July 2024 Newsletter

Australia, the United States and the broader global economy have performed well throughout the 2024 Financial Year, despite the residual effects of Covid-19 continuing to cause uncertainty.

Locally, inflation has fallen significantly from its December 22 peak, however, the proverbial genie is proving difficult to put back in the bottle. The monthly CPI indicator has risen to 4.0% from 3.4% in December 23.

Over the past 12-months we have noted to clients about the potential for inflation to remain elevated and have been avid supporters of the higher-for-longer rhetoric. Recent data has supported this view.

Globally, multi-national tech companies, leveraging new Artificial Intelligence technologies, have pushed US indices to near all-time highs – largely ignoring elevated yields on treasury bonds. According to Fortune magazine, Nvidia alone has accounted for more than a third of the S&P500's gains this year. Nvidia now accounts for more than 7% of the index.

Geopolitical conflicts remain a significant concern for global economies. The Russia/Ukraine war continues, whilst the Israel/Palestine conflict is now only months away from the 2-year mark. Neither indicating progress towards a peaceful resolution.

Right on cue, global elections have entered the fold. Over the next 12-months, more than two dozen countries, home to almost half of the world's population, will undertake national elections. We expect this to be a prominent feature of future global stability (at least in the short-term).

Despite the uncertainty and threats facing global economies we remain cautiously optimistic. If the past 3-years has taught us anything, it's that consumers, markets, and global economies are extraordinarily resilient.

We will continue to focus on asset allocation weightings to proactively manage downside risks and take advantage of prospective investment opportunities.

Returns for the 2024 Financial Year:
All Ordinaries: 8,013, up 612 points or 8.27%;
Listed Property Accumulation Index: 72,467, up 13,580 points or 23.06%;
90 Day Bank Bills: 4.45%, up 2.21%;
AUD vs US Dollar: 65.17c, down 1.41c or 2.12%;
UK FTSE 100, 8,164 points, up 633 points or 8.41%;
Dow Jones Industrial Avg: 34,369 points, up 4,749 or 13.82%.

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Investment Performance: Past performance is not a reliable guide to future returns as future returns may differ from and be more or less volatile than past returns.

NEW increased super contribution caps

As the end of financial year gets closer, some investors are thinking about the most effective ways to boost their super balance, particularly with an increase in the caps on contributions from 1 July.

The concessional contributions cap, (which is the maximum in before-tax contributions you can add to your super each year without paying extra tax), is increasing to $30,000 from $27,500 in the new financial year.[i]

The cap increases in line with average weekly ordinary earnings (AWOTE).

It is also useful to be aware of payment and reporting timelines. For example, your employer can make super guarantee contributions up until 28 July for the final quarter of the financial year and salary sacrifice contributions up until 30 June.

Any amounts showing on the ATO website for your account are based on when your fund reports to the ATO.

Carry forward unused amounts

If you haven't made extra contributions in past years, you may have unused concessional cap amounts.

These can be carried forward, allowing you to contribute more as long as your super balance is less than $500,000 at 30 June of the previous financial year.

You can carry forward up to five years of concessional contributions cap amounts.

Getting close to exceeding the cap?

If you're worried about going over the cap, you may wish to stop any further voluntary contributions based on an assessment of the extra tax you will pay.

For those with two or more employers, you may opt out of receiving the super guarantee from one of the employers.

Meanwhile, if special circumstances have caused you to exceed your cap, it's possible to apply to the ATO for some or all of the contributions to be disregarded or allocated to the next financial year.

But, if all else fails and you have exceeded the cap, the excess contributions will be included in your assessable income and taxed at your marginal rate less a 15 per cent tax offset. The good news is that you can withdraw up to 85 per cent of the excess contributions from your super fund to pay your tax bill. Any excess contributions left in the fund will be counted towards your non-concessional contributions cap.

Timing is everything

The upcoming Stage 3 tax cuts, which commence on 1 July 2024, may affect the value of your concessional contributions. For some, tax benefits may be greater if contributions are made before the tax cuts begin.

Please check with us about your circumstances to make sure you make the most effective move.

Non-concessional cap also increased

The non-concessional contributions cap is the maximum of after-tax contributions you can make to your super each year without paying extra tax.[i]

The non-concessional cap is exactly four times the amount of the concessional cap so it increases from $110,000 to $120,000.

If you exceed the cap, you may be eligible to use the 'bring forward rule', which allows you to use caps from future years and possibly avoid paying extra tax. It means you can make contributions of up to two or three times the annual cap amount in the first year of the bring forward period.[ii]

If your total super balance is equal to or more than the general transfer balance cap ($1.9 million from 2023–24 and 2024-25) at the end of the previous financial year, your non-concessional contributions cap is zero for the current financial year.

We'd be happy to help with advice about how the changes in contribution caps might affect you and whether you are eligible for the bring forward rule.

i Understanding concessional and non-concessional contributions | Australian Taxation Office (ato.gov.au)

ii Non-concessional contributions cap | Australian Taxation Office (ato.gov.au)

Going for gold

CONSIDERATIONS FOR INVESTORS

Gold fever is in the air and it's not just the prospect of medals at the upcoming Paris Olympics.

Gold prices have been climbing strongly in 2024 as investors, jittery about the effects of wars in the Middle East and Ukraine, buy up the asset because of its reputation as a safe haven. The spot price has risen more than 18 per cent since mid-February.[i]

Demand for the precious metal is also being driven by central banks adding to their gold reserves to hedge against currency and other market risks.

For investors, gold has been an alluring buy for centuries thanks to its association with wealth and power. As a precious metal and a physical asset, it often attracts a certain confidence, which is sometimes misplaced.

Patchy performance

Day traders might be lucky enough at times to buy or sell gold for a decent profit by correctly guessing when to get in or out but, generally speaking, gold is not an easy investment to love.

Over the longer term, it hasn't always beaten inflation, the price can plunge at a time when market conditions suggest it should be rising and its performance against stocks and bonds has been varied.

In fact, there have been long periods of persistently low prices. It languished for around six years from 1988 before recovering and then again for the decade or so leading up to the beginning of COVID-19 in 2020. The uncertainty of the pandemic-era helped spark a rally that has increased the price by almost 38 per cent.

Pros and cons

So, is gold worth considering as part of a portfolio? As with any investment, there are pros and cons.

Like many other asset classes, gold can help to diversify a portfolio and reduce certain risks. During stock market downturns, gold prices often (but not always) begin to rise.

Some investors like the idea that it is a scarce, physical asset and, despite its ups and downs, gold has tended to hold its value over time.

At times gold has provided a good hedge against inflation. For example, in the US between 1974 and 2008, there were eight years when inflation was high and during those times, gold prices rose by an average of 14.9 per cent annually.[ii] But different periods give different results. While US CPI growth was around 6.8 per cent in 2021 and 2022, gold prices were achieving an annual increase of just over 1 per cent.

How to invest

You don't need to lug home gold bars and hide them under the bed to have a stake in a gold investment.

Of course, it is possible to own gold bullion by buying online or in person from one of a number of registered dealers in Australia. The actual gold can be delivered to you or held in storage for a fee. You could also own physical gold by buying jewellery although there are high mark ups and resale value isn't assured.

The ASX provides the avenue to buy shares in one or more of the many gold mining companies. You'll need to do your homework carefully to consider the credentials of the companies. Some are riskier than others depending on the countries in which they operate and their size.

You could also consider exchange traded funds (ETFs) that are linked to or track the gold price. One advantage is provided by funds that hedge currency risk so that your returns won't be affected by differences in the US dollar. Although with any fund, you'll need to factor in an annual management fee, which will reduce your ultimate return.

If you're interested in achieving a balanced portfolio, we'd be happy to help you.

i https://tradingeconomics.com/commodity/gold

ii https://www.forbes.com/advisor/investing/gold-inflation-hedge/

To sell or not to sell is the question for moving into aged care

Moving into residential aged care can trigger a range of emotions, particularly if it involves the sale of the family home.

What is often a major financial asset, is also one that many people believe should be either kept in the family or its value preserved for future generations.

Whether or not the home has to be sold to pay for aged care depends on a number of factors, including who is living in it and what other financial resources or options are available to cover the potential cost of care.

It also makes a difference if the person moving into care receives Centrelink or Department of Veterans Affairs payments.

Cost of care

Centrelink determines the cost of aged care based on a person's income and assets.[i]

For aged care cost purposes, the home is exempt from the cost of care calculation if a "protected person" is living in it when you move into care.

A protected person could be a spouse (including de facto); a dependent child or student; a close relative who has lived with the aged care resident for at least five years and who is entitled to Centrelink income support; or a residential carer who has lived with the aged care resident for at least two years and is eligible for Centrelink income support.[ii]

Capped home value

If the home is not exempt, the value of the home is capped at the current indexed rate of $201,231.[iii]

If you have assets above $201,231 – outside of the family home – then Centrelink would determine you pay the advertised Refundable Accommodation Deposit (RAD) or equivalent daily interest rate known as the Daily Accommodation Payment (DAP), or a combination of both.

The average RAD is about $450,000. Based on the current interest rate of 8.36% [note – this is the rate from July 1] the equivalent DAP would be $103.07 a day.

Depending on your total income and assets, you may also be required to pay a daily means tested care fee. This fee has an indexed annual cap of $33,309 and lifetime cap of $79,942.

This is in addition to the basic daily fee of $61.96 and potentially an additional or extra service fee.

There is no requirement to sell the home to pay these potentially substantial costs, but if it is a major asset that is going to be left empty, it may make sense.

Other options to cover the costs may include using income or assets such as superannuation, renting the home (although this pushes up the means tested care fee and can reduce the age pension) or asking family to cover the costs.

Centrelink rules

For someone receiving Centrelink or DVA benefits, there is an important two-year rule.

The home is exempt for pension purposes if occupied by a spouse, otherwise it is exempt for up to two years or until sold.

If you are the last person living in the house and you move into aged care and still have your home after two years, its full value will be counted towards the age pension calculation. It can mean the loss of the pension.

Importantly, money paid towards the RAD, including the proceeds from a house, is exempt for age pension purposes.

Refundable Deposit

As the name suggests, the RAD is fully refundable when a person leaves aged care. If a house is sold to pay a RAD, then the full amount will ultimately be paid to the estate and distributed according to the person's Will.

The decisions around whether to sell a home to pay for aged care are financial and emotional.

It's important to understand all the implications before you make a decision.

Please call us to explore your options.

i https://www.myagedcare.gov.au/understanding-aged-care-home-accommodation-costs

ii,iii https://www.myagedcare.gov.au/income-and-means-assessments