September 2023 Newsletter

Household wealth has increased for the third quarter in a row. It rose by 2.6% in the June quarter, pushed up by rising house prices and increases in superannuation balances. Meanwhile demand for credit was the lowest since 2005. Consumers have tightened their belts, they are not spending and consumer confidence is down. Retail sales growth for the quarter was the slowest since the pandemic lockdown.

While the number of job vacancies have fallen by about 18% since their peak in May this year, they are still around 72 per cent higher than just before the pandemic – that's an extra 160,000 positions that employers are looking to fill. Unemployment was unchanged at 3.7%.

The Australian dollar rebounded a little to finish the month where it began but it's ended the quarter down about 2% thanks to surging oil prices and the highest U.S. interest rate settings since the GFC. Brent crude has continued its relentless climb since June, ending just over 30% higher than three months ago. That's pushed petrol prices ever higher – about 17% over the same period – with the national average price for unleaded at $2.11 a litre compared to $1.80 in June.

High inflation looks set to become entrenched in major economies globally. Markets are looking for Central Banks to hike rates and Government restraint to engineer a soft landing for inflation and the economy.

Index performances for the first 3 months of the Financial Year were:
All Ordinaries: 7249 points, down 152 points or -2.05%;
ASX300 Property Accumulation Index 56758 points, down 1780 or -3.05%;
90 Day Bank Bills 4.14%, down 0.21%;
AUD vs U.S. Dollar 64.28c, down 1.92 cents or down -2.98%;
UK FTSE 100, 7608 points, up 76 points or +1.02%;
Dow Jones Industrial Avg, 34407 points, up 900 points or +2.87%

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How the Aussie dollar *moves your investments*

It has been a wild ride for the Australian dollar since the Covid-19 pandemic struck and that could mean good news, or bad news for your investment portfolio.

In March 2020 the Aussie dipped below US58 cents for the first time in a decade. Since then, a high of just over US77 cents in 2021 has been followed by a rollercoaster ride, mostly downhill.

In October 2022 the dollar plummeted to US61.9 cents, bounced its way back up to US71.3 cents in February this year but by mid-August it had slipped to a nine-month low at under US64 cents.[i]

Many analysts agree that further falls are on the cards with some even predicting the dollar could fall to as low as US40 cents within five years.[ii]

What's driving the dollar?

Given any currency's susceptibility to changing economic conditions both at home and overseas, the Aussie has had quite a bit to deal with lately.

Rising interest rates can boost the Australian dollar by making us more attractive for foreign investors, providing our rates are rising ahead of the US and others.

If foreign investors buy more Australian assets because they can get a bigger return on their investment, more money flows into Australia which increases demand for Australian dollars. And if investors hold more Australian assets than overseas ones, less money leaves the country, decreasing supply. So, increased demand and decreased supply see the Australian dollar rise.

While the Reserve Bank of Australia (RBA) has increased rates by 4 per cent in Australia since May last year as it battles to get inflation under control, rates have also been rising in the US.

The US Federal Reserve has undertaken its most aggressive rate-rising cycle in 40 years with rates now at a 22-year high and signs of further increases likely. This has put pressure on the Australian dollar, narrowing the difference between the US and Australian rates, meaning foreign investors will look for better returns elsewhere.

Changing economic conditions

The value of the Australian dollar is also affected by changes in economic conditions as well as rises and falls in other financial markets. For example, in August news that the unemployment rate had increased slightly and an easing in wage price growth led to speculation that the RBA would put a hold on rates, putting a dampener on the Aussie.

Also affecting the dollar was a decline in US share markets in August, confirming the typical pattern of the Australian dollar falling when equity markets' prices drop.

Meanwhile, the performance of China's economy plays a significant part in Australian dollar movements. China is currently battling soaring unemployment, particularly among young people, falling land prices and a housing crisis, among other ills.

As Australia's largest trading partner, both in terms of imports and exports, any slowdown in China means lower sales of our commodities and other goods and services and less investment in property and business.[iii]

How the dollar affects us

There are advantages and disadvantages of a falling Australian dollar. On the plus side, our exports will be more competitive because our customers will pay less for our goods and services compared with those produced overseas. Conversely, imported goods will be relatively more expensive.

There could also be an increase in tourism – the cost of travel in Australia will be cheaper for those coming from overseas. Unfortunately, those planning an overseas trip will need to find a significantly greater pile of Australian dollars to pay for airfares, accommodation and shopping.

For investors, it is a useful exercise to review the currency's effect on your portfolio.

For example, if you're invested in Australian companies that rely on overseas earnings, look at how they handle their exposure to the currency risk. A lower dollar is good news for those with overseas operations and those that export goods. On the other hand, those that need to buy in components or products from overseas may suffer.

In any case, have a chat to us to look at the best way forward in these uncertain times.

i https://tradingeconomics.com/australia/currency

ii https://www.news.com.au/finance/markets/australian-dollar/aussie-dollar-in-free-fall-amid-bloodbath/news-story/929165d65db4dc7d8a97bc7b27b5ab0d

iii https://www.aph.gov.au/about_parliament/parliamentary_departments/parliamentary_library/pubs/briefingbook44p/china

When enough is never enough

How much is enough? It's a good question. Our relationship with our finances can be a tricky one. Everyone has a different idea of how much it takes to be comfortable or even well off.

Given it is something that has such a strong influence on how we live our lives it's unsurprising that money, or the pursuit of it, can develop into somewhat of an addiction.

The million-dollar question is how do you know if you are developing an unhealthy relationship with money and what can you do if you, or someone you know, is heading down that path?

The love of the dollar

When John D. Rockefeller, who has been widely considered the wealthiest American in modern history, was asked how much money is enough, he famously stated: "Just a little more."

It's a common approach to money – that it's not possible to have too much of a good thing. However, we can become addicted to the act of growing our net wealth to the detriment of our daily lives. If you're only interested in seeing your account balance go up, you might miss opportunities to put your money to work in other ways and enjoying what life has to offer.

If you can relate to the words of Rockefeller, it might be time to do some self-examination and see whether your relationship with your finances could be healthier.

Common feelings about acquiring money

Competitive

"Keeping up with the Joneses" is embedded in our culture. As a society, we're constantly comparing ourselves to those who earn more or are wealthier than ourselves. The danger is there will always be someone better off than you (unless you are Rockefeller!). Gratitude can serve as an antidote to competition, so try shifting your focus to what you have rather than what others possess.

Of course, for many the focus is not outward but inward. The competition can be an internal struggle to meet and exceed continually shifting self-imposed financial objectives. If this is moving beyond a healthy drive for success, it might be time to celebrate your successes and focus more on enjoying your wealth.

You are what you possess

Compulsive saving can be a need to find self-worth, defining yourself by what you possess and accruing the trappings of wealth to feel whole. Recognising your self-worth goes beyond possessions and how much money you have in the bank is a key step in breaking the hold money may have over you.

Fear of loss

Being afraid of losses can keep you from making smart decisions with your money that could improve your financial situation. For example, you might be so fixated on accruing wealth and so afraid of losing money that you never invest. Having an appreciation of the relationship between risk and reward can help you make healthier decisions.

Scarcity mindset

An extreme focus on your financials can be driven by a fear of not having enough. The underlying cause of anxiety around money might be traced back to a time when you struggled. The key is to review your financial situation and let go the past to manage your finances in a way that is appropriate to your present circumstances.

Breaking money habits

That sounds easy but it can be difficult in practice. Whatever the driver of your approach to money, if you've been operating in a certain way for a long time, habits can be hard to break.

If you've been saving furiously for a home deposit it can be hard to step out of the frugal behaviour, take a breather and feel okay about spending money again. Alternatively, if you've spent a lifetime building your wealth to have a wonderful retirement it can be difficult to flick the switch from saving to spending – especially if you suddenly have no wages coming in.

Recognise that old habits can be hard to break but that it is possible to change.

One thing that can help is having a financial plan, so you know how you are tracking to meet your financial goals. That's where talking to a third party who is not so emotionally involved can be of benefit.

We are here to assist if you need assistance with any aspect of your financial life.

YOURS, MINE AND OURS

– estate and succession planning for modern families

Navigating complex family relationships and blended families can be challenging at times and particularly when a family member dies.

A good estate plan can help to make sure your wishes are carried out when you die. An estate plan, of which a will is the first and most important part, can ensure your estate is distributed in the way you want. It can also help if you become incapacitated, particularly when it includes an enduring power of attorney and a medical power of attorney that indicate who should be in charge of your affairs and any relevant instructions.

Professional advice is vital in estate planning to make sure that you have considered all the issues, including tax matters, and that your loved ones are protected. It is also important to clearly communicate your wishes, particularly when there are complex issues involved, so that your wishes are clearly understood.

Here are some of the issues to think about.

Superannuation

A binding death benefit nomination should be at the top of your list when you are considering the distribution of your superannuation funds.

This makes certain that your super death benefit is paid to those you choose because without one, the trustee of your super fund will make their own decision.

The nomination is usually valid for three years before it lapses and must be renewed.

Blended families

If you have been married more than once and/or have children with more than one partner, your will helps to effectively provide for those you choose.

You may wish, for example, to ensure that your children receive the proceeds of your estate rather than your spouse or ex-spouse. Alternatively, you may need to ensure your will protects your current spouse from the claims of previous spouses.

When it comes to the family home, the type of home ownership is important. If you have purchased as 'joint tenants', the entire asset will pass to the surviving spouse. On the other hand, if you have purchased as 'tenants in common', each spouse can distribute their share of the house to others.

You may also wish to include a 'life interest' in the home so that your current spouse can continue to live in the home until their death before it ultimately passes to your other beneficiaries.

Trusts

Any existing family trusts should be reviewed with a blended family in mind. Check that the trust deed provides clear instructions for succession, if you want to ensure your children from past relationships are catered for.

Your will can also establish new trusts, known as testamentary trusts, to provide for any dependents with disability, when you are worried that a child may waste or misuse your assets, or to allow for young children.

A testamentary trust can also help to protect your adult child's interests if they were to divorce a partner or are facing bankruptcy. Any inheritance they receive from you would become part of their property and can be considered in a divorce settlement or called on by creditors.

Handing on a business

If you are in business with partners, or would like to hand on the family business to one child but not others, a life insurance policy may be a useful strategy – sometimes known as estate equalisation – to even the distributions from your estate.

In the case of a business partnership, you would name your partner or partners as beneficiaries of the life insurance policy, to effectively 'buy you out' of the business. Where it's a family business due to be handed on to one child, your life insurance would go to your other children to match the value of the business.

Note that it is crucial to continually review the value of the business and the value of the life insurance to ensure they remain current.

Estate planning can be tricky and emotional, particularly when your circumstances are a little more complex. *So, get in touch with us to ensure your estate plan meets your wishes and takes account of all the issues.*