous marriage.

Assets don't need to be split equally, especially if one dependant has previously received financial assistance, or has dedicated years to caring for you. But be aware a dependant who feels duded may successfully contest your Will.

What happens when there's not a Will?

If you die without a valid Will, legally referred to as dying intestate, the relevant state or territory laws will be left to sort things out.

Someone, typically your next-of-kin, will have to apply for a grant of Letters of Administration. An administrator will then be appointed. They will divide your estate according to set formula, which differs slightly in each state but generally goes to your surviving partner and children.

Even in a best-case scenario, dying intestate may mean one or more of your loved ones will have to go through an arduous bureaucratic process during a traumatic time. In a worst-case scenario, a partner, child or friend may receive far less than you would have wished.

What's next?

There are essentially four conditions a Will needs to meet:

- It has to be made by someone over 18 who is mentally competent
- It has to properly dispose of all assets
- It needs to be signed and witnessed appropriately
- It needs to be properly drafted.

While DIY 'Will kits' may be better than nothing, if you have substantial assets, a complicated family situation, or you just want peace of mind, you'll want to engage the services of a trusted solicitor.

A Will is just one part of the estate planning process. If you would like to know more, give us a call.

¹ <https://www.tag.nsw.gov.au/wills-faqs.html>



Is the tide **TURNING** *ON THE* *property* *market?*

For the first time in years, the planets seem to be aligning for homebuyers and property investors. Interest rates are falling, property prices largely appear to be stabilising and constraints on bank mortgage lending have been relaxed.

It's welcome news for first homebuyers and anyone who has been waiting on the sidelines for a signal that the downturn in house prices could be at or near the bottom in key markets such as Melbourne and Sydney.

As is always the case though with the national housing market, the full story is more than a tale of two cities.

House price slide losing momentum

According to research group CoreLogic, in the year to July the national housing market fell 6.4 per cent. This fall was driven by the two biggest markets Sydney (down 9.0 per cent) and Melbourne (down 8.2 per cent).

Perth, still coming down from the peak of the mining boom, and Darwin suffered similar declines. Brisbane fell 2.4 per cent and Adelaide was down 0.8 per cent from a much lower peak. Hobart (up 2.8 per cent) and Canberra (up 1.1 per cent) were the only capital cities to rise in the year to July.

But in the aftermath of the May federal election and the first of the Reserve Bank's two recent interest rate cuts, the downhill slide in prices began to lose momentum.

In July, home values recorded zero growth nationally, with signs the housing conditions are stabilising. Most tellingly, prices rose slightly for the second month in a row in both Sydney (up 0.2 per cent) and Melbourne (up 0.2 per cent).

However the stabilisation in housing values is becoming more broadly based with Brisbane, Hobart and Darwin also recording rises in values.ⁱ

Reserve Bank opens the bidding

In hindsight, the Reserve Bank's recent decision to cut interest rates for the first time since 2016 could mark the beginning of the end of the downturn in home prices.

In June, the Reserve Bank lowered the cash rate from 1.5 per cent to a new historic low 1.25 per cent and followed up in July with another cut to 1 per cent.

Mortgage interest rates are also low by historic standards. In early July, the average standard variable mortgage rates of the big four banks were all around 4.9 per cent. The best available rates from smaller lenders are now below 3 per cent.ⁱⁱ

Banking regulator joins in

The Australian Prudential Regulatory Authority (APRA) is also doing its bit to breathe new life into the property market.

In July, the banking regulator scrapped a rule that required banks to assess new mortgage customers on their ability to manage repayments with 7.25 per cent interest rates no matter what their actual rate might be.

APRA will now require banks to test if borrowers can manage repayments at least 2.5 percentage points above a

loan's current rate. With many mortgage rates for new customers currently around 3.5 per cent, this would mean banks would have to test whether customers could afford repayments of 6 per cent instead of 7.25 per cent.ⁱⁱⁱ

As a result, comparison website RateCity estimates someone earning the average wage (\$83,455) could see their borrowing power increase by \$66,000 to \$544,000.^{iv}

Property investing beyond houses

Australians' love affair with bricks and mortar is legendary, but there is more than one way to profit from property.

If you're thinking of buying as an investment, rather than as a place to call home, there may be opportunities to invest directly in commercial property or via a managed fund.

Listed property trusts, property ETFs (exchange traded funds) and traditional unlisted managed funds offer a way to invest in a diversified portfolio of properties in Australia and overseas. As well as residential property they can invest in retail, office and industrial property.

If you would like to discuss your property investment strategy in light of recent developments, give us a call.

i All house price data from Core Logic, 1 August 2019, <https://www.corelogic.com.au/sites/default/files/2019-08/CoreLogic%20home%20value%20index%20AUGUST%20FINAL.pdf>

ii The Sun Herald, 7 July 2019, <https://www.smh.com.au/money/borrowing/how-to-get-the-most-out-of-lower-mortgage-rates-20190704-p5245f.html>

iii APRA, 5 July 2019, <https://www.apra.gov.au/media-centre/media-releases/apra-finalises-amendments-guidance-residential-mortgage-lending>

iv RateCity, 5 July 2019, <https://www.ratecity.com.au/home-loans/mortgage-news/apra-changes-average-aussie-family-can-now-borrow-60k>