March 2024 Newsletter

The Christmas rally in November and December provided momentum for the New Year, with the ASX All Ordinaries index adding 4.14% in the quarter. A combination of stable economic growth, falling inflation, impending rate cuts and stronger-than-expected company earnings, supported investor sentiment, driving stocks to all-time highs.

Australian companies also posted their half year results during the quarter. Overall, earnings were stronger than expected and profit margins were resilient as companies passed costs onto consumers. Low unemployment and growing wages ultimately facilitating the digestion of higher prices.

A prominent theme for the quarter has been the rise of Artificial Intelligence. At the heart of the boom is Nvidia – the multinational software designer, GPU producer, and now, the 3rd largest company in the world – whose share price jumped more than 87% in the quarter. Investors and businesses have become enthralled by the potential use cases for the technology.

Recent data out of the United States showed that Core US Inflation rose 0.4% in the previous month (or 3.5% for the 12 months ended March) – gas prices, mortgages and rent being the biggest contributors. This is supportive of the "higher-for-longer" rhetoric – which we support – and challenges the idea that inflation will fall quickly. Australian traders are now pricing out the prospect of an RBA rate cut this year.

Concurrently, the geopolitical backdrop appears bleak. The conflict between Israel and Palestine is persisting, the Russia and Ukraine war has exceeded the 2 year mark, and Japan's potential inclusion in AUKUS (to become JAUKUS) has set the scene for further conflict with China.

Similarly to last quarter, we remain cautious and expect volatility to remain present in local and global equity markets. Higher interest rates continue to present strong opportunities for us in the fixed income space – we will continue to make appropriate allocations here. We will seek to use additional cash positions to take advantage of potential pullbacks in the broader market.

Returns for the financial year to date:
All Ordinaries: 8,153.70, up 752 points or 10.16%;
Listed Property Accumulation Index: 73,836.60, up 14,949 points or 25.39%;
90 Day Bank Bills: 4.34%, down 0.11%;
AUD vs US Dollar: 65.17c, down 1.41c or 2.12%;
UK FTSE 100, 7,952.60 points, up 421 points or 5.59%;
Dow Jones Industrial Avg: 39,807.37 points, up 5,438 or 15.82%.

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Markets love **CERTAINTY** but what happens next?

Financial markets can be like finely tuned racehorses, poised to gallop ahead under ideal conditions but often highly reactive to unexpected events.

It's often said that the markets love certainty. Investors feel more confident when economic conditions are stable and predictable.

But certainty in financial conditions is never a sure thing. Uncertainty is always just around the corner with the possibility of changes in interest rates, new laws or regulations, upheavals in overseas markets, a breakdown in Australia's relationship with a major trading partner, and wars and political instability.

As a result, stability and predictability are most often fleeting with peaks and troughs in prices inevitable.

Look at the past few years. Between 2020 and 2022, we were dealing with the side effects of COVID-19 on the economy and markets. Since 2022, interest rate rises, increases in the cost of living and conflicts in Ukraine and the Middle East have caused further market volatility.

This year, global political stability may be affecting markets with almost 50 per cent of the world's population due to head to the polls to choose new governments including the United States, India, Russia, South Korea and the European Union.[i] Interest rate movements in Australia and overseas are another focus.

In this dynamic environment, investors find themselves grappling with crucial decisions about how to safeguard and optimise their portfolios.

It could be useful to know that making hasty decisions, reacting quickly to the latest event, may not be the best move.

Consider the performance of various assets classes over 24 years. If you had invested $10,000 in a basket of Australian shares on 1 February 2000, for example, your portfolio would have been worth $67,717 at 31 January 2024, delivering a return of 8.3 per cent each year.[ii] The same amount invested in international shares over the period would have provided a 5.4 per cent annual return with your portfolio then at $35,373.

US investment advisers Dimensional have calculated the risk to a portfolio of being out of the market for even a short period.

An investment of US$1,000 in 1998 of stocks that make up the Russell 3000 Index, a broad US stock benchmark in 1998, would have turned into U$6356 for the 25 years to 31 December 2022. But if you had decided to sell up during the best week, before later reinvesting, the value would have dropped to $5,304. Miss the three best months, which ended June 22, 2020, and the total return dwindles to $4,480.[iii]

In other words, reacting to events by quickly selling up can have an unwelcome effect on your portfolio.

Trying to time the market by identifying the best and worst days to buy and sell is almost impossible. Investing for the long-term in a well-diversified portfolio can better suit some investors.

Historically, long-term investors who have weathered short-term storms have been rewarded.[iv] Markets have shown they tend to recover over time, and a diversified portfolio allows investors to capture the upside when conditions improve.

And there's a bonus. The compounding effect of returns over an extended period can significantly enhance the overall performance of a portfolio if they are reinvested.

Why diversify?

Different asset classes – such as shares, bonds and cash – perform differently at different times.

By diversifying investments across different asset classes, regions and companies, can work towards reducing the effect of a poorly performing asset on the overall portfolio, providing a buffer against volatility and lowering risk.

Appreciating the lessons learned from the past while also understanding that past performance may not predict future performance, is a helpful way of navigating the uncertainties of the global markets.

We can help you stay committed to a robust investment strategy, design a portfolio that meets your objectives and help navigate the complexities of the markets. Reach out to us to help you invest confidently.

i The Ultimate Election Year: All the Elections Around the World in 2024 - Elections Around the World in 2024 | TIME

ii https://insights.vanguard.com.au/VolatilityIndexChart/ui/retail.html

iii What Happens When You Fail at Market Timing | Dimensional

iv Vanguard Index Volatility Charts

TAX CHANGES:

How will they impact you?

Prime Minister Anthony Albanese has announced changes to address ongoing cost of living pressures with all 13.6 million Australian taxpayers receiving a tax cut from 1 July 2024, compared to the tax they paid in 2023-24.[i]

Now is the time to assess what it means to your hip pocket and what implications it may have for end of financial year planning as a result of the new rules, due from 1 July 2024.

The Federal Government has recently announced changes to the third stage of a series of tax reforms introduced by the previous Coalition government almost six years ago which were designed to deliver tax cuts to most, simplify the tax system and protect middle income earners from tax bracket creep.

The proposed changes

The new rules will see the current lowest tax rate reduced from 19 per cent to 16 per cent and the 32.5 per cent marginal tax rate reduced to 30 per cent for individuals earning between $45,001 and $135,000.

The current 37 per cent marginal tax rate will be retained for those earning between $135,001 and $190,000, while the existing 45 per cent rate will now apply to income earners with taxable incomes exceeding $190,000.

In addition, the low-income threshold for Medicare levy purposes will be increased for the current financial year (2023-24).

A single taxpayer with a taxable income of $190,000 paid $59,967 tax in 2023-24. Under the revised rules, they will now pay $55,438 tax, a tax cut of $4,529. While still a reduction in tax paid, this compares with the $7,575 tax cut received if the original Stage 3 tax cuts had proceeded.

On the other hand, low-income earners will receive a bigger tax cut under the revised rules.

A single taxpayer with a taxable income of $40,000 who paid $4,367 in tax in 2023 24, would have received no benefit from the original Stage 3 tax plan, but will now receive a tax cut of $654 under the revised rules.

Implications for investment strategies

For high-income earners, the key take-away from the government's new changes to the tax rules is you will now receive a lower amount of after-tax income than you may have been expecting from 1 July 2024.

This reduction makes it sensible to revisit any investment strategies you had planned to take advantage from your larger tax cut to ensure they still stack up.

For example, the smaller tax cut for some may impact the effectiveness of property investment.

Investment strategies such as negative gearing into property or shares, however, may become more attractive. Particularly for investors close to the new tax thresholds and looking for opportunities to avoid moving onto a higher tax rate.

Timing expenditure and contributions

Investors considering repairs or maintenance for an existing investment property should revisit when these activities are undertaken. Depending on your circumstances, this expenditure may be more suitable in the current financial year given the difference in tax rates starting 1 July 2024.

Selling an asset liable for CGT also needs to be reviewed to determine the most appropriate financial year for the best tax outcome.

Other investment strategies that may need to be revisited include those involving making contributions into your super account.

If you are considering bringing forward tax-deductible personal super contributions, making carry-forward concessional contributions, or salary sacrificing additional amounts before 30 June, you should seek advice to ensure the timing of your strategy still makes sense.

If you would like help with reviewing your investment strategies or superannuation contributions in light of the new rules, contact us today.

i https://treasury.gov.au/sites/default/files/2024-01/tax-cuts-government-fact-sheet.pdf

While it seems we all like to think we are clever enough to outwit a scam, Australians collectively lost more than 480 million to scams last year.

Every year scammers get more sophisticated in the methods they use to part us with our money – or our valuable personal information. It's important to recognise that even the savviest of us can fall victim to scams that are ever evolving to take us for a ride.

Let's look at the scams that are having the most impact – and how to avoid them.

Phishing scams continue to reach new heights

The most common type of scam, and one that continues to increase in prevalence is known as phishing. The reason these scams are so common, is that unlike romance scams targeting those looking for love, or financial scams targeting investors, phishing scams target everyone – and everyone who has an email account, or a mobile phone is vulnerable.

There were nearly 109,000 phishing-related scam reports last year, with losses amounting to $26.1 million (up 6 per cent year-on-year).[i]

These may come in the form of text messages or emails from a scammer pretending to be a legitimate business or government entity you know and trust.

They are designed to convince you to provide personal information to steal your identity or to be able to access bank accounts and/or superannuation accounts. Or they can simply be asking you to part with your money to pay an overdue invoice, a "fine," or tax debt.

There are also the scammers who pretend to be a person you know, in order to extract money from you. A classic that's been doing the rounds is the "Hi mum/ dad" text where the scammers pretend to be one of your kids who has lost their phone and urgently needs you to transfer them money.

How to avoid getting caught

So, given how convincing these messages can be, how do you keep yourself safe? The best defence is awareness and knowing what to look for, so let's look at some common characteristics of scam emails and texts and some of the methods commonly employed by scammers so you can be alert – and stay safe.

- **Urgent call to take action or threats –** Scammers will often create a sense of urgency, telling you to take immediate action to claim a reward or avoid a fine or penalty. They are hoping you'll react without thinking too much about it or checking the legitimacy of the message or email.

  TIP: Be sceptical if a message is prompting urgent action and approach with caution.

- **Emails that look like they are coming from a trusted source –** Scammers are often quite good at mimicking a business's branding and at first glance can look pretty convincing.

  TIP: Some of the red flags to look for are spelling mistakes or a generic greeting (if the message is from a provider, they should have your name on file).

  Check the email source carefully. Scammers use subtle misspellings of the legitimate domain name. Like replacing "o" with a zero or replacing "m" with an "r" and a "n".

- **Suspicious links –** Scammers include links to online forms to capture your information that can look uncannily like the real thing and often send computer viruses and malware through malicious attachments. If you suspect that a message, or an email is a scam, don't open any links or attachments.

  TIP: Hover your mouse over, but don't click the link. Look at the address that pops up when you hover over the link and see if it matches the link that was typed in the message.

  To visit a provider's website rather than click on a link to a website manually type the official web address into your browser. You could also use a search engine to find the official website and log in that way.

With phishing attempts becoming ever harder to spot and avoid, it's more important than ever to stay vigilant and equip yourself with tools to make sure you don't take the bait. If you think you may have fallen prey to a scam, contact your bank and report the matter to *Scamwatch*.[ii]

i https://www.sbs.com.au/news/article/481m-in-losses-and-302k-complaints-the-scams-hitting-australians-hard/hg52ignc8

ii https://www.scamwatch.gov.au/report-a-scam